

mBank S.A. Group
Consolidated Financial Report
for the first quarter of 2022



mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Selected financial data

(PLN thousand)

SELECTED FINANCIAL DATA

The selected financial data presented below are supplementary information to the condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022 and to the condensed stand-alone financial statements of mBank S.A. for the first quarter of 2022.

Selected financial data for the mBank S.A. Group

SELECTED FINANCIAL DATA FOR THE GROUP	PLN thousand		EUR thousand	
	Period from 01.01.2022 to 31.03.2022	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2022 to 31.03.2022	Period from 01.01.2021 to 31.03.2021
I. Interest income	1 716 287	1 019 381	369 316	222 957
II. Fee and commission income	792 923	645 938	170 624	141 278
III. Net trading income	95 627	63 178	20 577	13 818
IV. Operating profit	873 429	643 143	187 947	140 667
V. Profit / (loss) before income tax	713 590	504 322	153 553	110 304
VI. Net profit / (loss) attributable to Owners of mBank S.A.	512 329	317 125	110 245	69 361
VII. Net profit / (loss) attributable to non-controlling interests	(5)	(32)	(1)	(7)
VIII. Net cash flows from operating activities	5 845 569	16 022 595	1 257 869	3 504 428
IX. Net cash flows from investing activities	(156 995)	(182 964)	(33 783)	(40 017)
X. Net cash flows from financing activities	604 479	(1 712 825)	130 074	(374 625)
XI. Total net increase / decrease in cash and cash equivalents	6 293 053	14 126 806	1 354 160	3 089 785
XII. Basic earnings / (loss) per share (in PLN/EUR)	12.09	7.49	2.60	1.64
XIII. Diluted earnings / (loss) per share (in PLN/EUR)	12.06	7.48	2.59	1.64
XIV. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP	PLN thousand		EUR thousand	
	As at		As at	
	31.03.2022	31.12.2021	31.03.2022	31.12.2021
I. Total assets	204 914 421	199 538 885	44 043 938	43 383 677
II. Amounts due to other banks	2 090 424	3 359 558	449 312	730 434
III. Amounts due to customers	164 743 229	159 935 129	35 409 614	34 773 042
IV. Equity attributable to Owners of mBank S.A.	13 588 127	13 716 050	2 920 608	2 982 139
V. Non-controlling interests	1 859	1 866	400	406
VI. Share capital	169 540	169 540	36 441	36 861
VII. Number of shares	42 384 884	42 384 884	42 384 884	42 384 884
VIII. Book value per share (in PLN/EUR)	320.59	323.61	68.91	70.36
IX. Total capital ratio	15.92	16.58	15.92	16.58
X. Common Equity Tier I capital ratio (%)	13.47	14.16	13.47	14.16

mBank S.A. GroupConsolidated financial report for the first quarter of 2022
Selected financial data

(PLN thousand)

Selected financial data for the mBank S.A.

SELECTED FINANCIAL DATA FOR THE BANK	PLN thousand		EUR thousand	
	Period from 01.01.2022 to 31.03.2022	Period from 01.01.2021 to 31.03.2021	Period from 01.01.2022 to 31.03.2022	Period from 01.01.2021 to 31.03.2021
I. Interest income	1 560 168	889 799	335 722	194 615
II. Fee and commission income	742 558	605 434	159 786	132 419
III. Net trading income	90 904	58 590	19 561	12 815
IV. Operating profit	791 638	558 207	170 347	122 090
V. Profit / (loss) before income tax	703 966	484 275	151 482	105 920
VI. Net profit / (loss)	514 107	315 085	110 627	68 915
VII. Net cash flows from operating activities	5 913 392	15 679 809	1 272 463	3 429 455
VIII. Net cash flows from investing activities	(153 543)	(154 134)	(33 040)	(33 712)
IX. Net cash flows from financing activities	605 199	(1 395 060)	130 229	(305 125)
X. Total net increase / decrease in cash and cash equivalents	6 365 048	14 130 615	1 369 652	3 090 618
XI. Basic earnings / (losses) per share (in PLN/EUR)	12.13	7.44	2.61	1.63
XII. Diluted earnings / (loss) per share (in PLN/EUR)	12.10	7.43	2.60	1.62
XIII. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK	PLN thousand		EUR thousand	
	As at		As at	
	31.03.2022	31.12.2021	31.03.2022	31.12.2021
I. Total assets	197 556 877	191 873 819	42 462 521	41 717 141
II. Amounts due to other banks	2 180 772	3 420 001	468 731	743 575
III. Amounts due to customers	164 668 680	159 905 991	35 393 591	34 766 707
IV. Equity	13 140 868	13 381 823	2 824 475	2 909 471
V. Share capital	169 540	169 540	36 441	36 861
VI. Number of shares	42 384 884	42 384 884	42 384 884	42 384 884
VII. Book value per share (in PLN/EUR)	310.04	315.72	66.64	68.64
VIII. Total capital ratio	18.43	19.01	18.43	19.01
IX. Common Equity Tier I capital ratio (%)	15.62	16.23	15.62	16.23

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 March 2022: 1 EUR = 4.6525 PLN, 31 December 2021: EUR 1 = 4.5994 PLN;
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first quarter of 2022 and 2021: EUR 1 = 4.6472 PLN and EUR 1 = 4.5721 PLN, respectively.

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF MBANK S.A. GROUP FOR THE FIRST QUARTER OF 2022

INTRODUCTION

The profit before income tax generated by mBank Group in Q1 2022 stood at PLN 713.6 million, while net profit attributable to the owners of mBank reached PLN 512.3 million, compared to the loss of PLN -1 631.1 million in Q4 2021. In Q1 2022 both total income and total costs increased compared to the previous quarter.

The main factors determining the Group's financial results in Q1 2022 were as follows:

- **Significantly higher total income** at the level of PLN 2 178.6 million, up by +34.4% compared to Q4 2021, thanks to increase of net interest income, net fee and commission income and net trading income;
- **Increase of total costs** (including depreciation) compared to the previous quarter to the level of PLN 843.9 million due to, among others, recognition of annual contribution to the resolution fund of the Bank Guarantee Fund (BFG);
- **Lower cost of risk** (sum of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) at the level of PLN 268.5 million or 89 b.p. compared to 98 b.p. in Q4 2021;
- Cost of legal risk related to foreign currency loans incurred in Q1 2022 at PLN 192.8 million.
- Decline in tax on the Group's balance sheet items on a quarterly basis to PLN 159.8 million;
- **Increase of net profit of core business** (mBank Group excluding FX Mortgage Loans segment) by 77.5% compared to Q4 2021, net ROE stood at 23.7%.
- **Continued organic growth** and business expansion as demonstrated by:
 - **increase in the number of retail customers** to 5 543.1 thousand (+29.3 thousand clients compared to the end of 2021),
 - **increase in the number of corporate customers** to 31 898 (+583 clients compared to the end of 2021).

At the end of Q1 2022 net loans and advances to customers amounted to PLN 123 443.6 million. They increased by PLN 5 388.7 million or +4.6% quarter on quarter. Gross loans to corporate customers grew by PLN 3 644.2 million (+7.6%) to PLN 51 480.2 million compared with the previous quarter. The volume of loans to individuals went up by PLN 1 877.5 million or +2.6% against the end of December 2021 and reached PLN 75 121.5 million.

In Q1 2022, amounts due to customers rose by PLN 4 808.1 million or +3.0% quarter on quarter. Amounts due to corporate customers increased by PLN 5 934.1 million or +12.7% quarter on quarter and at the end of March 2022 reached PLN 52 782.7 million. Amounts due to individual customers grew by PLN 1 272.6 million or +1.1% quarter on quarter and stood at PLN 111 173.6 million.

As a consequence, Loan-to-deposit ratio increased to 74.9% compared to 73.8% at the end of 2021.

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

- Gross ROE of 20.9%,
- Net ROE of 15.0%.

Ratio stood at 15.9%, while Common Equity Tier 1 capital ratio amounted to 13.5% at the end of March 2022. In the period under review, own funds decreased due to the negative valuation of financial assets at fair value through other comprehensive income, including net impairment losses on loans and advances for Q1 2022 and the impact of exceeding the threshold referred to in Art. 49 of the CRR Regulation. At the same time, there was a decrease in the total risk exposure amount due to the securitization transaction. In March 2022, mBank and the Dutch pension fund PGGM concluded a risk transfer transaction on the Bank's portfolio of corporate loans and portfolio of SME loans for a total value of PLN 8.9 billion. The transaction increased the core capital ratio (CET1) by approximately 0.6 p.p. compared to the data reported for the mBank Group at the end of 2021.

mBank S.A. Group

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Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

Summary of results of mBank Group core business

Q1 2022 (PLN million)	Core business	Non-core	mBank Group
Net interest income	1 472.2	27.1	1 499.3
Net fee, trading and other income	669.5	9.8	679.3
Total income	2 141.7	36.9	2 178.6
Total costs	-812.3	-31.6	-843.9
Net impairment losses and fair value change on loans and advances	-276.9	8.3	-268.5
Cost of legal risk related to FX loans	0.0	-192.8	-192.8
Operating profit	1 052.6	-179.1	873.4
Taxes on the Group balance sheet items	-148.7	-11.2	-159.8
Profit before income tax	903.9	-190.3	713.6
Net profit	702.6	-190.3	512.3
Total assets	193 757.7	11 156.8	204 914.4
Net interest margin	3.33%		3.15%
Cost/Income ratio	37.9%		38.7%
ROE net	23.7%		15.0%
ROA net	1.49%		1.03%

Core business – results of mBank Group excluding the FX Mortgage Loans segment.

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

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

Net interest margin – calculated by dividing net interest income by average interest earning assets. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

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

ROE net – calculated by dividing net profit attributable to Owners of the Bank by the average equity attributable to Owners of the Bank, net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

ROA net - calculated by dividing net profit attributable to Owners of the Bank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

Awards and distinctions received in Q1 2022

In the first quarter of 2022, mBank received three Mobile Trends Awards. The mBank Junior app won the main prize in MTA 2021 and the first place in the Banking and Finance for Children category. In addition, the mBank app was ranked second by votes of clients. The Mobile Trends Awards are granted to mobile technology projects based on the criteria of innovation, creativity, flawlessness and customer-friendliness. The competition jury consists of experts with many years of experience in the mobile industry.

In January 2022, mBank was included, for the second time, in the global Bloomberg Gender Equality (Bloomberg GEI) Index. The Index tracks the performance of public companies that actively support gender equality in the work environment. It comprises 418 companies from 45 countries. Gender equality in the work environment is measured in five areas: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, anti-sexual harassment policies and pro-women brand. This prestigious index includes only companies which have reached or exceeded a global threshold established by Bloomberg.

mBank Hipoteczny received an award from GPW Benchmark. The subsidiary was recognized for the promotion of indices and benchmarks in development of the covered bond market and modern forms of real property financing in 2021. The award was granted during the annual Stock Exchange Summary gala, which honours leading capital market companies. The WSE representatives distinguished the best performing institutions which distinctly contributed to the development of the Polish capital market in 2021.

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(PLN thousand)

In 2021, mBank's Dom Maklerski gained 60 000 new clients. Now, the highest quality of our products has been confirmed by market experts. In February 2022, mBank's eMakler account was ranked first in the 10th ranking compiled by Puls Biznesu, featuring the best brokerage services. In April, mBank's Brokerage Bureau was awarded "Capital Market Leader" in the turnover on New Connect in 2021 by Warsaw Stock Exchange.

In 2021, Rafał Jakubowski, marketing director at mBank, was awarded in the 10th AD WO/MAN contest in the Ad Marketer of the Year category. Rafał Jakubowski has been working as marketing director at mBank since November 2014 and has more than 20 years of experience in company and brand marketing management. The AD WO/MAN of the Year title is awarded for accomplishments in the industry, innovative approach, creativity and promotion of the highest standards. The contest is organised by Press magazine, and the winner is selected in a vote by advertising, media and PR agencies, interactive companies, production, post-production and sound studios.

Economy and the banking sector in Q1 2022

The war in Ukraine had a strong impact on economy in the first quarter of 2022.

The anti-inflationary shield resulted in lower inflation in February, but since March the effects of the war have materialized. Inflation increased mainly due to exogenous factors (fuel, food and energy prices), but not only. Core inflation also increased in Q1 (to 6.9% YoY at the end of the period). In the Bank's opinion, in Q2 2022 inflation will further increase, based on similar factors. Inflation is expected to decrease in the second half of the year, and return closer to the upper band of the NBP target in late 2023.

In the real economy the negative impact of the war was not strong yet, but in the Bank's opinion it will be observable in the coming quarters. The 2021 ended with GDP growth at the level of 5.9% year on year. Estimates for the first quarter of 2022 also suggest high dynamics of 8.3% YoY. One of the reasons is industrial production, which in the analysed period was well above the trend from previous years. Another factor boosting the GDP growth was the consumption of refugees and the expenses on their behalf incurred by the government, non-governmental organizations and Polish consumers. However, the Bank estimates that in the coming quarters the economy will slow down due to real effects of high inflation (including delayed effects of commodity prices), lower consumer and enterprise optimism, further disruptions in supply chains, lower demand for credit and decline in purchasing power due to interest rate hikes. The additional consumption of refugees from Ukraine, and fiscal expansion will work in the opposite direction (but refugees' consumption will not be a permanent element - some of them will leave Poland).

Monetary Policy Council continued interest rate hiking cycle. Higher expected inflation, also due to the war persuaded MPC to stronger actions than it was assumed. As at the end of March 2022 the reference rate was 3.5%, on the 6th May it was already 5.25%. The cycle will end at around 7%.

The outbreak of the war resulted in zloty's depreciation too. However, in the Bank's opinion, the period of the highest depreciation is over and in the following quarters we can expect some appreciation of the domestic currency. Higher credit risk assessment of Poland with a decline in global sentiment and increases in expected interest rates resulted in a sell-off in the bond market. Higher interest rates will contribute to slowdown of the growth in the volume of household loans. This element is also important from the point of view of corporate loans. However, due to the difference in the credit cycle, corporate volumes will accelerate later in 2022. The turning point is expected in 2023. In the Bank's opinion, corporate deposits will slow down. In the case of household deposits, the Bank expects that high dynamics may be sustained, which will be supported by a high increase in nominal wages and overall rise in savings rate driven by surrounding uncertainty.

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Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

Financial position of mBank Group in Q1 2022**Profit and Loss Account of mBank Group**

The profit before tax generated by mBank Group in Q1 2022 stood at PLN 713.6 million, while net profit attributable to the owners of mBank reached PLN 512.3 million.

PLN million	Q4 2021	Q1 2022	Change in PLN M	Change in %
Interest income	1 291.7	1 716.3	424.5	32.9%
Interest expense	-101.0	-217.0	-116.0	114.8%
Net interest income	1 190.8	1 499.3	308.6	25.9%
Fee and commission income	723.7	792.9	69.2	9.6%
Fee and commission expense	-233.7	-194.9	38.8	-16.6%
Net fee and commission income	490.0	598.0	108.0	22.1%
Core income	1 680.7	2 097.3	416.6	24.8%
Dividend income	0.2	0.8	0.7	371.8%
Net trading income	-36.9	95.6	132.5	-/+
Other income	9.3	-18.3	-27.6	+/-
Other operating income	67.7	66.4	-1.4	-2.1%
Other operating expenses	-100.5	-63.3	37.2	-37.0%
Total income	1 620.6	2 178.6	558.0	34.4%
Net impairment losses and fair value change on loans and advances	-289.8	-268.5	21.3	-7.3%
Cost of legal risk related to foreign currency loans	-2 006.5	-192.8	1 813.7	-90.4%
Overhead costs and depreciation	-595.5	-843.9	-248.4	41.7%
Taxes on bank balance sheet items	-164.0	-159.8	4.2	-2.6%
Profit before income tax	-1 435.3	713.6	2 148.9	-/+
Income tax expense	-195.9	-201.3	-5.4	2.8%
Net profit attributable to:	-1 631.1	512.3	2 143.5	-/+
- Owners of mBank S.A.	-1 631.1	512.3	2 143.4	-/+
- Non-controlling interests	0.0	0.0	0.0	0.0%
ROA net	-3.1%	1.0%		
ROE gross	-37.4%	20.9%		
ROE net	-42.5%	15.0%		
Cost / Income ratio	36.7%	38.7%		
Net interest margin	2.4%	3.2%		
Common Equity Tier 1 ratio	14.2%	13.5%		
Total capital ratio	16.6%	15.9%		

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

Other income – calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

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

Total overhead costs (including depreciation) - calculated as the sum of total overhead costs and depreciation.

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

Net ROA - calculated by dividing net profit attributable to Owners of the Bank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

Gross ROE - calculated by dividing profit before income tax by the average equity attributable to Owners of the Bank net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Profit before income tax is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

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Net ROE - calculated by dividing net profit attributable to Owners of the Bank by the average equity attributable to Owners of the Bank, net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

Cost/Income ratio - calculated by dividing overhead costs and depreciation by total income (excluding tax on Group's balance sheet items).

Net interest margin - calculated by dividing net interest income by average interest earning assets. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

Income of mBank Group

Total income generated by mBank Group increased by 34.4% quarter on quarter and amounted to PLN 2 178.6 million. The increase resulted from significantly higher net interest income, net fee and commission income and net trading income.

Net interest income remained mBank Group's largest income source in Q1 2022 and significantly increased on a quarterly basis (PLN +308.6 million or +25.9%) to PLN 1 499.3 million. Higher net interest income resulted primarily from a series of six interest rate hikes by 340 bps in total until March 2022 (rates were then hiked by 100 bps in April and by 75 bps in May). Interest income increased by PLN 424.5 million or +32.9% on a quarterly basis. Interest income from loans and advances increased by PLN 416.7 million or +40.5% compared to the previous quarter. Interest income on investment securities increased by PLN 73.5 million or +52.1% due to growing profitability of these securities. Interest expense increased further by PLN 116.0 million or +114.8% compared to the previous quarter, mainly due to increase of interest expense on derivatives as well as rising deposit cost.

mBank Group's **net interest margin** significantly increased quarter on quarter and stood at 3.2% in Q1 2022 compared to 2.4% in Q4 2021.

Net fee and commission income, the second largest income contributor, increased compared with the previous quarter (PLN +108.0 million or +22.1%) and reached PLN 598.0 million.

Fee and commission income increased by PLN 69.2 million or +9.6% compared to the previous quarter. Commissions from bank accounts increased the most (by PLN 40.1 million or +45.4% QoQ). The increase is mainly attributable to additional fee charged from corporate clients for keeping funds in accounts in excess of predefined limit at the first day of the calendar year. Payment card-related fees increased by PLN 14.2 million, or +10.4% due to, among others, settlements with card issuers. Volatility in the FX market had a positive effect on the level of commissions from currency transactions, which increased by PLN 13.0 million, or +11.6%.

Fee and commission expenses in Q1 2022 amounted to PLN 194.9 million, down on a quarterly basis by PLN 38.8 million or -16.6%, mainly due to lower other discharged fees, payment card-related fees and cash services fees.

Net trading income increased by PLN 132.5 million quarter on quarter and amounted to PLN 95.6 million. The increase was noted mainly in foreign exchange result thanks to high volatility of currency rates. At the same time, loss on the valuation of interest rate derivatives decreased.

Other income (calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss) decreased quarter on quarter and stood at PLN -18.3 million due to the negative result on the sale of bonds.

Other operating income net of other operating expenses stood at PLN 3.1 million and increased compared to the previous quarter, when a provision for future commitments was created.

Costs of mBank Group

In Q1 2022, mBank Group continued line of action aimed at improving the efficiency measured by cost/income ratio. Total overhead costs of mBank Group (including depreciation) stood at PLN 843.9 million and were higher compared to the previous quarter (by PLN 248.4 million or +41.7%) due to recognition of the annual contribution to the BFG resolution fund.

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PLN million	Q4 2021	Q1 2022	Change in PLN M	Change in %
Staff-related expenses	-272.9	-294.3	-21.4	7.8%
Material costs, including	-179.8	-174.2	5.6	-3.1%
- administration and real estate services costs	-51.7	-69.7	-18.0	34.9%
- IT costs	-67.5	-48.6	18.9	-28.0%
- marketing costs	-33.4	-30.6	2.9	-8.6%
- consulting costs	-22.0	-21.7	0.3	-1.1%
- other material costs	-5.2	-3.6	1.6	-30.9%
Taxes and fees	-8.6	-8.5	0.1	-1.1%
Contributions and transfer to the Bank Guarantee Fund	-24.8	-246.2	-221.5	893.9%
Contributions to the Social Benefits Fund	-4.5	-4.2	0.3	-7.3%
Depreciation	-105.0	-116.5	-11.5	11.0%
Total overhead costs and depreciation	-595.5	-843.9	-248.4	41.7%
Cost / Income ratio	36.7%	38.7%	-	-
Employment (FTE)	6 738	6 899	161	2.4%

In Q1 2022, staff-related expenses increased by PLN 21.4 million or +7.8% quarter on quarter, which was driven by higher remuneration costs. The headcount in mBank Group increased by 161 FTEs in the period under review, mainly in the area of compliance and IT.

Material costs decreased by PLN 5.6 million or -3.1% on a quarterly basis in Q1 2022. IT costs declined in the period under review.

Contributions and payments to the Bank Guarantee Fund amounted to PLN 246.2 million, including mBank's contribution to the Resolution Fund, booked in total in Q1 2022, amounted to PLN 183.0 million.

Depreciation rose by PLN 11.5 million or +11.0% compared to the previous quarter to PLN 116.5 million.

Cost efficiency measured by the Cost/Income ratio decreased slightly and stood at 38.7% in Q1 2022 compared to 36.7% in Q4 2021. Normalised Cost/Income ratio (including ¼ of the contribution to the Resolution Fund) reached 32.0%.

Net impairment losses and fair value change on loans and advances

In Q1 2022, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at PLN 268.5 million. Compared with Q4 2021, impairment on and change in the fair value of loans and advances declined by PLN 21.3 million or -7.3%. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. Gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss are related to the credit risk of the portfolio of loans and advances measured with the use of that method.

PLN million	Q4 2021	Q1 2022	Change in PLN M	Change in %
Retail Banking	-108.1	-192.8	-84.7	78.3%
Corporate and Investment Banking	-164.6	-82.2	82.4	-50.1%
FX Mortgage Loans	-15.9	8.3	24.3	-/+
Treasury and Other	-1.2	-1.8	-0.6	53.8%
Total net impairment losses and fair value change on loans and advances	-289.8	-268.5	21.3	-7.3%

Impairment on and change in the fair value of loans and advances in the Retail Banking segment amounted to PLN 192.8 million and rose by 84.7 million compared to the previous quarter. The major increase resulted from adopting a pessimistic scenario of the macroeconomic situation in the estimation of portfolio provisions, due to the uncertainty of the macroeconomic situation and the impact of the war in Ukraine on the economy.

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Impairment on and change in the fair value of loans and advances in the Corporate and Investment Banking segment amounted to PLN 82.2 million, which represents a decrease by PLN 82.4 million quarter on quarter. The decrease results from a high quality of corporate loans portfolio.

Consolidated statement of financial position

The balance sheet total of mBank Group stood at PLN 204 914.4 million at the end of Q1 2022, up by 2.7% compared with Q4 2021.

Assets of mBank Group

PLN million	31.03.2021	31.12.2021	31.03.2022	QoQ change	YoY change
Cash and balances with Central Bank	16 355.4	12 202.3	17 971.4	47.3%	9.9%
Loans and advances to banks	7 381.3	7 229.7	6 830.0	-5.5%	-7.5%
Debt securities held for trading and derivatives held for hedges	3 374.3	2 548.7	2 705.6	6.2%	-19.8%
Net loans and advances to customers	113 244.4	118 054.9	123 443.6	4.6%	9.0%
Investment securities	48 570.7	52 675.7	46 215.7	-12.3%	-4.8%
Intangible assets	1 197.8	1 284.0	1 301.6	1.4%	8.7%
Tangible assets	1 696.1	1 542.3	1 527.2	-1.0%	-10.0%
Other assets	2 397.0	4 001.6	4 919.4	22.9%	105.2%
Total assets	194 217.1	199 538.9	204 914.4	2.7%	5.5%

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

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

Other assets – the sum of fair value changes of the hedged items in portfolio hedge of interest rate risk, non-current assets and disposal groups classified as held for sale, investment property, current income tax assets, deferred income tax assets and other assets.

Loans and advances to customers were the largest asset category of mBank Group at the end of Q1 2022. Their share in total assets increased slightly to 60.2% from 59.2% at the end of 2021. At the end of Q1 2022, net loans and advances to customers (a total of loans and advances measured at amortised cost, loans and advances mandatorily measured at fair value through profit or loss, and loans and advances classified as assets held for trading) amounted to PLN 123 443.6 million. They increased by PLN 5 388.7 million or +4.6% quarter on quarter.

Gross loans to corporate customers grew by PLN 3 644.2 million (+7.6%) to PLN 51 480.2 million compared with the previous quarter (net of reverse repo/buy-sell-back transactions and the FX effect, loans and advances to corporate customers rose by 4.6% quarter on quarter).

The sales of loans to corporate customers (including new sales, limit increases, and renewals) shrank by 19.1% quarterly, and increased year on year by 28.1% to PLN 7 617.5 million in Q1 2022. The magnitude of the decrease of the new sales is attributable mostly to the high activity recorded in Q4 2021. Sales of investment loans increased in Q1 2022, and the demand for new short-term financing decreased.

The volume of loans to individuals went up by PLN 1 877.5 million or +2.6% against the end of December 2021 and reached PLN 75 121.5 million. Gross mortgage and housing loans to individuals increased by 2.7% quarter on quarter.

In Q1 2022, mBank Group sold 2 830.1 million mortgage loans, 0.9% less than a year ago and 3.0% less than in Q4 2021. The trend of sales of mortgage loans has been slightly declining for three quarters. Despite that mBank's market share in new sales was growing and at the end of March reached 14.5%. The sales of non-mortgage loans in Q1 2022 reached PLN 2 793.5 million, representing an increase of +29.5% compared with Q1 2021 and +12.6% quarter on quarter.

Net of FX effect, loans to individuals increased by 2.0% quarter on quarter.

At the end of Q1 2022, gross loans and advances to the public sector increased by PLN 18.1 million or +11.8% quarter on quarter and stood at PLN 171.1 million.

Investment securities were the second largest asset category at the end of Q1 2022. They stood at PLN 46 215.7 million, accounting for 22.6% of total assets. Their value decreased by PLN 6 460.0 million or -12.3% quarter on quarter, i.a. due to sale of part of the portfolio.

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Total liabilities and equity of mBank Group

PLN million	31.03.2021	31.12.2021	31.03.2022	QoQ change	YoY change
Amounts due to other banks	2 954.1	3 359.6	2 090.4	-37.8%	-29.2%
Amounts due to customers	152 097.1	159 935.1	164 743.2	3.0%	8.3%
Debt securities in issue	13 652.5	13 429.8	13 654.1	1.7%	0.0%
Subordinated liabilities	2 564.5	2 624.5	2 645.7	0.8%	3.2%
Other liabilities	6 175.1	6 472.0	8 191.0	26.6%	32.6%
Total Liabilities	177 443.3	185 821.0	191 324.4	3.0%	7.8%
Total Equity	16 773.8	13 717.9	13 590.0	-0.9%	-19.0%
Total Liabilities and Equity	194 217.1	199 538.9	204 914.4	2.7%	5.5%

Other liabilities – the sum of financial liabilities held for trading and derivatives held for hedges, fair value changes of the hedged items in portfolio hedge of interest rate risk, liabilities held for sale, provisions, current income tax liabilities, deferred income tax liabilities and other liabilities.

In Q1 2022, amounts due to customers, which are mBank Group's principal source of funding, rose by PLN 4 808.1 million or +3.0% quarter on quarter. The share of amounts due to customers in total liabilities and equity reached 80.4%, which represents a slight increase compared with the end of December 2021 (80.2%).

Amounts due to corporate customers increased by PLN 5 934.1 million or +12.7% quarter on quarter and reached PLN 52 782.7 million at the end of March 2022. The substantial increase of this category results mainly from an inflow of funds into current accounts (PLN 5 291.8 million or +12.5% quarter on quarter).

In the period under review, amounts due to individual customers decreased by PLN 1 272.6 million or -1.1% quarter on quarter and stood at PLN 111 173.6 million. Marginal decrease of funds in current accounts (PLN -667.2 million or -0.6% quarter on quarter) and decrease of term deposits (PLN -593.3 million or -7.2% quarter on quarter) were noted.

Amounts due to the public sector stood at PLN 786.9 million at the end of Q1 2022, representing an increase by PLN 146.6 million or +22.9% quarter on quarter.

Debt securities in issue were mBank Group's second largest liabilities and equity category (accounting for 6.7%). They increased by PLN 224.3 million or +1.7% to PLN 13 654.1 million.

Amounts due to other banks stood at PLN 2 090.4 million at the end of Q1 2022, accounting for 1.0% of total liabilities and equity of mBank Group. Compared with Q4 2021, this category decreased by PLN 1 269.1 million or -37.8%. The decrease was mainly a result of decrease of funds held in term accounts by other institutions at mBank, lower value of repo and sell/buy back transactions, and decrease of liabilities in respect of cash collaterals.

Total equity amounted to PLN 13 590.0 million at the end of Q1 2022. The share of equity in total liabilities and equity of mBank Group decreased marginally quarter on quarter to 6.6% (against 6.9% at the end of December 2021). The slight changes in equity compared to the end of 2021 were negatively impacted mainly by the valuation of financial assets measured at fair value through other comprehensive income and cash flow hedges resulting from the increase of market interest rates. The result for the current year attributable to mBank shareholders had a positive impact on the equity.

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Quality of the loan portfolio of mBank Group

As at 31 March 2022, the amount of non-performing receivables increased slightly compared with the previous quarter. Thanks to the simultaneous rise of receivables, the NPL ratio remained on the same level compared to the end of 2021 and amounted to 3.9%.

The coverage ratio for total receivables increased quarter on quarter from 70.4% to 71.5% whereas coverage ratio of non-performing receivables stood at 54.4% compared to 53.1% at the end of 2021.

PLN million	31.12.2021	31.03.2022	QoQ change
Impairment of non-performing loans	-2 526.2	-2 665.5	5.5%
Impairment of performing loans	-820.5	-838.1	2.1%
Total impairment	-3 346.7	-3 503.6	4.7%
Non-performing receivables	4 755.5	4 899.2	3.0%
Performing receivables	116 639.5	122 044.0	4.6%
NPL ratio	3.9%	3.9%	
Coverage ratio of non-performing receivables	53.1%	54.4%	

Impairment of non-performing loans – accumulated impairment of loans and advances at amortised cost with impairment (stage 3 and POCI) and fair value change of loans and advances mandatorily at fair value through profit or loss in default

Impairment of performing loans – accumulated impairment of loans and advances at amortised cost without impairment (stage 1 and 2) and fair value change of non-default loans and advances mandatorily at fair value through profit or loss

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

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

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

Coverage ratio of non-performing receivables – impairment of non-performing receivables in non-performing receivables.

Performance of segments and the business lines

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

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

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

PLN million	Q4 2021	Q1 2022	QoQ change	% share in profit before tax
Retail Banking	493.9	503.0	1.8%	70.5%
Corporate and Investment Banking	194.5	351.7	80.8%	49.3%
Treasury and Others	-96.7	49.2	-/+	6.9%
Profit before tax of core business	591.8	903.9	52.7%	126.7%
FX Mortgage Loans	-2 027.0	-190.3	-90.6%	-26.7%
Profit before tax of mBank Group	-1 435.3	713.6	-/+	100.0%

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Retail Banking

mBank's Retail Banking segment serves 5,543 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a network of 365 branches. The Bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key highlights

- Total income of PLN 1 273.8 million, increase by 21.6% on a quarterly basis.
- Increase in the share of mBank in the mortgage loans market to 8.6% quarter on quarter, while mBank's share in the non-mortgage loans market climbed to 7.3%, thanks to the dynamic growth of the loans volume on a quarterly and yearly basis.
- Quarterly increase of mBank's new sales of non-mortgage loans to PLN 2 793.5 million (i.e. +12.6% quarter on quarter, +29.5% year on year).
- Increase of mBank's share in the new sale of mortgage loans market to 14.5% compared to 14.1% at the end of 2021, thanks to attractive offer and constant improvements of the crediting process, and despite lower market demand and marginally lower sale of mortgage loans (-3.0% quarter on quarter and -0.9% year on year).
- Rise of mBank's share in retail deposits market from 8.3% to 8.4% quarterly, especially in current accounts segment.
- Continuous development of convenient digital solutions, proved by growing number of retail clients (+29.2 thousand in Q1) and growing number of monthly active users (MAU) to 3.1 million.
- Rising share of sales initiated in mobile channels in total non-mortgage loans sales (49% in Q1 2022), while percentage of processes initiated in digital channels by the clients grew to 79.2%.
- Brokerage Bureau of mBank took second position in trading futures on Warsaw Stock Exchange.
- Introduction of personal financial management functionalities (PFM) in mBank's application. PFM analyses transaction history of the client on a constant basis. Among others, it allows to compare spending and inflows from recent months, as well as to check their details.
- Further development of additional services in mBank's mobile application: adding qualified electronic signature (mSzafor) and support for extended functionality of KIR's mojeID solution for public administration services.

Key financial data

PLN million	Q4 2021	Q1 2022	Change in PLN M	Change in %
Net interest income	756.8	936.7	179.8	23.8%
Net fee and commission income	273.5	307.0	33.5	12.2%
Net trading income	15.2	17.0	1.8	11.7%
Net other operating income	-1.7	12.1	13.8	-/+
Other income	3.3	1.1	-2.2	-67.8%
Total income	1 047.1	1 273.8	226.7	21.6%
Net impairment losses and fair value change on loans and advances	-108.1	-192.8	-84.7	78.3%
Overhead costs and depreciation	-365.6	-487.5	-121.9	33.3%
Taxes on bank balance sheet items	-79.4	-90.5	-11.0	13.9%
Profit before tax of Retail Banking	493.9	503.0	9.0	1.8%

Other income – calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

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Key business data (mBank and mBank Hipoteczny only)

thousand	31.03.2021	31.12.2021	31.03.2022	QoQ change	YoY change
Number of retail clients, including:	5 517.3	5 514.6	5 543.9	0.5%	0.5%
Poland	4 505.1	4 487.8	4 511.9	0.5%	0.2%
Foreign branches	1 012.1	1 026.9	1 031.9	0.5%	2.0%
The Czech Republic	708.0	717.8	720.1	0.3%	1.7%
Slovakia	304.1	309.0	311.9	0.9%	2.6%
PLN million					
Loans to retail clients, including:	67 834.2	73 236.5	74 970.2	2.4%	10.5%
Poland	59 629.7	63 430.6	64 783.4	2.1%	8.6%
mortgage loans	41 993.8	44 320.9	45 359.9	2.3%	8.0%
non-mortgage loans	17 635.9	19 109.7	19 423.5	1.6%	10.1%
Foreign branches	8 204.4	9 805.9	10 186.8	3.9%	24.2%
The Czech Republic	5 764.4	6 831.1	7 123.5	4.3%	23.6%
Slovakia	2 440.1	2 974.8	3 063.3	3.0%	25.5%
Deposits of retail clients, including:	103 649.5	112 377.9	111 121.8	-1.1%	7.2%
Poland	88 496.3	96 586.7	95 205.9	-1.4%	7.6%
Foreign branches	15 153.2	15 791.2	15 915.9	0.8%	5.0%
The Czech Republic	10 642.7	11 018.6	11 124.9	1.0%	4.5%
Slovakia	4 510.6	4 772.7	4 791.0	0.4%	6.2%
Investment assets of mBank's individual clients	21 321.2	22 076.7	20 726.6	-6.1%	-2.8%
thousand					
Credit cards, including:	382.1	376.8	365.7	-2.9%	-4.3%
Poland	344.3	340.5	330.0	-3.1%	-4.2%
Foreign branches	37.8	36.2	35.7	-1.4%	-5.5%
Debit cards, including:	4 206.7	4 456.9	4 547.9	2.0%	8.1%
Poland	3 533.8	3 777.2	3 857.9	2.1%	9.2%
Foreign branches	672.9	679.7	690.0	1.5%	2.5%

Corporate and Investment Banking

The Corporate and Investment Banking segment serves 31,898 corporate clients including large enterprises (K1 – annual sales exceeding PLN 1 billion and non-banking financial institutions), mid-sized enterprises (K2 – annual sales of PLN 50 million – 1 billion) and small enterprises (K3 – annual sales below PLN 50 million), through a network of dedicated 43 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring.



Key highlights

- Increase of total income to PLN 799.0 million by 26.7% quarter on quarter.
- Dynamic growth of corporate loans by 7.6% quarter on quarter and 5.3% year on year along mBank's rising market share in loans to enterprises to 8.3%.
- Increase of new sale of corporate loans by 28.1% on a yearly basis and decrease of -19.1% quarterly with expectation of further growth based on attractive offer.
- Increase of corporate deposits on the Group level by 10.3% year on year and quarterly increase of 12.7% to PLN 52 782.7 million. mBank's market share in deposits from enterprises reached 11.6%.
- Growing number of SME clients (K2 and K3 segments): +607 new entities in Q1 2022, thanks to development of digital and mobile services to corporate clients and support in the scope of e-commerce.
- Fifth position of mFactoring on the factoring service market in Poland and increase in the market share of mLeasing to 7.4% at the end of 2021.
- Development of CompanyMobile application for SME and corporate clients: added the possibility of remote identity verification via e-ID and eDO App. The function facilitates and speeds up the appointment of a plenipotentiary to the account or updating personal data.
- January 2022 marked the fifth anniversary of cooperation between the Great Orchestra of Christmas Charity, which played for the 30th time this year, and mBank, the foundation's main banking partner. The foundation raised money to ensure the highest standards of diagnosis and treatment of eyesight in children. During the five-year cooperation, mBank and its clients supported the foundation's goals with the amount of nearly PLN 70 million. mBank has prepared, among others, offer for corporate clients. As part of it, account maintenance and transfer fees (from January till June) are donated to the charity.

Key financial data

PLN million	Q4 2021	Q1 2022	Change in PLN M	Change in %
Net interest income	317.6	381.1	63.5	20.0%
Net fee and commission income	232.8	302.5	69.7	29.9%
Net trading income	88.4	101.9	13.5	15.2%
Gains less losses from financial assets and liabilities not measured at fair value through profit or loss	1.2	-2.8	-3.9	+/-
Net other operating income	-9.2	16.3	25.6	-/+
Total income	630.7	799.0	168.3	26.7%
Net impairment losses and fair value change on loans and advances	-164.6	-82.2	82.4	-50.1%
Overhead costs and depreciation	-210.6	-309.9	-99.3	47.1%
Taxes on bank balance sheet items	-61.0	-55.3	5.8	-9.5%
Profit before tax of Corporate and Investment Banking	194.5	351.7	157.2	80.8%

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

Key business data (Bank only)

	31.03.2021	31.12.2021	31.03.2022	QoQ change	YoY change
Number of corporate clients, including:	29 662	31 315	31 898	1.9%	7.5%
K1	2 346	2 272	2 248	-1.1%	-4.2%
K2	9 132	9 740	9 970	2.4%	9.2%
K3	18 184	19 303	19 680	2.0%	8.2%
PLN million					
Loans to corporate clients, including:	29 242.9	28 305.7	30 475.5	7.7%	4.2%
K1	6 798.2	6 019.3	6 421	6.7%	-5.6%
K2	19 195.8	18 983.4	20 609.9	8.6%	7.4%
K3	2 719.4	2 959.9	3 033.0	2.5%	11.5%
Deposits of corporate clients, including:	45 041.8	43 756.7	49 664.3	13.5%	10.3%
K1	12 986.9	9 892.0	12 186.4	23.2%	-6.2%
K2	20 868.9	21 602.3	24 700.3	14.3%	18.4%
K3	10 401.9	11 813.9	12 303.8	4.1%	18.3%

Summary of results of mBank Group's subsidiaries

In Q1 2022, the profit before tax generated by mBank Group subsidiaries amounted to PLN 70.6 million, which represents a significant increase compared to the previous quarter. A high increase of results was noted mainly by mLeasing. Higher profit before tax was largely thanks to higher income and lower provisions for expected credit losses.

The table below presents the profit before tax posted by individual subsidiaries in Q1 2022 compared with Q4 2021.

PLN million	Q4 2021	Q1 2022	Change in %
mFinanse	10.2	11.8	15.6%
mBank Hipoteczny	2.8	2.6	-5.6%
mLeasing ¹	28.4	43.1	51.5%
mFaktoring	5.9	14.2	141.5%
Other ²	-1.5	-1.0	-30.3%
Total	45.8	70.6	54.3%

¹ Including LeaseLink and Asekum.

² Other subsidiaries include Future Tech and mElements. In the Q4 it also includes G-Invest.

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	1st quarter (current year) period from 01.01.2022 to 31.03.2022	1st quarter (previous year) period from 01.01.2021 to 31.03.2021
Interest income, including:	5	1 716 287	1 019 381
<i>Interest income accounted for using the effective interest method</i>		1 681 695	897 889
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		34 592	121 492
Interest expenses	5	(216 952)	(72 486)
Net interest income		1 499 335	946 895
Fee and commission income	6	792 923	645 938
Fee and commission expenses	6	(194 929)	(177 878)
Net fee and commission income		597 994	468 060
Dividend income	7	835	440
Net trading income	8	95 627	63 178
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	(8 881)	(11 473)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10	(20 055)	89 124
Other operating income	11	66 352	54 987
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	12	(257 847)	(155 660)
Costs of legal risk related to foreign currency loans	30	(192 754)	(66 268)
Overhead costs	13	(727 360)	(552 766)
Depreciation		(116 534)	(111 891)
Other operating expenses	14	(63 283)	(81 483)
Operating profit		873 429	643 143
Taxes on the Group balance sheet items		(159 839)	(138 821)
Profit / (loss) before income tax		713 590	504 322
Income tax expense	26	(201 266)	(187 229)
Net profit / (loss)		512 324	317 093
Net profit / (loss) attributable to:			
- owners of mBank S.A.		512 329	317 125
- non-controlling interests		(5)	(32)
Net profit / (loss) attributable to Owners of mBank S.A.		512 329	317 125
Weighted average number of ordinary shares	15	42 384 884	42 367 040
Earnings / (loss) per share (in PLN)	15	12.09	7.49
Weighted average number of ordinary shares for diluted earnings	15	42 491 139	42 416 982
Diluted earnings / (loss) per share (in PLN)	15	12.06	7.48

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1st quarter (current year) period from 01.01.2022 to 31.03.2022	1st quarter (previous year) period from 01.01.2021 to 31.03.2021
Net profit / (loss)	512 324	317 093
Other comprehensive income net of tax, including:	(644 296)	(244 827)
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT		
Exchange differences on translation of foreign operations (net)	623	564
Cash flows hedges (net)	(342 502)	(159 931)
Change in valuation of debt instruments at fair value through other comprehensive income (net)	(302 417)	(85 460)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Reclassification to investment properties (net)	-	-
Total comprehensive income (net)	(131 972)	72 266
Total comprehensive income (net), attributable to:		
- Owners of mBank S.A.	(131 967)	72 298
- Non-controlling interests	(5)	(32)

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.03.2022	31.12.2021
Cash and balances with the Central Bank		17 971 383	12 202 266
Financial assets held for trading and hedging derivatives	16	2 744 045	2 589 076
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	1 355 851	1 417 191
<i>Equity instruments</i>		230 854	224 389
<i>Debt securities</i>		85 479	81 128
<i>Loans and advances to customers</i>		1 039 518	1 111 674
Financial assets at fair value through other comprehensive income	18	27 013 846	36 206 059
Financial assets at amortised cost, including:	19	148 081 088	140 296 538
<i>Debt securities</i>		18 885 506	16 164 103
<i>Loans and advances to banks</i>		6 829 976	7 229 681
<i>Loans and advances to customers</i>		122 365 606	116 902 754
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1 551 064	1 055 478
Non-current assets and disposal groups classified as held for sale	20	31 247	31 247
Intangible assets	21	1 301 614	1 283 953
Tangible assets	22	1 527 159	1 542 250
Investment properties	23	127 510	127 510
Current income tax assets		35 489	28 147
Deferred income tax assets	26	1 625 535	1 392 350
Other assets		1 548 590	1 366 820
TOTAL ASSETS		204 914 421	199 538 885
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities held for trading and hedging derivatives	16	2 384 707	2 011 182
Financial liabilities measured at amortised cost, including:	24	183 133 478	179 348 925
<i>Amounts due to banks</i>		2 090 424	3 359 558
<i>Amounts due to customers</i>		164 743 229	159 935 129
<i>Debt securities issued</i>		13 654 108	13 429 782
<i>Subordinated liabilities</i>		2 645 717	2 624 456
Fair value changes of the hedged items in portfolio hedge of interest rate risk		126 775	110 033
Liabilities included in disposal groups classified as held for sale	20	7 269	7 425
Provisions	25	867 631	811 455
Current income tax liabilities		260 134	61 910
Deferred income tax liabilities	26	90	89
Other liabilities		4 544 351	3 469 950
TOTAL LIABILITIES		191 324 435	185 820 969
EQUITY			
Equity attributable to Owners of mBank S.A.		13 588 127	13 716 050
Share capital:		3 593 944	3 593 944
Registered share capital		169 540	169 540
Share premium		3 424 404	3 424 404
Retained earnings:	27	11 842 867	11 326 494
- Profit from the previous years		11 330 538	12 505 247
- Profit (loss) for the current year		512 329	(1 178 753)
Other components of equity	28	(1 848 684)	(1 204 388)
Non-controlling interests		1 859	1 866
TOTAL EQUITY		13 589 986	13 717 916
TOTAL LIABILITIES AND EQUITY		204 914 421	199 538 885

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 31 March 2022

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit (loss) for the current year				
Equity as at 1 January 2022	169 540	3 424 404	11 326 494	-	(1 204 388)	13 716 050	1 866	13 717 916
Total comprehensive income	-	-	-	512 329	(644 296)	(131 967)	(5)	(131 972)
Other increase or decrease in equity	-	-	-	-	-	-	(2)	(2)
Stock option program for employees	-	-	4 044	-	-	4 044	-	4 044
<i>value of services provided by the employees</i>	-	-	<i>4 044</i>	-	-	<i>4 044</i>	-	<i>4 044</i>
Equity as at 31 March 2022	169 540	3 424 404	11 330 538	512 329	(1 848 684)	13 588 127	1 859	13 589 986

Changes in equity from 1 January to 31 December 2021

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit (loss) for the current year				
Equity as at 1 January 2021	169 468	3 417 567	12 501 597	-	584 501	16 673 133	1 934	16 675 067
Total comprehensive income	-	-	-	(1 178 753)	(1 788 889)	(2 967 642)	(60)	(2 967 702)
Issuance of ordinary shares	72	-	-	-	-	72	-	72
Other increase or decrease in equity	-	-	-	-	-	-	(8)	(8)
Stock option program for employees	-	6 837	3 650	-	-	10 487	-	10 487
<i>value of services provided by the employees</i>	-	-	<i>10 487</i>	-	-	<i>10 487</i>	-	<i>10 487</i>
<i>settlement of exercised options</i>	-	<i>6 837</i>	<i>(6 837)</i>	-	-	-	-	-
Equity as at 31 December 2021	169 540	3 424 404	12 505 247	(1 178 753)	(1 204 388)	13 716 050	1 866	13 717 916

Changes in equity from 1 January to 31 March 2021

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit (loss) for the current year				
Equity as at 1 January 2021	169 468	3 417 567	12 501 597	-	584 501	16 673 133	1 934	16 675 067
Total comprehensive income	-	-	-	317 125	(244 827)	72 298	(32)	72 266
Other increase or decrease in equity	-	-	-	-	-	-	(4)	(4)
Stock option program for employees	-	-	1 599	-	-	1 599	-	1 599
<i>value of services provided by the employees</i>	-	-	<i>1 599</i>	-	-	<i>1 599</i>	-	<i>1 599</i>
Equity as at 31 March 2021	169 468	3 417 567	12 503 196	317 125	339 674	16 747 030	1 898	16 748 928

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	1st quarter (current year) period from 01.01.2022 to 31.03.2022	1st quarter (previous year) period from 01.01.2021 to 31.03.2021
Profit / (loss) before income tax	713 590	504 322
Adjustments:	5 131 979	15 518 273
Income taxes paid	(83 205)	(318 251)
Depreciation, including depreciation of fixed assets provided under operating lease	123 171	120 529
Foreign exchange (gains) losses related to financing activities	334 908	(52 180)
(Gains) losses on investing activities	(4 373)	(130)
Dividends received	(835)	(440)
Interest income (income statement)	(1 716 287)	(1 019 381)
Interest expense (income statement)	216 952	72 486
Interest received	1 465 379	966 364
Interest paid	(146 598)	(48 294)
Changes in loans and advances to banks	692 593	1 745 586
Changes in financial assets and liabilities held for trading and hedging derivatives	(685 294)	(927 720)
Changes in loans and advances to customers	(5 197 877)	(4 651 310)
Changes in securities at fair value through other comprehensive income	8 896 172	3 495 898
Changes in securities at amortised cost	(2 665 056)	(426 493)
Changes of non-trading securities mandatorily at fair value through profit or loss	(10 816)	144
Changes in other assets	(200 206)	(9 888)
Changes in amounts due to banks	(1 252 614)	555 455
Changes in amounts due to customers	4 720 962	15 576 944
Changes in issued debt securities	(585 263)	(117 585)
Changes in provisions	56 176	11 777
Changes in other liabilities	1 174 090	544 762
A. Cash flows from operating activities	5 845 569	16 022 595
Disposal of intangible assets and tangible fixed assets	19 595	18 503
Dividends received	835	440
Purchase of intangible assets and tangible fixed assets	(177 425)	(201 907)
B. Cash flows from investing activities	(156 995)	(182 964)
Issue of debt securities	944 804	300 000
Repayments of other loans and advances	-	(1 358 250)
Redemption of debt securities	(302 959)	(599 993)
Payments of lease liabilities	(22 852)	(24 158)
Interest paid from loans and advances received from banks and from subordinated liabilities	(14 514)	(30 424)
C. Cash flows from financing activities	604 479	(1 712 825)
Net increase / decrease in cash and cash equivalents (A+B+C)	6 293 053	14 126 806
Effects of exchange rate changes on cash and cash equivalents	(155 634)	45 760
Cash and cash equivalents at the beginning of the reporting period	12 540 599	4 249 046
Cash and cash equivalents at the end of the reporting period	18 678 018	18 421 612

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. Information regarding the Group of mBank S.A.**

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

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

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

As at 31 March 2022 mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A. – the parent entity

Bank functions under the name of mBank S.A. with the head office located in Poland in Warsaw, Prosta 18 Street, KRS 0000025237, REGON 001254524, NIP 526-021-50-88.

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

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

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

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

As at 31 March 2022 the headcount of mBank S.A. amounted to 6 235 FTEs (Full Time Equivalentents), and of the Group to 6 899 FTEs (31 March 2021: Bank 5 989 FTEs; Group 6 643 FTEs).

As at 31 March 2022 the employment in mBank S.A. was 7 247 persons, and in the Group 9 617 persons (31 March 2021: Bank 7 006 persons; Group 9 308 persons)

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

Retail Banking segment

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

mBank S.A. Group

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Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

Corporate and Investment Banking segment

- mBank Hipoteczny S.A. – subsidiary (the corporate segment of the company's activity)
- mFaktoring S.A. – subsidiary
- mLeasing Sp. z o.o. – subsidiary (the corporate segment of the company's activity)
- Asekum Sp. z o.o. – subsidiary (the corporate segment of the company's activity)

Treasury and Other segment

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

Other information concerning companies of the Group

Since the beginning of 2022 Group started to consolidate subsidiaries mFinanse CZ s.r.o. and mFinanse SK s.r.o. in relation to the start of their operating activities. The mFinanse companies in the Czech Republic and Slovakia operate in the area of financial intermediation in the sale of banking products distributed by mBank's branches in the Czech Republic and Slovakia. The mFinanse companies in the Czech Republic and Slovakia took over the tasks that were previously carried out by mBank Branches in these countries. Moreover, in the first quarter of 2022, Group ceased to consolidate the subsidiary G-Invest Sp. z o.o. due to its immaterial impact on financial result and on financial statements of mBank S.A. Group.

On 19 July 2021 sold 100% of shares in Tele-Tech Investment Sp. z o.o. and all bonds held by the Bank issued by that subsidiary. Hence, starting from July 2021, the Group ceased to consolidate the subsidiary Tele-Tech Investment Sp. z o.o.

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

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

The name of subsidiary	31.03.2022		31.12.2021		31.03.2021	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full	98.04%	full
mElements S.A.	100%	full	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full	100%	full
mFinanse CZ s.r.o.	100%	full	100%	-	-	-
mFinanse SK s.r.o.	100%	full	100%	-	-	-
G-Invest Sp. z o.o.	100%	-	100%	full	100%	full
Tele-Tech Investment sp. z o.o.	-	-	-	-	100%	full

The Management Board of mBank S.A. approved these condensed consolidated financial statements for issue on 10 May 2022.

2. Description of relevant accounting policies

Accounting basis

The condensed consolidated financial statements of mBank S.A. Group have been prepared for the 3-month period ended 31 March 2022. Comparative data include the period from 1 January 2021 to 31 March 2021 for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and condensed consolidated statement of changes in equity, additionally for the period from 1 January to 31 December 2021 for the condensed consolidated statement of changes in equity, and in the case of the condensed consolidated statement of financial position, data as at 31 December 2021.

These interim financial statements the first quarter of 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Consolidated financial statements of mBank S.A. Group for 2021. They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

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).

Detailed accounting principles applied to the preparation of these condensed consolidated financial statements are presented in Note 2 to the consolidated financial statements of mBank S.A. Group for 2021, published on 3 March 2022.

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

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

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

New standards, interpretations and amendments to published standards

Standards and interpretations endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Annual Improvements to IFRS Standards 2018-2020	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 9 clarifies which fees the entity includes when it applies the '10 per cent test' in assessing whether to derecognize a financial liability. The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	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.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract	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.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 3 Reference to the Conceptual Framework	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.	1 January 2022	The application of the amended standard will have no significant impact on the financial statements.

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Amendments to IFRS 16, COVID-19-related Rent Concessions beyond 31 March 2022	In amendment to IFRS 16 COVID-19-related Rent Concessions beyond 31 March 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.	1 April 2021	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts	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. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: methods for the valuation of insurance liabilities, recognition a revenues and result from insurance contract.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendment to IAS 8, Definition of Accounting Estimates	In amendment to IAS 8, 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 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.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies	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 with some clarifications and examples how an entity can identify material accounting policy information.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17, Insurance contracts	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.	1 June 2023	The application of the amended standard will have no significant impact on the financial statements.

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.

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1, Classification of liabilities as current or non-current	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.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts and IFRS 9	The amendment to the standards introduces optional facilities to minimize the accounting mismatch between financial assets and liabilities presented in the comparative data of the financial statements of entities applying IFRS 17 and IFRS 9 for the first time.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.

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

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

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

Detailed information on the impact of legal risk related to CHF mortgage and housing loans is provided in Note 30.

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions, on the basis of which the estimated cash flow amounts and their anticipated timing are determined, are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realization of specific scenarios) for portfolio of loans and advances which are impaired, change by +/- 10%, the estimated loans and advances impairment would either decrease by PLN 59.0 million or increase by PLN 68.8 million (as at 31 December 2021: PLN 61.6 million and PLN 71.2 million). 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 of Consolidated financial statements of mBank Group S.A. for 2021, published on 3 March 2022.

Actions taken in relation to the current situation in Ukraine

In the first quarter of 2022, the Group conducted a portfolio review in connection with Russia's aggression against Ukraine. The review concerned the Group's involvement in war countries (Ukraine, Russia) or in conflict-related countries (Belarus), taking into account sanctions imposed by the European Union, the United Kingdom and the USA. The review identified engagement in the following countries:

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Country	Direct exposure as at 31 March 2022												
	Balance sheet gross exposure in PLN thousand				Off-balance sheet exposure in PLN thousand				Expected credit losses in PLN thousand				
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Ukraine	-	-	-	-	-	-	-	-	-	-	-	-	-
Russia	-	-	630	222 918	-	-	-	-	-	-	-	621	176 367
Belarus	-	3 302	-	-	-	-	-	-	-	-	106	-	-

Country	Indirect exposure* as at 31 March 2022												
	Balance sheet gross exposure in PLN thousand				Off-balance sheet exposure in PLN thousand				Expected credit losses in PLN thousand				
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Ukraine	53 003	1 389	569	-	107 393	-	-	-	177	4	175	-	-
Russia	220 401	6 259	48 286	-	183 968	2 446	-	-	1 557	139	23 260	-	-
Belarus	3 785	-	-	-	13 011	-	-	-	2	-	-	-	-

* Exposures related to indirect risk - a material relationship with the country of risk, e.g. above 30% of imports/exports from/to the country of risk, the main shareholder is a resident from the country of risk.

The Group identified the exposure of PLN 547 million to clients (corporations) with a potential indirect risk resulting from the conflict between Russia and Ukraine, for whom the relationship with the country of risk was not material.

For the entities identified in the review, the industry, risk factors and risk-mitigating mitigants were identified.

In addition, since 7 April 2022, the maximum concentration limits for residents from the three indicated countries are zero, which means that the Bank has ceased operations in countries affected by the conflict.

Additional cost of risk due to the current situation in Ukraine

Due to the changes in the economic situation in Poland resulting from the Russia's invasion of Ukraine, the Group has taken additional actions aimed at including this information in the expected credit losses. It was decided to modify of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model.

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 82.1 million in the portfolio measured at amortised cost (negative impact on the P&L). In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which the Group recognized an additional cost of PLN 1.8 million (negative impact on the P&L).

The Group will continue to analyse the impact of the situation in Ukraine on the cost of risk in the next quarters.

Apart from the above-mentioned activities, no other significant model changes were implemented in the first quarter of 2022.

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 models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.7. of Consolidated financial statements of mBank Group for 2021, published on 3 March 2022.

Deferred tax assets

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

Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the first quarter of 2022 was 28.2% (in the first quarter of 2021: 37.1%).

Revenue and expenses from sale of insurance products bundled with loans

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

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

Currently the Group recognises upfront 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 associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

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

Leasing classification

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

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

4. Business segments

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

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

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

- **The Retail Banking segment**, which offers a full range of products and services to individual customers, including Private Banking customers and micro-businesses. The key products and services offered to customers in this segment include lending products (mortgage loans, overdrafts, cash loans, car loans, credit cards), deposit products (current and savings accounts, term deposits), debit cards, insurance products, brokerage services, investment advice, asset management services and leasing services. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., mFinanse CZ s.r.o., mFinanse SK s.r.o., LeaseLink Sp. z o.o. and mElements S.A., as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.

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- The Corporate and Investment Banking segment, which offers financial services to small, medium and large-sized companies, public sector entities, financial institutions and banks. The key products offered to these customers include transactional banking (cash management, current accounts, term deposits, internet banking, trade finance services, letters of credit and guarantees), working capital and investment loans, project finance, structured and mezzanine finance services as well as custody, leasing and factoring services. The products of this segment include operations in foreign currencies, capital and derivatives markets, both proprietary and on behalf of customers, as well as services for arranging and financing securities issues, financial consulting and brokerage services for financial institutions. The Corporate and Investment Banking segment also generates result of foreign exchange risk management. This segment includes the results of the following subsidiaries: mFactoring S.A., G-Invest Sp. z o.o. before its deconsolidation, Tele-Tech Investment Sp. z o.o. before its deconsolidation as well as the results of corporate segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- The Treasury and Other segment consists primarily of treasury and money markets operations, liquidity and interest rate risks management of the Bank and its investment portfolio. The results of the segment include result of internal settlements of fund transfer pricing, result of items classified as hedge accounting and results not allocated to other segments. This segment also includes the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding and results of Future Tech Fundusz Inwestycyjny Zamknięty.
- FX Mortgage Loans segment consists primarily of foreign currency mortgage loans with indexation clauses granted to individual customers. These types of loans are no longer offered to customers. The segment's assets include only the portfolio of active mortgage loans originally granted in foreign currencies (mainly in CHF, EUR and USD). The segment's liabilities do not include the financing of the portfolio of such loans, which was included in the liabilities of other segments.

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

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

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

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

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

The primary basis used by the Group in the segment reporting is business line division. In addition, the Group's activity is presented by geographical areas reporting broken down into Poland and foreign countries because of the place of origin of income and expenses. Foreign countries segment includes activity of mBank's foreign branches in Czech Republic and Slovakia as well as the activity of subsidiaries mFinanse CZ s.r.o. and mFinanse SK s.r.o.

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Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 March 2022 – data regarding consolidated income statement

period from 1 January to 31 March 2022	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	936 654	381 086	154 478	27 117	1 499 335
- sales to external clients	895 035	399 962	172 291	32 047	1 499 335
- sales to other segments	41 619	(18 876)	(17 813)	(4 930)	-
Net fee and commission income	306 989	302 470	(8 015)	(3 450)	597 994
Dividend income	-	-	835	-	835
Trading income	17 012	101 901	(50 417)	27 131	95 627
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(8 067)	(803)	(12)	1	(8 881)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(749)	(2 759)	(16 547)	-	(20 055)
Other operating income	28 457	32 341	5 502	52	66 352
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(182 954)	(81 380)	(1 843)	8 330	(257 847)
Costs of legal risk related to foreign currency loans	-	-	-	(192 754)	(192 754)
Overhead costs	(409 919)	(272 546)	(13 440)	(31 455)	(727 360)
Amortisation	(77 576)	(37 332)	(1 438)	(188)	(116 534)
Other operating expenses	(16 399)	(16 023)	(16 938)	(13 923)	(63 283)
Operating profit	593 448	406 955	52 165	(179 139)	873 429
Taxes on Group balance sheet items	(90 476)	(55 261)	(2 936)	(11 166)	(159 839)
Gross profit / (loss) of the segment	502 972	351 694	49 229	(190 305)	713 590
Income tax					(201 266)
Net profit / (loss) attributable to Owners of mBank S.A.					512 329
Net profit / (loss) attributable to non-controlling interests					(5)

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

period from 1 January to 31 March 2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	621 491	255 970	36 770	32 664	946 895
- sales to external clients	492 851	250 181	168 353	35 510	946 895
- sales to other segments	128 640	5 789	(131 583)	(2 846)	-
Net fee and commission income	223 502	252 834	(9 207)	931	468 060
Dividend income	-	-	440	-	440
Trading income	8 850	66 961	(1 908)	(10 725)	63 178
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(11 899)	424	2	-	(11 473)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(1 095)	2 062	88 157	-	89 124
Other operating income	16 552	27 478	10 950	7	54 987
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(109 412)	(69 184)	(414)	23 350	(155 660)
Costs of legal risk related to foreign currency loans	-	-	-	(66 268)	(66 268)
Overhead costs	(314 473)	(221 830)	(13 080)	(3 383)	(552 766)
Amortisation	(73 487)	(36 029)	(2 154)	(221)	(111 891)
Other operating expenses	(23 838)	(42 621)	(13 598)	(1 426)	(81 483)
Operating profit	336 191	236 065	95 958	(25 071)	643 143
Taxes on Group balance sheet items	(62 645)	(50 148)	(11 696)	(14 332)	(138 821)
Gross profit / (loss) of the segment	273 546	185 917	84 262	(39 403)	504 322
Income tax					(187 229)
Net profit / (loss) attributable to Owners of mBank S.A.					317 125
Net profit / (loss) attributable to non-controlling interests					(32)

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

31.03.2022	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	71 145 109	51 092 490	71 520 067	11 156 755	204 914 421
Liabilities of the segment	110 406 769	54 250 259	26 049 592	617 815	191 324 435

31.12.2021	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	68 388 768	47 369 348	72 477 859	11 302 910	199 538 885
Liabilities of the segment	112 159 963	47 507 690	25 726 898	426 418	185 820 969

Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 31 March 2022 and for the period from 1 January to 31 March 2021

	period from 1 January to 31 March 2022			period from 1 January to 31 March 2021		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	1 406 317	93 018	1 499 335	887 327	59 568	946 895
Net fee and commission income	580 797	17 197	597 994	460 559	7 501	468 060
Dividend income	835	-	835	440	-	440
Trading income	94 185	1 442	95 627	62 408	770	63 178
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(8 881)	-	(8 881)	(11 473)	-	(11 473)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(20 048)	(7)	(20 055)	89 130	(6)	89 124
Other operating income	65 154	1 198	66 352	54 381	606	54 987
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(250 498)	(7 349)	(257 847)	(164 008)	8 348	(155 660)
Costs of legal risk related to foreign currency loans	(192 754)	-	(192 754)	(66 268)	-	(66 268)
Overhead costs	(685 478)	(41 882)	(727 360)	(518 839)	(33 927)	(552 766)
Amortisation	(113 240)	(3 294)	(116 534)	(108 687)	(3 204)	(111 891)
Other operating expenses	(62 502)	(781)	(63 283)	(80 841)	(642)	(81 483)
Operating profit	813 887	59 542	873 429	604 129	39 014	643 143
Taxes on Group balance sheet items	(147 757)	(12 082)	(159 839)	(129 791)	(9 030)	(138 821)
Gross profit / (loss) of the segment	666 130	47 460	713 590	474 338	29 984	504 322
Income tax			(201 266)			(187 229)
Net profit / (loss) attributable to Owners of mBank S.A.			512 329			317 125
Net profit / (loss) attributable to non-controlling interests			(5)			(32)

Information about geographical areas on the activities of mBank S.A. Group as at 31 March 2022 and as at 31 December 2021

	31.03.2022			31.12.2021		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	193 083 680	11 830 741	204 914 421	188 653 175	10 885 710	199 538 885
- fixed assets	2 900 961	55 322	2 956 283	2 917 533	36 180	2 953 713
- deferred income tax assets	1 623 567	1 968	1 625 535	1 390 472	1 878	1 392 350
Liabilities of the segment	175 250 658	16 073 777	191 324 435	169 906 654	15 914 315	185 820 969

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5. Net interest income

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Interest income			
Interest income accounted for using the effective interest method		1 681 695	897 889
Interest income of financial assets at amortised cost, including:		1 558 475	850 784
- <i>Loans and advances</i>		1 419 222	773 653
- <i>Debt securities</i>		91 261	77 937
- <i>Cash and short-term placements</i>		33 964	737
- <i>Gains or losses on non-substantial modification (net)</i>		(2 100)	(3 637)
- <i>Other</i>		16 128	2 094
Interest income on financial assets at fair value through other comprehensive income, including:		123 220	47 105
- <i>Debt securities</i>		123 220	47 105
Income similar to interest on financial assets at fair value through profit or loss		34 592	121 492
Financial assets held for trading, including:		5 238	4 169
- <i>Loans and advances</i>		740	1 094
- <i>Debt securities</i>		4 498	3 075
Non-trading financial assets mandatorily at fair value through profit or loss, including:		24 613	13 711
- <i>Loans and advances</i>		24 613	13 711
Interest income on derivatives classified into banking book		4 741	24 077
Interest income on derivatives concluded under the fair value hedge		-	26 250
Interest income on derivatives concluded under the cash flow hedge		-	53 285
Total interest income		1 716 287	1 019 381

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Interest expenses			
Financial liabilities held for trading		(1 774)	(1 347)
Financial liabilities measured at amortised cost, including:		(147 859)	(67 815)
- <i>Deposits</i>		(72 504)	(14 755)
- <i>Loans received</i>		(1 080)	(1 343)
- <i>Issue of debt securities</i>		(49 251)	(37 080)
- <i>Subordinated liabilities</i>		(17 552)	(13 350)
- <i>Other financial liabilities</i>		(6 796)	(696)
- <i>Lease liabilities</i>		(676)	(591)
Interest expenses on derivatives concluded under the fair value hedge		(21 640)	-
Interest expenses on derivatives concluded under the cash flow hedge		(37 024)	-
Other		(8 655)	(3 324)
Total interest expense		(216 952)	(72 486)

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(PLN thousand)

6. Net fee and commission income

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Fee and commission income			
Payment cards-related fees		151 024	92 113
Credit-related fees and commissions		147 182	124 146
Commissions from bank accounts		128 439	117 164
Commissions from currency transactions		124 816	89 024
Fees from brokerage activity and debt securities issue		58 855	71 651
Commissions from money transfers		51 710	41 238
Commissions for agency service regarding sale of insurance products of external financial entities		37 316	30 119
Commissions due to guarantees granted and trade finance commissions		26 109	24 588
Commissions for agency service regarding sale of other products of external financial entities		23 439	20 668
Fees from cash services		13 325	10 031
Commissions on trust and fiduciary activities		8 667	8 344
Fees from portfolio management services and other management-related fees		7 190	5 830
Other		14 851	11 022
Total fee and commission income		792 923	645 938

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Fee and commission expense			
Payment cards-related fees		(63 200)	(55 916)
Commissions paid to external entities for sale of the Group's products		(39 091)	(40 050)
Commissions of insurance products		(3 489)	(3 099)
Commissions paid for sale of external financial entities' products		(10 444)	(6 392)
Discharged brokerage fees		(9 917)	(11 203)
Cash services		(8 963)	(7 816)
Fees to NBP, KIR and GPW Benchmark		(4 212)	(2 808)
Other discharged fees		(55 613)	(50 594)
Total fee and commission expense		(194 929)	(177 878)

7. Dividend income

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Non-trading financial assets mandatorily at fair value through profit or loss		335	140
Investments in non-consolidated subsidiaries		500	300
Total dividend income		835	440

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8. Net trading income

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Foreign exchange result		100 887	43 294
Net exchange differences on translation		(9 414)	(152 829)
Net transaction gains/losses		110 301	196 123
Gains or losses on financial assets and liabilities held for trading		(643)	27 934
Derivatives, including:		(347)	21 493
- <i>Interest-bearing instruments</i>		(10 045)	15 782
- <i>Market risk instruments</i>		9 698	5 711
Debt securities		(108)	6 468
Loans and advances		(188)	(27)
Gains or losses from hedge accounting		(4 617)	(8 050)
Net profit on hedged items		712 929	185 510
Net profit on fair value hedging instruments		(708 956)	(191 305)
Ineffective portion of cash flow hedge		(8 590)	(2 255)
Net trading income		95 627	63 178

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

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting are included in Note 16.

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

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Equity instruments		(11)	2
Debt securities		1 807	(2 419)
Loans and advances		(10 677)	(9 056)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(8 881)	(11 473)

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

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Gains less losses from derecognition, including:		(21 807)	90 970
- <i>Financial assets measured at fair value through other comprehensive income</i>		(21 179)	90 275
- <i>Financial assets at amortised cost</i>		(628)	622
- <i>Financial liabilities at amortised cost</i>		-	73
Gains less losses related to sale and revaluation of investments in subsidiaries and associates		1 752	(1 846)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss		(20 055)	89 124

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11. Other operating income

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories		19 953	19 081
Income from services provided		4 014	3 823
Net income from operating lease and right-of-use assets in sublease		2 549	390
Rental income from investment properties		2	-
Income due to release of provisions for future commitments		1 700	5 342
Income from recovering receivables designated previously as prescribed, remitted or uncollectible		574	561
Income from compensations, penalties and fines received		67	60
Net revenues from the sale of an organised part of the company mFinance S.A.		10 400	5 500
Other		27 093	20 230
Total other operating income		66 352	54 987

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

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

Net income from operating lease and right-of-use assets in sublease generated for first quarter of 2022 and for first quarter of 2021 is presented below.

	The period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Net income from operating lease, including:			
- Income from operating lease		8 113	8 028
- Income from right-of-use assets in sublease		1 073	1 000
- Depreciation cost of fixed assets provided under operating lease and right-of-use assets in sublease		(6 637)	(8 638)
Total net income from operating lease		2 549	390

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

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Financial assets at amortised cost, including:		(263 868)	(198 209)
- Debt securities		(1 219)	(45)
<i>Stage 1</i>		(1 219)	(45)
- Loans and advances		(262 649)	(198 164)
<i>Stage 1</i>		(39 292)	(34 425)
<i>Stage 2</i>		(1 271)	44 672
<i>Stage 3</i>		(207 180)	(211 730)
<i>POCI</i>		(14 906)	3 319
Financial assets at fair value through other comprehensive income, including:		(623)	(764)
- Debt securities		(623)	(764)
<i>Stage 1</i>		(1 211)	(348)
<i>Stage 2</i>		588	(416)
Commitments and guarantees given		6 644	43 313
<i>Stage 1</i>		(2 601)	1 640
<i>Stage 2</i>		(1 718)	13 848
<i>Stage 3</i>		5 615	25 908
<i>POCI</i>		5 348	1 917
Net impairment losses on financial assets not measured at fair value through profit or loss		(257 847)	(155 660)

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(PLN thousand)

13. Overhead costs

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Staff-related expenses		(294 285)	(241 686)
Material costs, including:		(174 165)	(147 139)
- costs of administration and real estate services		(69 745)	(62 343)
- IT costs		(48 555)	(39 938)
- marketing costs		(30 567)	(23 883)
- consulting costs		(21 711)	(17 539)
- other material costs		(3 587)	(3 436)
Taxes and fees		(8 509)	(8 051)
Contributions and transfers to the Bank Guarantee Fund		(246 232)	(153 493)
Contributions to the Social Benefits Fund		(4 169)	(2 397)
Total overhead costs		(727 360)	(552 766)

Staff-related expenses for the first quarter of 2022 and for the first quarter of 2021 is presented below.

	The period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Wages and salaries		(233 694)	(192 815)
Social security expenses		(45 969)	(38 085)
Employee contributions related to post-employment benefits		(26)	-
Remuneration concerning share-based payments, including:		(4 191)	(1 652)
- share-based payments settled in mBank S.A. shares		(4 044)	(1 599)
- cash-settled share-based payments		(147)	(53)
Other staff expenses		(10 405)	(9 134)
Staff-related expenses, total		(294 285)	(241 686)

14. Other operating expense

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories		(14 169)	(18 453)
Provisions for future commitments		(11 922)	(28 667)
Costs arising from provisions created for other receivables (excluding loans and advances)		(669)	(3 476)
Donations made		(5 057)	(4 537)
Compensation, penalties and fines paid		(614)	(6 899)
Direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period		(1 663)	-
Debt collection expenses		(8 876)	(9 574)
Other operating costs		(20 313)	(9 877)
Total other operating expenses		(63 283)	(81 483)

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

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(PLN thousand)

15. Earnings / (losses) per share

the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Basic:		
Net profit attributable to Owners of mBank S.A.	512 329	317 125
Weighted average number of ordinary shares	42 384 884	42 367 040
Net basic profit per share (in PLN per share)	12.09	7.49
Diluted:		
Net profit attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	512 329	317 125
Weighted average number of ordinary shares	42 384 884	42 367 040
Adjustments for:		
- share options	106 255	49 942
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 491 139	42 416 982
Diluted earnings per share (in PLN per share)	12.06	7.48

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

	31.03.2022	31.12.2021
Derivatives, including:	1 701 204	1 952 028
- Held for trading derivative financial instruments classified into banking book	229 159	111 404
- Held for trading derivative financial instruments classified into trading book	1 715 493	1 954 329
- Derivative financial instruments held for fair value hedging	141 178	217 809
- Derivative financial instruments held for cash flow hedging	70 820	120 789
- Offsetting effect	(455 446)	(452 303)
Debt securities	1 004 413	596 622
- General governments, including:	576 353	248 906
<i>pledged securities</i>	186 370	72 888
- Credit institutions	115 354	27 459
- Other financial corporations	106 254	141 329
- Non-financial corporations	206 452	178 928
Loans and advances	38 428	40 426
- Corporate customers	38 428	40 426
Total financial assets held for trading and derivatives held for hedges	2 744 045	2 589 076

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

Financial liabilities held for trading and derivatives held for hedges

	31.03.2022	31.12.2021
Derivatives, including:	1 815 365	1 926 408
- Held for trading derivative financial instruments classified into banking book	399 770	352 464
- Held for trading derivative financial instruments classified into trading book	1 874 884	1 886 280
- Derivative financial instruments held for fair value hedging	1 728 789	1 057 232
- Derivative financial instruments held for cash flow hedging	932 093	541 315
- Offsetting effect	(3 120 171)	(1 910 883)
Liabilities from short sale of securities	569 342	84 774
Total financial liabilities held for trading and derivatives held for hedges	2 384 707	2 011 182

Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

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

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

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

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

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

Hedge accounting

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

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

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

The Group determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 (except for mortgage bonds issued by mBank Hipoteczny (mBH) at mBank Group hedging relationship, for which the hedged ratio was determined based on BPV (Basis Point Value) and the fair value hedge of loan portfolios granted by mBank's Czech Branch, where the nominal value of hedging instruments is determined at an amount lower than the nominal value of the hedged item in order to take into account the risk of prepayment).

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

Fair value hedge accounting

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

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.13 of Consolidated financial statements for 2021, published on 3 March 2022.

Description of the hedging relation

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

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

Hedged items

The hedged items are:

- one tranche of fixed interest rate eurobonds issued by mFF, acquired by the Bank in the substitution process, with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 526 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 305 000 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of EUR 460 030 thousand,
- senior non-preferred bonds issued by mBank S.A., fixed rate during five years since the issue date, with nominal value of EUR 500 000 million,
- part of the fixed interest rate mortgage portfolio, denominated in CZK, granted by mBank’s foreign branch in the Czech Republic,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed rate deposits.

Hedging instruments

IRS and Overnight Index Swap are the hedging instruments swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

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

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

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Interest income / expense on derivatives concluded under the fair value hedge accounting (Note 5)		(21 640)	26 250
Net profit on hedged items (Note 8)		712 929	185 510
Net profit on fair value hedging instruments (Note 8)		(708 956)	(191 305)
The total results of fair value hedge accounting recognised in the income statement		(17 667)	20 455

Cash flow hedge accounting

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

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

The period from April 2022 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

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

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

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

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

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

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

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

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

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from April 2022 to September 2025.

The following note presents other comprehensive income due to cash flow hedges for the period from 1 January to 31 March 2022 and for the period from 1 January to 31 March 2021.

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	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Other gross comprehensive income from cash flow hedge at the beginning of the period		(617 534)	517 444
Unrealised gains/losses included in other gross comprehensive income during the reporting period		(443 935)	(130 510)
Profits / (Losses) recognized in other comprehensive income in the period		21 094	(66 935)
- <i>net interest income</i>		37 024	(53 285)
- <i>foreign exchange result</i>		(15 930)	(13 650)
Accumulated other gross comprehensive income at the end of the reporting period		(1 040 375)	319 999
Deferred income tax on accumulated other comprehensive income at the end of the reporting period		197 671	(60 800)
Accumulated other net comprehensive income at the end of the reporting period		(842 704)	259 199
Impact on other comprehensive income in the reporting period (gross)		(422 841)	(197 445)
Deferred tax on cash flow hedges		80 339	37 514
Impact on other comprehensive income in the reporting period (net)		(342 502)	(159 931)

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:			
Unrealised gains/losses included in other comprehensive income (gross)		(422 841)	(197 445)
Results of cash flow hedge accounting recognised in the income statement		(29 684)	64 680
- <i>amount included as interest income / expense in income statement during the reporting period (Note 5)</i>		(37 024)	53 285
- <i>ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)</i>		(8 590)	(2 255)
- <i>foreign exchange result</i>		15 930	13 650
Impact on other comprehensive income in the reporting period (gross)		(452 525)	(132 765)

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

	31.03.2022	31.12.2021
Equity instruments	230 854	224 389
- Other financial corporations	162 556	164 823
- Non-financial corporations	68 298	59 566
Debt securities	85 479	81 128
- Other financial corporations	85 479	81 128
Loans and advances	1 039 518	1 111 674
- Individual customers	878 165	948 636
- Corporate customers	161 310	162 898
- Public sector customers	43	140
Total non-trading financial assets mandatorily at fair value through profit or loss	1 355 851	1 417 191
Short-term (up to 1 year)	882 421	940 089
Long-term (over 1 year)	473 430	477 102

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18. Financial assets at fair value through other comprehensive income

31.03.2022	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	27 013 846	27 023 267	-	-	-	(9 421)	-	-	-
- Central banks	1 569 853	1 570 133	-	-	-	(280)	-	-	-
- General governments, including:	22 865 989	22 870 541	-	-	-	(4 552)	-	-	-
<i>pledged securities</i>	606 420	606 420	-	-	-	-	-	-	-
- Credit institutions	331 962	332 378	-	-	-	(416)	-	-	-
- Other financial institutions	1 621 722	1 622 569	-	-	-	(847)	-	-	-
<i>pledged securities</i>	421 294	421 294	-	-	-	-	-	-	-
- Non-financial corporations	624 320	627 646	-	-	-	(3 326)	-	-	-
Total financial assets at fair value through other comprehensive income	27 013 846	27 023 267	-	-	-	(9 421)	-	-	-

Short-term (up to 1 year) gross	9 466 076
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Long-term (over 1 year) gross	17 557 191
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31.12.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	36 206 059	36 170 934	43 948	-	-	(8 235)	(588)	-	-
- Central banks	8 495 243	8 496 392	-	-	-	(1 149)	-	-	-
- General governments, including:	25 251 680	25 255 273	-	-	-	(3 593)	-	-	-
<i>pledged securities</i>	644 292	644 292	-	-	-	-	-	-	-
- Credit institutions	230 663	230 836	-	-	-	(173)	-	-	-
- Other financial institutions	1 642 579	1 600 096	43 948	-	-	(877)	(588)	-	-
<i>pledged securities</i>	107 957	107 957	-	-	-	-	-	-	-
- Non-financial corporations	585 894	588 337	-	-	-	(2 443)	-	-	-
Total financial assets at fair value through other comprehensive income	36 206 059	36 170 934	43 948	-	-	(8 235)	(588)	-	-

Short-term (up to 1 year) gross	15 609 611
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Long-term (over 1 year) gross	20 605 271
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The above note includes government bonds pledged under the Bank Guarantee Fund, government bonds and treasury bills pledged as sell/buy back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank.

The above note also includes bonds issued by the European Investment Bank that are pledged in relation to the securitization transaction described in the Note 24.

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

Change from 1 January to 31 March 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	(8 823)	-	-	-	(1 518)	2 463	(1 543)	(9 421)
Stage 1	(8 235)	-	-	-	(1 518)	1 875	(1 543)	(9 421)
Stage 2	(588)	-	-	-	-	588	-	-
Expected credit losses allowance, total	(8 823)	-	-	-	(1 518)	2 463	(1 543)	(9 421)

Change from 1 January to 31 December 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	As at the end of the period
Debt securities	(5 665)	-	-	-	(11 956)	9 180	(382)	(8 823)
Stage 1	(3 754)	(125)	327	-	(11 956)	6 868	405	(8 235)
Stage 2	(1 911)	125	(327)	-	-	2 312	(787)	(588)
Expected credit losses allowance, total	(5 665)	-	-	-	(11 956)	9 180	(382)	(8 823)

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

Change from 1 January to 31 March 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	36 214 882	-	-	-	1 882 932	(8 769 711)	(2 304 836)	27 023 267
Stage 1	36 170 934	-	-	-	1 882 932	(8 725 763)	(2 304 836)	27 023 267
Stage 2	43 948	-	-	-	-	(43 948)	-	-
Gross carrying amount, total	36 214 882	-	-	-	1 882 932	(8 769 711)	(2 304 836)	27 023 267

Change from 1 January to 31 December 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	35 503 726	-	-	-	17 565 388	(17 062 393)	208 161	36 214 882
Stage 1	35 392 158	-	(43 749)	-	17 565 388	(16 950 825)	207 962	36 170 934
Stage 2	111 568	-	43 749	-	-	(111 568)	199	43 948
Gross carrying amount, total	35 503 726	-	-	-	17 565 388	(17 062 393)	208 161	36 214 882

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19. Financial assets at amortised cost

31.03.2022	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	18 885 506	18 888 872	-	-	-	(3 366)	-	-	-
- General governments, including:	13 994 829	13 997 418	-	-	-	(2 589)	-	-	-
<i>pledged securities</i>	1 073 735	1 073 735	-	-	-	-	-	-	-
- Credit institutions	2 150 014	2 150 514	-	-	-	(500)	-	-	-
- Other financial corporations	2 740 663	2 740 940	-	-	-	(277)	-	-	-
<i>pledged securities</i>	593 335	593 335	-	-	-	-	-	-	-
Loans and advances to banks	6 829 976	6 813 125	18 523	-	-	(1 566)	(106)	-	-
Loans and advances to customers	122 365 606	114 246 734	6 740 437	4 501 137	206 552	(447 086)	(356 286)	(2 579 842)	53 960
Individual customers	72 277 625	69 486 158	2 298 899	2 336 109	122 179	(252 785)	(206 406)	(1 515 720)	9 191
Corporate customers	49 917 664	44 590 596	4 441 538	2 163 959	84 373	(194 121)	(149 880)	(1 063 570)	44 769
Public sector customers	170 317	169 980	-	1 069	-	(180)	-	(552)	-
Total financial assets at amortised cost	148 081 088	139 948 731	6 758 960	4 501 137	206 552	(452 018)	(356 392)	(2 579 842)	53 960
Short-term (up to 1 year) gross	47 083 238								
Long-term (over 1 year) gross	104 332 142								

31.12.2021	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	16 164 103	16 166 149	-	-	-	(2 046)	-	-	-
- General governments, including:	11 517 053	11 518 593	-	-	-	(1 540)	-	-	-
<i>pledged securities</i>	1 361 945	1 361 945	-	-	-	-	-	-	-
- Credit institutions	2 172 167	2 172 454	-	-	-	(287)	-	-	-
- Other financial corporations	2 474 883	2 475 102	-	-	-	(219)	-	-	-
<i>pledged securities</i>	462 075	462 075	-	-	-	-	-	-	-
Loans and advances to banks	7 229 681	7 230 664	-	-	-	(983)	-	-	-
Loans and advances to customers	116 902 754	109 282 960	6 223 882	4 339 863	234 159	(434 872)	(346 255)	(2 440 501)	43 518
Individual customers	70 391 454	67 884 443	2 038 199	2 231 602	141 139	(249 886)	(203 492)	(1 459 152)	8 601
Corporate customers	46 359 179	41 246 748	4 185 683	2 107 192	93 020	(184 825)	(142 763)	(980 793)	34 917
Public sector customers	152 121	151 769	-	1 069	-	(161)	-	(556)	-
Total financial assets at amortised cost	140 296 538	132 679 773	6 223 882	4 339 863	234 159	(437 901)	(346 255)	(2 440 501)	43 518
Short-term (up to 1 year) gross	43 706 225								
Long-term (over 1 year) gross	99 771 452								

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

The above note also includes bonds issued by the European Investment Bank that are pledged in relation to the securitization transaction described in the Note 24.

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

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Loans and advances to customers

Loans and advances to customers 31.03.2022	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public customers
Current accounts	14 405 715	8 170 193	6 225 528	9 994
Term loans, including:	92 326 578	65 699 774	26 465 749	161 055
- housing and mortgage loans to natural persons	51 159 446	51 159 446		
Reverse repo or buy/sell back	1 430 841	-	1 430 841	-
Finance leases	13 094 225	-	13 094 225	-
Other loans and advances	3 988 690	-	3 988 690	-
Other receivables	448 811	373 378	75 433	-
Total gross carrying amount	125 694 860	74 243 345	51 280 466	171 049

Loans and advances to customers 31.03.2022	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public customers
Current accounts	(878 327)	(689 381)	(188 932)	(14)
Term loans, including:	(1 934 912)	(1 276 339)	(657 855)	(718)
- housing and mortgage loans to natural persons	(451 311)	(451 311)		
Finance leases	(451 265)	-	(451 265)	-
Other loans and advances	(61 396)	-	(61 396)	-
Other receivables	(3 354)	-	(3 354)	-
Total accumulated impairment	(3 329 254)	(1 965 720)	(1 362 802)	(732)

Total gross carrying amount	125 694 860	74 243 345	51 280 466	171 049
Total accumulated impairment	(3 329 254)	(1 965 720)	(1 362 802)	(732)
Total carrying amount	122 365 606	72 277 625	49 917 664	170 317

Short-term (up to 1 year) gross	38 471 348
Long-term (over 1 year) gross	87 223 512

Loans and advances to customers 31.12.2021	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public customers
Current accounts	13 231 330	7 922 189	5 307 704	1 437
Term loans, including:	89 597 975	63 986 776	25 459 798	151 401
- housing and mortgage loans to natural persons	49 819 031	49 819 031		
Reverse repo or buy/sell back	187 630	-	187 630	-
Finance leases	13 002 698	-	13 002 698	-
Other loans and advances	3 661 169	-	3 661 169	-
Other receivables	400 062	386 418	13 644	-
Total gross carrying amount	120 080 864	72 295 383	47 632 643	152 838

Loans and advances to customers 31.12.2021	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public customers
Current accounts	(841 689)	(669 456)	(172 229)	(4)
Term loans, including:	(1 849 134)	(1 234 473)	(613 948)	(713)
- housing and mortgage loans to natural persons	(457 412)	(457 412)		
Finance leases	(425 486)	-	(425 486)	-
Other loans and advances	(61 801)	-	(61 801)	-
Total accumulated impairment	(3 178 110)	(1 903 929)	(1 273 464)	(717)

Total gross carrying amount	120 080 864	72 295 383	47 632 643	152 838
Total accumulated impairment	(3 178 110)	(1 903 929)	(1 273 464)	(717)
Total carrying amount	116 902 754	70 391 454	46 359 179	152 121

Short-term (up to 1 year) gross	35 889 157
Long-term (over 1 year) gross	84 191 707

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

	31.03.2022	31.12.2021
Net housing and mortgage loans to natural persons (in PLN thousand), including:	50 708 135	49 361 619
- PLN	31 880 312	30 388 783
- CHF	8 787 311	9 063 602
- EUR	4 279 095	4 307 671
- CZK	5 569 532	5 407 924
- USD	175 507	174 919
- Other	16 378	18 720
Net housing and mortgage loans to natural persons in original currencies (main currencies in thousand)		
- PLN	31 880 312	30 388 783
- CHF	1 943 794	2 037 497
- EUR	919 741	936 572
- CZK	29 267 115	29 232 022
- USD	41 986	43 083

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

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

Lp.	Sector	Gross amount	%	Gross amount	%
		31.03.2022		31.12.2021	
1.	Household customers	74 243 345	59.07%	72 295 383	60.21%
2.	Real estate	6 638 930	5.28%	6 661 564	5.55%
3.	Construction	5 101 201	4.06%	4 677 025	3.89%
4.	Transport and logistics	3 261 645	2.59%	3 222 142	2.68%
5.	Food sector	3 207 964	2.55%	3 081 562	2.57%
6.	Metals	3 050 837	2.43%	2 593 747	2.16%
7.	Financial activities	3 009 143	2.39%	1 879 984	1.57%
8.	Construction materials	2 222 654	1.77%	2 081 422	1.73%
9.	Chemicals and plastic products	2 146 337	1.71%	1 930 242	1.61%
10.	Motorisation	2 004 153	1.59%	1 943 961	1.62%
11.	Power and heating distribution	1 846 531	1.47%	1 654 554	1.38%
12.	Wholesale trade	1 683 008	1.34%	1 548 896	1.29%
13.	Scientific and technical activities	1 647 588	1.31%	1 619 745	1.35%
14.	Retail trade	1 434 735	1.14%	1 358 529	1.13%
15.	Wood, furniture and paper products	1 395 158	1.11%	1 269 529	1.06%
16.	Fuel	1 193 628	0.95%	1 071 485	0.89%
17.	IT	1 107 542	0.88%	1 143 067	0.95%
18.	Human health	1 020 274	0.81%	997 238	0.83%
19.	Rental and leasing activities	880 108	0.70%	906 910	0.76%
20.	Hotels and restaurants	790 257	0.63%	755 617	0.63%

As at 31 March 2022, the total exposure of the Group in the above sectors (excluding household customers) amounts to 34.71% of the credit portfolio (31 December 2021: 33.65%).

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Movements in expected credit losses allowance

Change from 1 January to 31 March 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	(2 046)	-	-	-	(304)	-	(1 016)	-	-	(3 366)
Stage 1	(2 046)	-	-	-	(304)	-	(1 016)	-	-	(3 366)
Loans and advances to banks	(983)	-	-	-	(705)	260	(244)	-	-	(1 672)
Stage 1	(983)	-	72	-	(705)	260	(210)	-	-	(1 566)
Stage 2	-	-	(72)	-	-	-	(34)	-	-	(106)
Loans and advances to customers	(3 178 110)	-	-	-	(82 241)	91 592	(286 120)	113 870	11 755	(3 329 254)
Stage 1	(434 872)	(91 221)	45 986	2 511	(38 334)	19 844	48 834	-	166	(447 086)
Stage 2	(346 255)	88 153	(54 184)	45 897	(8 127)	6 159	(88 111)	-	182	(356 286)
Stage 3	(2 440 501)	3 068	8 198	(48 408)	(37 049)	66 189	(255 887)	113 703	10 845	(2 579 842)
POCI	43 518	-	-	-	1 269	(600)	9 044	167	562	53 960
Expected credit losses allowance, total	(3 181 139)	-	-	-	(83 250)	91 852	(287 380)	113 870	11 755	(3 334 292)

Change from 1 January to 31 December 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Changes due to new default definition	Write-offs	Other movements	As at the end of the period
Debt securities	(135)	-	-	-	(342)	93	(1 662)	-	-	-	(2 046)
Stage 1	(135)	-	-	-	(342)	93	(1 662)	-	-	-	(2 046)
Loans and advances to banks	(602)	-	-	-	(2 351)	2 020	(48)	(2)	-	-	(983)
Stage 1	(602)	-	-	-	(2 351)	2 020	(48)	(2)	-	-	(983)
Loans and advances to customers	(3 640 826)	-	-	-	(258 833)	364 078	(777 579)	(263)	1 060 240	75 073	(3 178 110)
Stage 1	(296 810)	(534 962)	137 519	8 015	(135 652)	85 432	310 859	(9 273)	-	-	(434 872)
Stage 2	(441 217)	514 115	(181 520)	208 095	(21 630)	51 146	(456 625)	(18 619)	-	-	(346 255)
Stage 3	(2 871 497)	20 847	44 001	(216 110)	(99 088)	226 540	(684 622)	13 950	1 050 405	75 073	(2 440 501)
POCI	(31 302)	-	-	-	(2 463)	960	52 809	13 679	9 835	-	43 518
Expected credit losses allowance, total	(3 641 563)	-	-	-	(261 526)	366 191	(779 289)	(265)	1 060 240	75 073	(3 181 139)

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

Change from 1 January to 31 March 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	16 166 149	-	-	-	2 712 656	-	-	10 067	18 888 872
Stage 1	16 166 149	-	-	-	2 712 656	-	-	10 067	18 888 872
Loans and advances to banks	7 230 664	-	-	-	5 271 121	(6 074 571)	-	404 434	6 831 648
Stage 1	7 230 664	-	(4 714)	-	5 256 187	(6 074 571)	-	405 559	6 813 125
Stage 2	-	-	4 714	-	14 934	-	-	(1 125)	18 523
Loans and advances to customers	120 080 864	-	-	-	13 227 108	(7 044 441)	(113 870)	(454 801)	125 694 860
Stage 1	109 282 960	848 440	(1 593 522)	(134 708)	12 735 679	(6 627 735)	-	(264 380)	114 246 734
Stage 2	6 223 882	(828 418)	1 635 226	(292 278)	431 661	(290 948)	-	(138 688)	6 740 437
Stage 3	4 339 863	(20 022)	(41 704)	424 459	57 057	(121 936)	(113 703)	(22 877)	4 501 137
POCI	234 159	-	-	2 527	2 711	(3 822)	(167)	(28 856)	206 552
Financial assets at amortised cost, gross	143 477 677	-	-	-	21 210 885	(13 119 012)	(113 870)	(40 300)	151 415 380

Change from 1 January to 31 December 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	15 952 636	-	-	-	2 371 836	(2 931 185)	-	772 862	16 166 149
Stage 1	15 952 636	-	-	-	2 371 836	(2 931 185)	-	772 862	16 166 149
Loans and advances to banks	7 354 870	-	-	-	6 079 743	(6 512 056)	-	308 107	7 230 664
Stage 1	7 354 870	-	-	-	6 079 743	(6 512 056)	-	308 107	7 230 664
Loans and advances to customers	110 513 959	-	-	-	35 535 249	(18 195 148)	(1 060 240)	(6 712 956)	120 080 864
Stage 1	91 214 989	7 403 725	(2 041 573)	(453 063)	34 616 543	(15 380 530)	-	(6 077 131)	109 282 960
Stage 2	14 290 332	(7 290 703)	2 202 804	(971 407)	633 176	(2 259 321)	-	(380 999)	6 223 882
Stage 3	4 714 440	(113 022)	(161 231)	1 397 539	206 894	(467 519)	(1 050 405)	(186 833)	4 339 863
POCI	294 198	-	-	26 931	78 636	(87 778)	(9 835)	(67 993)	234 159
Financial assets at amortised cost, gross	133 821 465	-	-	-	43 986 828	(27 638 389)	(1 060 240)	(5 631 987)	143 477 677

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20. Non-current assets and disposal groups classified as held for sale and liabilities held for sale

In December 2021 the Bank's Management Board approved the sale of real estate in Katowice at ul. Powstańców 43, owned by mBank. The property consists of an office, service building with equipment and the right of perpetual usufruct of land.

On 5 January 2022, the Bank concluded a preliminary agreement for the sale of this property and therefore the Bank reclassified the value of the building with its equipment and the right of use perpetual usufruct of land to Non-current assets and disposal groups classified as held for sale, and the value of the lease liability related to the right of perpetual usufruct of land to the Liabilities classified as held for sale. The parties to the contract undertook to conclude the promised contract by 31 December 2022.

The financial data regarding assets and liabilities held for sale are presented below.

Non-current assets held for sale	31.03.2022	31.12.2021
Fixed asset	31 247	31 247
Total non-current assets held for sale	31 247	31 247

Liabilities classified as held for sale	31.03.2022	31.12.2021
Financial liabilities measured at amortised cost, including:	7 269	7 425
<i>Amounts due to customers</i>	7 269	7 425
Total liabilities classified as held for sale	7 269	7 425

21. Intangible assets

	31.03.2022	31.12.2021
Goodwill	24 228	24 228
Patents, licences and similar assets, including:	966 076	959 664
- <i>computer software</i>	784 296	791 473
Other intangible assets	11 932	7 457
Intangible assets under development	299 378	292 604
Total intangible assets	1 301 614	1 283 953

22. Tangible assets

	31.03.2022	31.12.2021
Tangible assets, including:	645 498	659 831
- land	653	653
- buildings and structures	44 790	45 649
- equipment	183 165	186 222
- vehicles	190 554	200 557
- other fixed assets	226 336	226 750
Fixed assets under construction	40 230	66 452
The right to use, including:	841 431	815 967
- real estate	837 062	811 837
- the right of perpetual usufruct of land	2 169	2 177
- cars	1 560	1 712
- other	640	241
Total tangible assets	1 527 159	1 542 250

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23. Investment properties

Due to the change of the Bank's head office, in 2021 the Bank reclassified its building at ul. Królewska 14 in Warsaw, previously recognised as a fixed asset with a total carrying amount of PLN 75 645 thousand and the right of perpetual usufruct of land recognised as the right of use in the amount of PLN 37 747 thousand to the item Investment property. The difference in the revaluation of these components to fair value amounting to PLN 14 118 thousand was recognised in other comprehensive income. The building is intended for rent.

	31.03.2022	31.12.2021
Gross value as at the beginning of the period	127 510	-
Increase (due to):	-	127 510
- reclassification to investment properties	-	113 392
- revaluation gains from fair value adjustments	-	14 118
As at the end of the period	127 510	127 510

24. Financial liabilities measured at amortised cost**Amounts due to banks and customers**

31.03.2022	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	1 317 091	160 523 642	110 965 161	48 803 840	754 641
Current accounts	849 221	151 795 083	103 325 279	47 728 706	741 098
Term deposits	453 831	8 523 048	7 639 882	869 623	13 543
Repo or sell/buy back transactions	14 039	205 511	-	205 511	-
Loans and advances received	500	1 880 141	-	1 880 141	-
Other financial liabilities	772 833	2 339 446	208 396	2 098 761	32 289
Liabilities in respect of cash collaterals	523 798	722 039	70 543	651 496	-
Lease liabilities	-	1 000 897	-	968 726	32 171
Other	249 035	616 510	137 853	478 539	118
Total financial liabilities measured at amortised cost	2 090 424	164 743 229	111 173 557	52 782 742	786 930
Short-term (up to 1 year)	2 088 928	161 993 861			
Long-term (over 1 year)	1 496	2 749 368			

31.12.2021	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	2 111 811	155 904 661	112 225 674	43 071 577	607 410
Current accounts	653 061	147 022 632	103 992 478	42 436 923	593 231
Term deposits	770 328	8 794 207	8 233 196	546 832	14 179
Repo or sell/buy back transactions	688 422	87 822	-	87 822	-
Loans and advances received	502	1 906 621	-	1 906 621	-
Other financial liabilities	1 247 245	2 123 847	220 450	1 870 485	32 912
Liabilities in respect of cash collaterals	1 077 483	706 268	75 263	631 005	-
Lease liabilities	-	956 838	-	923 959	32 879
Other	169 762	460 741	145 187	315 521	33
Total financial liabilities measured at amortised cost	3 359 558	159 935 129	112 446 124	46 848 683	640 322
Short-term (up to 1 year)	3 356 268	157 149 931			
Long-term (over 1 year)	3 290	2 785 198			

The Group presents amounts due to microenterprises provided by Retail Banking of mBank S.A. in the item Amounts due to individual customers.

Debt securities issued

	31.03.2022	31.12.2021
Debt securities issued	13 654 108	13 429 782

On 24 March 2022, the Bank concluded a synthetic securitization transaction referencing a portfolio of corporate as well as small and medium enterprises loans with a total value of PLN 8,922 million. The securitized portfolio has been divided into three tranches according to credit risk exposure for each tranche. The junior and senior tranche was acquired by mBank. The credit risk associated with the mezzanine tranche has been transferred to an external investor. As part of the transaction, the Bank transferred a significant part of the credit risk of a selected securitized portfolio to an investor. The risk transfer of the securitized portfolio is performed through a recognized credit protection instrument, in the form of a credit linked notes (hereinafter "CLNs"). The CLN, through the built-in financial guarantee, provides coverage of losses on the securitization portfolio up to the amount of the mezzanine tranche.

The retention requirement of an economic interest will be implemented by the Bank in the form of retaining at least 5% of the value of the loan portfolio subject to securitization.

As part of the transaction, on 24 March 2022, the Bank issued CLNs with a maturity date of 22 October 2038, with a total nominal value of PLN 642.5 million. The CLNs were purchased in total by a foreign financial investor represented by PGGM Vermogensbeheer B.V. The Bank has the option of early repayment of liabilities under the CLNs. The main collateral for CLNs are debt securities deposited with an independent custodian.

On 24 March 2022, CLNs were introduced to trading on the Vienna MTF operated by the Vienna Stock Exchange.

The transaction increased the Common Equity Tier 1 (CET1) capital ratio by approximately 0.6 percentage points, when referenced to reported figures for mBank Group at the end of 2021.

The transaction meets the requirements for significant risk transfer specified in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012 ("CRR Regulation") and has been structured as meeting the STS criteria (simple, transparent and standard securitization) in accordance with Regulation (EU) 2021/557 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis, therefore results in a decrease of capital requirements for the Bank.

In accordance with IFRS 9, the contractual conditions of the transaction do not meet the conditions for derecognition of assets covered by the securitization transaction from the Bank's balance sheet, as the transaction did not transfer substantially all the risks and rewards of the loan portfolio, at the same time the Bank retained control over the portfolio of securitized loans. The liability under the issued CLNs is shown under "Financial liabilities measured at amortized cost". The carrying amount of the CLN will be adjusted for the change in the expected cash flows from the embedded financial guarantee in accordance with paragraph B5.4.6 of IFRS 9.

The carrying amount of CLNs as at 31 March 2022 amounted to PLN 636.7 million.

25. Provisions

	31.03.2022	31.12.2021
Provisions for legal proceedings, including:	465 285	395 889
- provisions for legal proceedings relating to loans in foreign currencies	427 492	358 807
- provisions for remaining legal proceedings	37 793	37 082
Provisions for commitments and guarantees given	316 215	318 378
Other provisions	86 131	97 188
Provisions, total	867 631	811 455

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystallise over 1 year.

The description regarding legal risk provisions related to mortgage and housing loans granted to individual customers in CHF is presented in Note 30.

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The item Other provisions includes provisions recognised related to the judgment of the CJEU of 11 September 2019 regarding reimbursement of commissions in case of earlier loan repayments of consumer loans and mortgage loans.

Movements in the provisions

Change from 1 January to 31 March 2022	Provisions for legal proceedings relating to loans in foreign currencies	Provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	358 807	37 082	97 188
Change in the period, due to:	68 685	711	(11 057)
- increase of provisions	165 666	1 728	-
- release of provisions	(126)	(116)	(200)
- utilisation	(54 409)	(920)	(10 866)
- reclassification to other financial statement items	(44 125)	-	-
- foreign exchange differences	1 679	19	9
Provisions as at the end of the period	427 492	37 793	86 131

Change from 1 January to 31 December 2021	Provisions for legal proceedings relating to loans in foreign currencies	Provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	188 467	12 069	95 494
Change in the period, due to:	170 340	25 013	1 694
- increase of provisions	269 382	53 745	46 736
- release of provisions	(334)	(2 148)	(3 489)
- utilization	(90 221)	(26 608)	(40 956)
- reclassification to other financial statement items	(8 487)	-	-
- foreign exchange differences	-	24	(597)
Provisions as at the end of the period	358 807	37 082	97 188

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

Change from 1 January to 31 March 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Decreased results of derecognised from balance sheet	Changes in credit risk (net)	As at the end of the period
Loan commitments	89 439	-	-	-	13 633	(9 981)	(4 799)	88 292
Stage 1	49 142	5 850	(2 378)	(46)	11 399	(5 411)	(6 842)	51 714
Stage 2	14 576	(5 669)	2 471	(189)	1 047	(1 777)	6 252	16 711
Stage 3	24 555	(181)	(93)	235	1 101	(1 834)	(3 954)	19 829
POCI	1 166	-	-	-	86	(959)	(255)	38
Guarantees and other financial facilities	228 939	-	-	-	7 152	(4 148)	(4 020)	227 923
Stage 1	3 433	133	(35)	-	3 713	(2 229)	(1 446)	3 569
Stage 2	1 153	(133)	35	-	206	(341)	(175)	745
Stage 3	225 860	-	-	-	3 233	(2 018)	(2 080)	224 995
POCI	(1 507)	-	-	-	-	440	(319)	(1 386)
Total provisions on off-balance sheet items	318 378	-	-	-	20 785	(14 129)	(8 819)	316 215

Change from 1 January to 31 December 2021	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Decreased results of derecognised from balance sheet	Changes in credit risk (net)	Changes due to new default definition	As at the end of the period
Loan commitments	88 991	-	-	-	42 439	(33 434)	(14 079)	5 522	89 439
Stage 1	44 157	50 411	(7 237)	(107)	31 314	(16 753)	(49 410)	(3 233)	49 142
Stage 2	36 829	(48 420)	7 708	(2 628)	7 216	(11 027)	21 543	3 355	14 576
Stage 3	5 510	(1 991)	(471)	2 735	3 184	(6 416)	16 600	5 404	24 555
POCI	2 495	-	-	-	725	762	(2 812)	(4)	1 166
Guarantees and other financial facilities	116 670	-	-	-	89 559	(116 573)	139 259	24	228 939
Stage 1	4 541	1 444	(271)	-	20 076	(23 186)	794	35	3 433
Stage 2	6 134	(1 444)	271	(1 145)	1 016	(4 124)	456	(11)	1 153
Stage 3	80 055	-	-	1 145	68 333	(58 419)	134 746	-	225 860
POCI	25 940	-	-	-	134	(30 844)	3 263	-	(1 507)
Total provisions on off-balance sheet items	205 661	-	-	-	131 998	(150 007)	125 180	5 546	318 378

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26. Assets and liabilities for deferred income tax

Deferred income tax assets	31.03.2022	31.12.2021
As at the beginning of the period	1 933 063	1 635 815
Changes recognised in the income statement	204 100	14 964
Changes recognised in other comprehensive income	151 798	289 338
Other changes	(8 414)	(7 054)
As at the end of the period	2 280 547	1 933 063

Provisions for deferred income tax	31.03.2022	31.12.2021
As at the beginning of the period	(540 802)	(782 625)
Changes recognised in the income statement	(113 560)	81 042
Changes recognised in other comprehensive income	(754)	160 853
Other changes	14	(72)
As at the end of the period	(655 102)	(540 802)

Income tax	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Current income tax	(291 806)	(197 292)
Deferred income tax recognised in the income statement	90 540	10 063
Income tax recognised in the income statement	(201 266)	(187 229)
Recognised in other comprehensive income	151 044	86 541
Total income tax	(50 222)	(100 688)

The above amounts of deferred tax assets and liabilities have been presented gross, before offsetting in accordance with the provisions of IAS 12 "Income Taxes". Net amounts after offsetting have been included in the condensed consolidated statement of financial position.

27. Retained earnings

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

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

	31.03.2022	31.12.2021
Other supplementary capital	8 701 559	9 916 912
Other reserve capital	109 019	104 975
General banking risk reserve	1 153 753	1 153 753
Profit from the previous year	1 366 207	1 329 607
Profit for the current year	512 329	(1 178 753)
Total retained earnings	11 842 867	11 326 494

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

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

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28. Other components of equity

	31.03.2022	31.12.2021
Exchange differences on translating foreign operations	3 129	2 506
Unrealized gains (foreign exchange gains)	9 951	34 267
Unrealized losses (foreign exchange losses)	(6 822)	(31 761)
Cash flow hedges	(842 704)	(500 202)
Unrealized gains	86 844	80 630
Unrealized losses	(1 127 219)	(698 164)
Deferred income tax	197 671	117 332
Valuation of debt securities at fair value through other comprehensive income	(1 010 034)	(707 617)
Unrealized gains on debt instruments	11 246	12 191
Unrealized losses on debt instruments	(1 260 230)	(887 737)
Deferred income tax	238 950	167 929
Actuarial gains and losses relating to post-employment benefits	(10 511)	(10 511)
Actuarial gains	1 157	1 157
Actuarial losses	(14 134)	(14 134)
Deferred income tax	2 466	2 466
Investment properties	11 436	11 436
Gains or losses on investment properties included in other comprehensive income	14 118	14 118
Deferred income tax	(2 682)	(2 682)
Total other components of equity	(1 848 684)	(1 204 388)

29. Fair value of asset 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, or in the absence of a main market, for the most advantageous market for the asset or liability.

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

The approach to the method used for the loans that are fair valued in line of IFRS 9 requirements, is described in the Note 3.3.7 to the Consolidated Financial Statements of mBank Group for 2021, published on 3 March 2022.

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

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

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Financial assets and liabilities at amortised cost

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

	31.03.2022		31.12.2021	
	Book value	Fair value	Book value	Fair value
Financial assets at amortised cost				
Debt securities	18 885 506	16 833 360	16 164 103	14 890 079
Loans and advances to banks	6 829 976	6 823 049	7 229 681	7 227 533
Loans and advances to customers, including:	122 365 606	122 263 310	116 902 754	117 116 749
Loans and advances to individuals	72 277 625	72 947 152	70 391 454	71 630 064
Current accounts	7 480 812	7 776 994	7 252 733	7 488 229
Term loans	64 423 435	64 796 780	62 752 303	63 755 417
Other	373 378	373 378	386 418	386 418
Loans and advances to corporate entities	49 917 664	49 144 337	46 359 179	45 333 802
Current accounts	6 036 596	5 846 428	5 135 475	4 996 982
Term loans and finance lease	38 450 854	37 865 866	37 423 062	36 747 140
Reverse repo or buy/sell back transactions	1 430 841	1 430 841	187 630	187 630
Other loans and advances	3 927 294	3 929 123	3 599 368	3 388 406
Other	72 079	72 079	13 644	13 644
Loans and advances to public sector	170 317	171 821	152 121	152 883
Financial liabilities at amortised cost				
Amounts due to other banks	2 090 424	2 090 424	3 359 558	3 359 558
Amounts due to customers	164 743 229	164 653 026	159 935 129	159 918 070
Debt securities in issue	13 654 108	13 373 348	13 429 782	13 518 622
Subordinated liabilities	2 645 717	2 613 073	2 624 456	2 616 703

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

Loans and advances to banks and loans and advances to customers

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

Financial liabilities

Financial instruments representing liabilities for the Group include the following:

- contracted borrowings,
- current accounts and deposits,
- issues of debt securities,
- subordinated liabilities.

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

In the case of a bond related to credit risk (Credit Link Note) the Group for the valuation uses the method of discounting the expected cash flows from bonds. In the part related to the discounting factor, the valuation also includes a component that takes into account mBank's credit spread and a liquidity margin.

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Due to the fact that the bondholders are secured in terms of the issuer's credit risk with the deposited securities, an assumption was made that these parameters would remain unchanged during the life of the bond.

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

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

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

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

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

Financial assets and liabilities at fair value and investment properties

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

31.03.2022	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	2 744 045	576 353	1 639 119	528 573
Loans and advances to customers	38 428	-	-	38 428
Debt securities	1 004 413	576 353	-	428 060
Derivative financial instruments, including:	1 701 204	-	1 639 119	62 085
Derivative financial instruments held for trading	1 944 652	-	1 944 652	-
Hedging derivative financial instruments	211 998	-	149 913	62 085
Offsetting effect	(455 446)	-	(455 446)	-
Non-trading financial assets mandatorily at fair value through profit or loss	1 355 851	859	-	1 354 992
Loans and advances to customers	1 039 518	-	-	1 039 518
Debt securities	85 479	-	-	85 479
Equity securities	230 854	859	-	229 995
Financial assets at fair value through other comprehensive income	27 013 846	24 321 689	1 569 853	1 122 304
Debt securities	27 013 846	24 321 689	1 569 853	1 122 304
Total financial assets	31 113 742	24 898 901	3 208 972	3 005 869
Investment properties	127 510	-	-	127 510
Financial liabilities				
Derivative financial instruments, including:	1 815 365	-	1 815 365	-
Derivative financial instruments held for trading	2 274 654	-	2 274 654	-
Hedging derivative financial instruments	2 660 882	-	2 660 882	-
Offsetting effect	(3 120 171)	-	(3 120 171)	-
Liabilities from short sale of securities	569 342	569 342	-	-
Total financial liabilities	2 384 707	569 342	1 815 365	-

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31.12.2021	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	2 589 076	248 906	1 859 785	480 385
Loans and advances to customers	40 426	-	-	40 426
Debt securities	596 622	248 906	-	347 716
Derivative financial instruments, including:	1 952 028	-	1 859 785	92 243
Derivative financial instruments held for trading	2 065 733	-	2 065 733	-
Hedging derivative financial instruments	338 598	-	246 355	92 243
Offsetting effect	(452 303)	-	(452 303)	-
Non-trading financial assets mandatorily at fair value through profit or loss	1 417 191	870	-	1 416 321
Loans and advances to customers	1 111 674	-	-	1 111 674
Debt securities	81 128	-	-	81 128
Equity securities	224 389	870	-	223 519
Financial assets at fair value through other comprehensive income	36 206 059	26 721 005	8 495 243	989 811
Debt securities	36 206 059	26 721 005	8 495 243	989 811
Total financial assets	40 212 326	26 970 781	10 355 028	2 886 517
Investment properties	127 510	-	-	127 510
Financial liabilities				
Derivative financial instruments, including:	1 926 408	-	1 926 408	-
Derivative financial instruments held for trading	2 238 744	-	2 238 744	-
Hedging derivative financial instruments	1 598 547	-	1 598 547	-
Offsetting effect	(1 910 883)	-	(1 910 883)	-
Liabilities from short sale of securities	84 774	84 774	-	-
Total financial liabilities	2 011 182	84 774	1 926 408	-

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Assets and liabilities measured at fair value and investment properties based on Level 3 changes in the period from 1 January to 31 March 2022	Financial assets held for trading and hedging derivatives			Non-trading financial assets mandatorily at fair value through profit or loss			Debt securities at fair value through other comprehensive income	Investment properties
	Loans and advances to customers	Debt securities	Derivative financial instruments	Loans and advances to customers	Debt securities	Equity securities		
As at the beginning of the period	40 426	347 716	92 243	1 111 674	81 128	223 519	989 811	127 510
Gains and losses for the period:	(188)	1 182	(30 158)	(10 677)	4 351	1 772	(14 665)	-
Recognised in profit or loss:	(188)	1 182	16 732	(10 677)	4 351	1 772	-	-
<i>Net trading income</i>	<i>(188)</i>	<i>1 182</i>	<i>16 732</i>	<i>-</i>	<i>2 544</i>	<i>21</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(10 677)</i>	<i>1 807</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1 751</i>	<i>-</i>	<i>-</i>
Recognised in other comprehensive income:	-	-	(46 890)	-	-	-	(14 665)	-
<i>Financial assets at fair value through other comprehensive income</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(14 665)</i>	<i>-</i>
<i>Cash flow hedges</i>	<i>-</i>	<i>-</i>	<i>(46 890)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Purchases	-	190 675	-	18 369	-	2 603	359 886	-
Redemptions	-	(11 892)	-	(59 534)	-	-	(69 616)	-
Sales	-	(149 721)	-	-	-	-	(247 882)	-
Issues	-	50 100	-	-	-	-	104 770	-
Reckonings	(1 810)	-	-	(20 314)	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	2 101	-	-
As at the end of the period	38 428	428 060	62 085	1 039 518	85 479	229 995	1 122 304	127 510

Assets and liabilities measured at fair value and investment properties based on Level 3 changes in the period from 1 January to 31 December 2021	Financial assets held for trading and hedging derivatives			Non-trading financial assets mandatorily at fair value through profit or loss			Debt securities at fair value through other comprehensive income	Investment properties
	Loans and advances to customers	Debt securities	Derivative financial instruments	Loans and advances to customers	Debt securities	Equity securities		
As at the beginning of the period	187 902	309 949	121 029	1 506 319	76 068	201 344	990 351	-
Gains and losses for the period:	(2 658)	9 802	(28 786)	(5 347)	5 060	10 621	(63 745)	14 118
Recognised in profit or loss:	(2 658)	9 802	(6 950)	(5 347)	5 060	10 621	-	-
<i>Net trading income</i>	<i>(2 658)</i>	<i>9 802</i>	<i>(6 950)</i>	<i>-</i>	<i>6 196</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(5 347)</i>	<i>(1 136)</i>	<i>11 181</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(560)</i>	<i>-</i>	<i>-</i>
Recognised in other comprehensive income:	-	-	(21 836)	-	-	-	(63 745)	14 118
<i>Financial assets at fair value through other comprehensive income</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(63 745)</i>	<i>14 118</i>
<i>Cash flow hedges</i>	<i>-</i>	<i>-</i>	<i>(21 836)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Purchases	3 813	2 137 931	-	18 627	-	15 904	862 018	-
Redemptions	(145 222)	(203 272)	-	(331 906)	-	-	(350 316)	-
Sales	-	(6 824 070)	-	-	-	(4 350)	(2 049 780)	-
Issues	-	4 917 376	-	-	-	-	1 601 283	-
Reckonings	(3 409)	-	-	(76 019)	-	-	-	-
Reclassification to other reporting items	-	-	-	-	-	-	-	113 392
As at the end of the period	40 426	347 716	92 243	1 111 674	81 128	223 519	989 811	127 510

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During first quarter of 2022 and in 2021 there were no transfers of financial instruments between the levels of fair value hierarchy.

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

Level 1

As at 31 March 2022 at level 1 of the fair value hierarchy, the Group has presented the fair value of held for trading government bonds in the amount of PLN 576 353 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 22 832 271 thousand (31 December 2021: PLN 248 906 thousand and PLN 25 218 009 thousand, respectively). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 489 418 thousand (31 December 2021: PLN 1 502 996 thousand).

In addition, as at 31 March 2022 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 859 thousand (31 December 2021: PLN 870 thousand).

As at 31 March 2022 level 1 also includes liabilities from short sale of securities in the amount of PLN 569 342 thousand (31 December 2021: PLN 84 774 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

As at 31 March 2022 level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 1 569 853 thousand (31 December 2021: PLN 8 495 243 thousand), valuation of which 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

As at 31 March 2022 level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 602 125 thousand (31 December 2021: PLN 1 384 984 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.

As at 31 March 2022 level 3 includes also the fair value of local government bonds in the amount of PLN 33 718 thousand (31 December 2021: PLN 33 671 thousand).

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

Level 3 as at 31 March 2022 includes the value of loans and advances to customers in the amount of PLN 1 077 946 thousand (31 December 2021: PLN 1 152 100 thousand). The fair value calculation process for loans and advances to customers is described in detail in the Note 3.3.7. of Consolidated financial statement of Group of mBank S.A. for 2021, published on 3 March 2022.

Moreover, as at 31 March 2022 level 3 covers mainly the fair value of equity securities amounting to PLN 229 995 thousand (31 December 2021: PLN 223 519 thousand). The equity securities presented at level 3 have been valued using the market multiples method. The market multiples method consists of

valuing 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.

As at 31 March 2022 level 3 also includes fair value of investment property in the amount of PLN 127 510 thousand (31 December 2021: PLN 127 510 thousand). The value of the property was estimated by a property appraiser entered in the Central Register of Property Appraisers kept by the Minister of Development and Technology. The property was valued using the income method. The key unobservable parameter used in the model is the capitalization rate of 9.28% used to discount cash flows.

Level 3 includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (Note 16). As at 31 March 2022 the valuation of these contracts amounted to PLN 62 085 thousand (31 December 2021: PLN 92 243 thousand).

30. Legal risk related to mortgage and housing loans granted to individual customers in CHF

Introduction

In recent years, a significant number of individual customers who took out mortgage and housing loans in CHF, challenged in court some of the provisions or entire agreements on the basis of which the Bank granted these loans. So far, there is no uniform line of judgments issued by courts in such cases.

The carrying amount of mortgage and housing loans granted to individual customers in CHF as of 31 March 2022 amounted to PLN 8.8 billion (i.e. CHF 1.9 billion) compared to PLN 9.1 billion (i.e. CHF 2.0 billion) as at the end of 2021. Additionally the volume of the portfolio of loans granted in CHF to natural persons that were already fully repaid as of 31 March 2022, taking into account the exchange rate on the date of disbursement of individual loan tranches, amounted to PLN 6.7 billion (31 December 2021: PLN 6.6 billion).

Due to the significance of the legal issues related to the CHF loan portfolio for the financial position of mBank Group as at 31 March 2022, detailed information is presented below regarding these lawsuits, significant judgments, which, in the Bank's opinion, may affect the future ruling on loans indexed to CHF, proposed potential settlements with customers, accounting principles for the recognition of legal risk related to these court cases and the voluntary settlement program, as well as information on the impact of legal risk related to these court cases on the balance sheet and profit and loss account of mBank Group and the methodology used to determine this impact.

Individual court cases against the Bank concerning loans indexed to CHF

As of 31 March 2022, 14 705 individual court proceedings (31 December 2021: 13 373 proceedings) were initiated against the Bank by its customers in connection with CHF loan agreements with the total value of claims amounting to PLN 4 104.6 million (31 December 2021: PLN 3 506.5 million).

Out of the individual proceedings 14 419 proceedings (31 December 2021: 13 036 proceedings) with the total value of claims amounting to PLN 4 099.0 million (31 December 2021: PLN 3 499.9 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 in whole of the loan agreements.

As of 31 March 2022 mBank received 728 final rulings in individual lawsuits (31 December 2021: 473 final rulings), out of which 86 rulings were favourable to the Bank and 642 rulings were unfavourable (31 December 2021: 82 rulings favourable and 391 unfavourable).

At the same time 191 proceedings (as of 31 March 2022) at the second instance courts have remained suspended due to the legal issues referred to the Supreme Court and the Court of Justice of the European Union (CJEU). The Bank submits cassation appeals to the Supreme Court against legally binding judgments unfavourable for the Bank. Unfavourable judgments were based on the same patterns of facts which in the past had resulted in different verdicts. Approximately 76% of unfavourable verdicts led to the invalidation of the loan agreement, others led to the conversion of the agreement into PLN + LIBOR / WIBOR and substitution of FX clause by the fixing rate of the NBP.

Class action against mBank S.A. concerning indexation clauses

The Bank was also sued by the Municipal Consumer Ombudsman representing a group of 390 individuals – retail banking customers who entered into mortgage loan agreements indexed to CHF. This class action concerning indexation clauses was filed in the District Court in Łódź on 4 April 2016.

The lawsuit contains alternative claims for declaring the loan agreements partially invalid, i.e. with respect to the indexation provisions or for declaring the agreements invalid in their entirety or for declaring the

indexation provisions of the agreements invalid due to the fact that they allow the loan to be valorised above 20% and below 20% of the CHF exchange rate from mBank S.A. table of exchange rates in effect on the date each of the loan agreements was concluded.

By Order dated 13 March 2018 the Court set the Class at 1 731 persons. On 19 October 2018 the Court issued judgment dismissing all of Plaintiff's claims. In its oral reasoning, the Court argued that the Claimant failed to prove that it has a legal interest in bringing the claim in question and also addressed the issue of the validity of the CHF valorised loan agreements, emphasizing that both the agreements themselves and the indexation clause are in compliance with both applicable laws and the principles of social interaction. On 11 January 2019 the Plaintiff's appeal was delivered to the Bank, to which the Bank filed a response. On 27 February 2020 a hearing was held in the Court of Appeal in Łódź. On 9 March 2020 a judgment was rendered in the case, in which the Court of Appeal returned the case to the District Court for reconsideration. On 9 June 2020 the Court of Appeal, on the motion of the Plaintiff, issued a decision by which it granted security to the Plaintiff's claims by suspending the obligation to pay principal and interest instalments and prohibiting the Bank from making statements calling for payment and terminating the loan agreement.

On 12 January 2022, a hearing was held before the Regional Court in Łódź, and on 9 February 2022 the court issued a verdict dismissing the claim in its entirety. The plaintiff appealed against this verdict. As of the date of approval of these consolidated financial statements the Bank did not change its risk assessment related to this proceeding as described below in the section concerning methodology of calculation the impact of the legal risk related to the class action case. As of 31 March 2022 the value of claims in this class action was equal to PLN 377 million.

Information on the most important court proceedings regarding loans indexed to CHF

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

On 3 October 2019 the CJEU issued the ruling in the prejudicial mode regarding the mortgage loan linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

In October 2020, prejudicial questions were referred to CJEU in two individual cases against mBank. The question referred in first case aims at determining the starting point for the limitation period in the case of consumer claims for undue performance. The question referred in the second case aims at determining whether, in the event of declaring the exchange rate clause abusive, it is possible to apply in its place the provision of the Civil Code referring to the average NBP exchange rate. The Bank expects decisions on both these matters in 2022.

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

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

On 18 November 2021, the Court of Justice of the EU delivered its judgment in Case C-212/20, in which it assessed that in accordance with the provisions of Directive 93/13, the content of a so-called spreads clause must (on the basis of clear and comprehensible criteria) enable a reasonably well-informed, reasonably observant and rational consumer to understand how the exchange rate is to be determined,

in such a way that the consumer is able to determine the rate applied by the trader himself at any time. Moreover CJEU made an assessment that the provisions of Directive 93/13 preclude the interpretation of an illicit contract term in order to mitigate its unfairness.

On 17 March 2022, the parties were heard by the Court of Justice of the European Union in the case of joined cases C-80/21, C-81/21 and C-82/21, in which mBank is a party. The date of the judgment publication is unknown. The litigation position was presented by the parties: Poland, the European Commission, Spain and Finland.

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 was to answer to the questions if abusive provisions can be replaced with provisions of civil law or common practice, whether it is possible to maintain indexed/denominated loan as a PLN loan with an interest rate based on LIBOR, whether the theory of balance or the theory of two conditionalities will apply in 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 for the use of their funds by the other party. The lack of a jurisprudence line, both domestic and of the CJEU, concerning remuneration for the use of capital is also significant for the shape of the provision. The position presented by banks has been strengthened by the opinions of the Polish Financial Supervision Authority (PFSA) and the Polish Bank Association (ZBP) submitted to case no. III CZP 11/21, which support granting banks the right to such remuneration. Thus, the banks' claims in this respect should be regarded as at least plausible.

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

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

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

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

- the prohibited contractual provision (Civil Code Art.3851 §1) is from the very beginning, by virtue of law ineffective for the benefit of the consumer, who may subsequently grant informed and free consent to this provision and thus restore its effectiveness retroactively,
- if the loan agreement cannot be binding after removal of 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 conditionalities 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.

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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 conditionalities theory should be applied has already been resolved in the jurisprudence of the Supreme Court, including the resolution of 7 judges of 7 May 2021 (III CZP 6/21), and earlier in the resolution of 16 February 2021 (III CZP 11/20).

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

PFSA's Chairman proposal

The general assumptions of the PFSA's Chairman proposal to convert FX loans to PLN have been announced in December 2020. The PFSA's Chairman proposal assumes that foreign currency indexed/denominated 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.

The Bank analysed the costs it would have to incur in the indicated scenario, as the sum of the differences between the current balances of foreign currency indexed/denominated loan (CHF/EUR/USD) and the corresponding hypothetical loan balances in PLN based on the 3M WIBOR rate increased by the loan margin in PLN granted at the same time and for the same period as the loan indexed to/denominated in foreign currencies (CHF/EUR/USD).

Hypothetical PLN loan balances include in their schedule differences from the actual repayments of foreign currency indexed/denominated loan (CHF/EUR/USD) by adjusting the value of the outstanding principal according to the scheme provided by the PFSA.

The estimated potential impact of implementation of the conversion plan on mBank, calculated as of 31 March 2022, would amount to PLN 5.6 billion if only active portfolio was converted (unaudited data). Detailed assumptions for the estimation of this impact were adopted on the basis of the Polish Financial Supervision Authority's survey dated 27 January 2021. The PFSA's Chairman proposal assumes that only active portfolio would be converted.

As at the date of approval of these consolidated 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.

Pilot settlement program

On 6 December 2021, the Bank began a pilot settlement program for borrowers who have an active CHF indexed loan. The first phase of the pilot concluded in March 2022. The settlement offer presented in the program consists in conversion of the CHF indexed loan into a PLN loan with simultaneous write-off of a portion of the loan balance. Similar to the PFSA's Chairman proposal this portion constitutes the difference between the current balance of the indexed loan expressed in PLN at the average exchange rate of the National Bank of Poland and the hypothetical balance that would exist if the loan had been originally contracted in PLN. In the Bank's pilot this difference is divided equally between the parties to the contract, and the Bank offers to cancel the loan balance in the amount equal to the part of this difference attributable to the Bank. This method of loan conversion guarantees equal distribution of materialized foreign exchange risk costs, which scale could not be foreseen by any of the parties to the loan agreement at the time of its conclusion. This will represent half of the benefits arising for the clients from the PFSA Chairman's proposal.

The offer was addressed to the owners of 1 278 active contracts, which in Bank's opinion is a representative sample of the whole portfolio of active loans indexed to CHF.

The first phase of the pilot concluded in the first quarter of 2022 with the result of approx. 8% of the settlements signed. During the pilot, the Bank noticed external factors that may have had an impact on its results and clients' decisions. These were, among others: uncertainty about the tax treatment of signed settlements, the rising exchange rate of the Swiss franc, the growing level of interest rates in Poland and, consequently, the rising cost of loans in PLN, and the economic uncertainty related to the war in Ukraine. Moreover, in the first quarter of 2022, the Bank continued the pilot of the settlement program and offered settlements to the new group of clients (approx. 1.5 thousand contracts).

The maximum, hypothetical cost of the program would amount to PLN 2.89 billion (31 December 2021: PLN 2.97 billion), assuming that the settlements would be offered to all clients with active loans and all those clients would accept the conditions described above.

Accounting policies for recognizing the effect of legal risk related to court cases concerning CHF mortgage and housing loans to individual customers and the voluntary settlement program

The Group recognizes the impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF and voluntary settlements offered to CHF borrowers as reflected under:

- IFRS 9 "Financial Instruments" paragraph B5.4.6 in relation to active loans, including active loans covered by the class action case and voluntary settlements, and
- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in relation to repaid loans.

Mortgage and housing loans to customers that are subject to court proceedings are within the scope of IFRS 9. Under IFRS 9, these loans are measured at amortized cost using the effective interest rate.

Legal claims filed by borrowers, including invalidity claims, impact the Bank's estimate of the expected life of the loan and the expected cash flows. In particular, the Bank takes into account the risk that the remaining life of the loan may be shorter than the contractual term, or the Bank may not receive some of the contractual cash flows, and in case of invalidity verdict, the Bank may have to reimburse the borrowers for undue benefits received. In addition, any voluntary settlements offered by the Bank to borrowers (including those who have not previously made legal claims), may also affect the amount and timing of expected cash flows from these loans.

Therefore the Bank believes that the appropriate way to recognize the impact of legal risk with respect to active loans and the expected impact of the voluntary settlement program offered to borrowers is to revise the cash flow estimates associated with the loans and reduce the gross carrying amount of the loans in accordance with IFRS 9 paragraph B5.4.6.

In relation to repaid loans and loans for which the estimated adjustment in cash flows is higher than the carrying amount, the Bank recognises provisions for legal proceedings in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

According to IAS 37 the amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that the Bank would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. This amount is discounted at the balance sheet date.

For repaid loans, there is no asset that could be adjusted, therefore any potential liability arising from the legal risks has to be accounted for under IAS 37. As the provisions being measured in case of repaid loans involves a large population of items, the Bank applies "expected value" method in which the obligation is estimated by weighting all possible outcomes by their associated probabilities.

The above estimates are determined by the judgement of the Bank, supplemented by experience of similar events and opinions of independent experts. The evidence considered includes any additional evidence provided by events after the end of the reporting period.

The details of the methodology and calculation are described further in this note.

The impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF and the voluntary settlement program

The method used to calculate the impact of the legal risk related to court cases concerning indexation clauses in mortgage and housing loans in CHF and the voluntary settlement program 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.

The cumulative impact of legal risk associated with litigation (individual lawsuits and class actions) related to indexation clauses in CHF mortgages and housing loans and the voluntary settlement program included in the Group's statement of financial position is shown in the table below.

	31.03.2022	31.12.2021
Impact of legal risk related to active loans recognised as a reduction of gross carrying amount of loans	2 825 113	2 775 297
Impact of legal risk concerning individual lawsuits and class actions case related to repaid loans and low value active loans recorded as provisions for legal proceedings	417 633	348 476
Potential costs of voluntary settlement program recognized as a reduction of gross carrying amount of loans	973 697	1 009 800
The cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in CHF	4 216 443	4 133 573

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Total costs of legal risk related to foreign currency loans recognised in the income statement for the first quarter of 2022 amounted to PLN 192.8 million (in first quarter of 2021: PLN 66.3 million). The most significant factors of these costs in first quarter of 2022 was the increase of the impact of the legal risk related to individual court cases, which mainly resulted from the change in level of loss on loan exposure for repaid portfolio in case of losing the case by the Bank and the cost of the final verdicts.

Methodology of calculating the impact of the legal risk related to individual court cases

The methodology of calculating the impact of the legal risk related to individual court cases concerning both active and repaid loans 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.

Expected population of borrowers

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 until the end of 2025. The Bank assumes that vast majority of the projected cases will be filed until the end of 2023, and then their number will decrease following the expected clarification of the legal environment.

For the purpose of calculating the impact of legal risk mBank assumes that approximately 27% of FX borrowers (i.e. 23 thousand borrowers with both, active: 41% and repaid loans: 9.3%) filed or will file a lawsuit against the Bank (as of 31 December 2021: 27%, i.e. 23 thousand borrowers). The Bank observes that clients with higher loan amounts were the first ones to file the claims (27% of customers represent 34% 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. 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 70.0 million (while other relevant assumptions remain constant) as compared to 31 March 2022, of which PLN 52.3 million would reduce gross carrying amount of the loans, and PLN 17.7 million would increase the "Provisions for legal proceedings".

The bank estimates that part of borrowers with CHF indexed loans will not decide to sue the Bank or sign a settlement with the Bank in the future. In the Bank's opinion this will be influenced by the following factors: clients' expectations regarding future changes in the CHF/PLN exchange rate, clients' expectations regarding future costs of PLN loans, changes in jurisprudence in CHF loan cases, tax solutions regarding settlements, costs and duration of court proceedings, individual factors (in particular the loan repayment period and the current amount of debt).

Probability of losing the case

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 the abusive clauses may be replaced by another way of determining the foreign exchange rate pursuant to provisions of law, or whether, in the absence of the possibility of replacing the abusive clause by a provision of law, the contract may be binding on the parties in its remaining scope and whether banks may receive a compensation for usage of the principal granted).

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 an external legal opinions about the future trends in the court verdicts as well as upcoming verdicts of the Supreme Court and CJEU. As of 31 March 2022 the Bank assumes probability of losing in court at the level of 50% (as of 31 December 2021: 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 56.8 million, of which PLN 50.5 million would change gross carrying amount of the loans, and PLN 6.3 million would change the "Provisions for legal proceedings".

The projected loss rate

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. The Bank assumed the probability of each of these scenarios at the same level.

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. As of 31 March 2022 the average loss rate was equal to 78.8% of gross carrying amount of active loans and 53.2% of total value of the loan granted for repaid loans (as at 31 December 2021: 76.5% and 33.7%, respectively).

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 36.4 million, of which PLN 32.1 million would change gross carrying amount of the loans, and PLN 4.3 million would change the "Provisions for legal proceedings".

Methodology of calculating the impact of the legal risk related to the class action case

The recognition of additional costs for class action case was preceded by an analysis of the chances of litigation in the light of the current case law and guidelines of the Court of Appeal for the District Court re-examining the case, supported by an opinion of the law firm handling the case. The increased likelihood of an unfavourable verdict, particularly one invalidating the loan agreements covered by the proceedings, justified the creation of a provision up to the amount of the claim. In the first quarter of 2022 Bank did not recognise additional cost related to class action.

Methodology of calculating settlement program costs

As at 31 March 2022, the Bank recognised the impact of legal risk in the amount of PLN 973.7 million to cover the costs of future settlements (31 December 2021: PLN 1 009.8 million). The amount corresponds to 34% of the maximum cost of settlements under the formula adopted in the currently running pilot described above. This represents the management's estimate that reflects the intention towards future voluntary settlements or, in case it is not fully used for that purpose, to cover currently unforeseen cost related to legal risks of CHF portfolio.

In the bank's opinion, the future level of acceptance of settlements depends on a number of factors, the most important of which are:

- financial terms of the offer,
- further development of the court judicature in the CHF cases, in particular the resolution of the issue of application of dispositive provisions in place of clauses deemed abusive, the bank's right to reimbursement of the costs of using the capital made available to the client in case the agreement is deemed invalid, admissibility of declaring the loan agreement invalid,
- duration of court proceedings in CHF cases,
- changes in interest rates for PLN loans,
- changes in the CHF/PLN exchange rate,
- economic uncertainty caused by the war in Ukraine.

For the purpose of determining the value of the provision as of 31 March 2022, the bank assumed that the maximum level of the offer acceptance will not exceed 34% of active contracts (31 December 2021: 34%). If the assumed level of the offer acceptance changed by +/- 1 percentage point and all other relevant assumptions remained constant the impact of the legal risk would change by +/- PLN 28.9 million which would change gross carrying amount of the loans.

SELECTED EXPLANATORY INFORMATION**1. Compliance with international financial reporting standards**

The presented condensed consolidated report for the first quarter of 2022 fulfils the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

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

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

The description of the Group's accounting policies is presented in Note 2 of Consolidated financial statements of mBank S.A. Group for 2021, published on 3 March 2022. The accounting principles adopted by the Group were applied on a continuous basis for all periods presented in the financial statements.

3. Seasonal or cyclical nature of the business

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

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

- In the financial results for the first quarter of 2022, the Bank recognised the cost of legal risk related to foreign currency loans in the amount of PLN 192.8 million. The detailed information in this regard is presented in Note 30.
- Due to a change in economic situation caused by the Russian invasion on Ukraine, the Group has undertaken additional action to include the impact of this event in expected losses due to the credit risk. As a consequence, in the financial results for the first quarter of 2022, the Group recognised additional cost of expected credit loss in the amount of PLN 82.1 million in amortised cost portfolio (negative impact on the results). Additionally, these actions impacted the valuation of portfolio measured at fair value through profit and loss, for which the Group recognised an additional loss in the amount of PLN 1.8 million (negative impact on the results).
- Also the increase in interest rates had a significant impact on the financial condition of the Group. The reference rate of NBP increased from the level of 1.75% as at the end of 2021 to the level of 3.50% as at 31 March 2022, which was reflected in the increase of net interest income but had a negative impact on the valuation of derivatives and financial assets based on a fixed interest rate and measured at fair value.

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 quarter of 2022 include cost of legal risk related to foreign currencies loans in the amount of PLN 192.8 million. The detailed information are presented in Note 30.

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

In the first quarter of 2022, the following issues and redemptions occurred in the Group:

- mLeasing Sp. z o.o. issued short-term bonds in the amount of PLN 302 304 thousand and redeemed short-term bond in the amount of PLN 302 959 thousand,
- On 24 March 2022, in the process of securitisation transaction, the Bank issued credit linked notes, with the maturity date on 22 October 2038, in the total nominal amount of PLN 642 500 thousand. The details of the transaction are described in Note 24.

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

On 31 March 2022, the 35th Annual General Meeting of mBank S.A. adopted resolution regarding the covering of loss for 2021. The net loss incurred by mBank S.A. in 2021 in the amount of PLN 1 215 353 334,02 was covered by Bank's supplementary capital. The Annual General Meeting of mBank S.A. also decided to leave the profit from the previous years in the amount of PLN 2 098 480 869,01 undivided. The Annual General Meeting of mBank S.A. did not decide about dividend payment.

8. Significant events after the end of first quarter of 2022, which are not reflected in the financial statements

Events as indicated above did not occur in the Group.

9. Effect of changes in the structure of the entity in the first quarter of 2022, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

Events as indicated above did not occur in the Group.

10. Changes in contingent liabilities and commitments

In the first quarter of 2022, there were no changes in contingent liabilities and commitments of credit nature, i.e. guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

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

In the first quarter of 2022, events as indicated above did not occur in the Group.

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

In the first quarter of 2022, events as indicated above did not occur in the Group.

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

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

14. Reversals of provisions against restructuring costs

In the first quarter of 2022, events as indicated above did not occur in the Group.

15. Acquisitions and disposals of tangible fixed asset items

In the first quarter of 2022 there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease operations that are performed by the companies of the Group.

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

In the first quarter of 2022, events as indicated above did not occur in the Group.

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

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

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

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

19. Corrections of errors from previous reporting periods

In the first quarter of 2022, events as indicated above did not occur in the Group.

mBank S.A. Group

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(PLN thousand)

20. Information on changes in the economic situation and operating conditions that have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether these assets and liabilities are included in the fair value or in the adjusted purchase price (amortised cost)

The increase in interest rates had a significant impact on the fair value of financial assets and financial liabilities. The NBP reference interest rate increased from 1.75% at the end of 2021 to 3.50% as at 31 March 2022, which had a negative impact on the valuation of derivatives and financial assets based on a fixed interest rate and measured at fair value.

Detailed information regarding fair value of financial asset and liabilities are presented in Note 29.

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

In the first quarter of 2022, events as indicated above did not occur in the Group.

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

The Bank did not publish a performance forecast for 2022.

23. Registered share capital

The total number of ordinary shares as at 31 March 2022 was 42 384 884 shares (31 December 2021: 42 384 884 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 2022						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 989 000	39 956 000	fully paid in cash	1986
ordinary registered*	-	-	11 000	44 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	13 385	53 540	fully paid in cash	2019
ordinary bearer	-	-	16 673	66 692	fully paid in cash	2020
ordinary bearer	-	-	17 844	71 376	fully paid in cash	2021
Total number of shares			42 384 884			
Total registered share capital				169 539 536		
Nominal value per share (PLN)		4				

* As at the end of the reporting period

24. Material share packages

Commerzbank AG is the only shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2022 it held 69.25% of the share capital and votes at the General Meeting of mBank S.A.

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

	Number of shares held as at the date of publishing the report 2021	Number of shares acquired from the date of publishing the report for 2021 to the date of publishing the report for Q1 2022	Number of shares sold from the date of publishing the report for 2021 to the date of publishing the report for Q1 2022	Number of shares held as at the date of publishing the report for Q1 2022
Management Board				
1. Cezary Stypułkowski	25 230	-	-	25 230
2. Andreas Böger	1 646	-	-	1 646
3. Krzysztof Dąbrowski	892	-	-	892
4. Cezary Kocik	256	-	256	-
5. Marek Lusztyn	-	-	-	-
6. Adam Pers	-	-	-	-

As at the date of publishing the report for 2021 and as at the date of publishing the report for the first quarter of 2022, the Members of the Management Board had no and they have no rights to Bank's shares.

As at the date of publishing the report for 2021 and as at the date of publishing the report for the first quarter of 2022, the Members of the Supervisory Board had had neither Bank shares nor rights to Bank shares.

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

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

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

The value of provisions for litigations as at 31 March 2022 amounted to PLN 465 285 thousand (PLN 395 889 thousand as at 31 December 2021). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

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

1. Claims of Interbrok's clients

Since 2008, the Bank has received 9 claims for damages in connection with the activities of Interbrok Investment E. Drózdź I Spółka 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 Interbrok's in illegal activities, which caused damage to them. With regard to seven of the aforementioned cases, legal proceedings against the Bank were dismissed and the cases were finally concluded. In the eighth case, a plaintiff withdrew the suit waiving the claim and the Regional Court dismissed the action. As far as the ninth suit is concerned, the amount in dispute is PLN 276 499 thousand, including statutory interest and costs of proceedings. According to the claims brought in the suit, this amount comprises the receivables, acquired by the plaintiff by way of assignment, due to the parties aggrieved by Interbrok on account of a reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The plaintiff claims the Bank's liability on the grounds of the Bank's aid in committing the illicit act of Interbrok, consisting in unlicensed brokerage operations. On 7 November 2017, the Regional Court in Warsaw dismissed the action in its entirety. The ruling is not final. The plaintiff appealed. By the judgment of 25 January 2021, the Court of Appeal in Warsaw dismissed the appeal of the plaintiff. The judgment of the District Court in Warsaw and the judgment of the Court of Appeal in Warsaw are final. The plaintiff appealed against the sentence in the Supreme Court.

2. A lawsuit filed by LPP S.A.

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

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

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

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

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

The plaintiff accuses the two sued banks as well as other banks operating in Poland of taking part in a collusion breaching the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union, i.e. a collusion restricting competition in the market of acquiring services connected with settling clients' liabilities towards the plaintiff on account of card payments for goods and services purchased by clients on the territory of Poland. On 28 May 2020, mBank S.A. filed a response to the lawsuit and moved for a dismissal of a claim. The Court allowed for the motions of Defendants to summon 16 banks to participate in the case and preordained the service of a summoning motion to the banks. Two banks have notified of their intention to intervene in the case as an indirect intervener.

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

Detailed information on the class action against the Bank is provided in Note 30.

5. Individual court proceedings concerning indexation clauses

Detailed information on individual court cases against the Bank regarding CHF indexed loans is provided in Note 30.

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 depository 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.

On 7 May 2021, the Bank applied to the Financial Supervision Authority for reconsideration of the case. On 17 December 2021, PFSA Office upheld its decision of 16 April 2021. On 21 January 2022, the Bank filed a complaint with the Voivodship Administrative Court against the decision of PFSA. As at the date of approval of these financial statements, the case is pending before the administrative court.

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

- Proceedings for considering provisions of a master agreement as abusive instituted ex officio on 12 April 2019. The proceedings concern amendment clauses stipulating circumstances under which the bank is authorised to amend the terms and conditions of the agreement, including the amount of fees and commissions. In the opinion of the President of the Office of Competition and Consumer Protection (UOKiK), the amendment clauses used by the Bank give it an unlimited right to unilaterally and freely change the manner of performing the agreement. As a consequence, the UOKiK President represents the view that the clauses used by mBank define the rights and obligations of consumers contrary to good morals and grossly violate their interest and, thus, are abusive. The Bank does not agree with this stance. mBank responded to the decision on instituting the proceedings in letters dated 28 May 2019 and 10 January 2020. As at the date of approval of these consolidated financial statements, the UOKiK President did not take any further actions in the case in question, did not take a stance, and did not respond to mBank's letters. The proceeding has been extended until 3 July 2022.
- By a judgment of 2 February 2021, the Court of Appeal in Warsaw dismissed the Bank's appeal in the case concerning UOKiK proceedings initiated in 2015 regarding the application by mBank S.A. practices violating collective consumer interests, due to the fact that mBank did not apply a negative interest rate due to the negative base rate of LIBOR and changed the judgment of SOKiK in the part revoking the decision to impose a fine. The Bank complied with the judgment and paid a fine of PLN 6 585 thousand. On 14 June 2021, the Bank filed a cassation complaint with the Supreme Court.
- On 21 July 2017 the UOKiK instigated proceedings against mBank with regard to violation of consumers' collective interests. The UOKiK charged the Bank with failing to adequately inform clients about FX risk and about shifting FX risk onto consumers, and with incorrectly determining (inflating) credit instalments. In the letter dated 18 August 2017 the bank responded to the charges. In the letter dated 18 February 2019 the UOKiK President requested detailed information on the handling of mortgages indexed to foreign currencies, to which the Bank replied. In the letter dated 14 October 2021 the UOKiK President informed the Bank that the evidentiary proceedings had ended and appointed a time limit for the Bank to peruse the case file and to comment on the evidence collected in the case. The Bank commented on the evidence collected within the prescribed period. The President of UOKiK extended the termination of the proceedings until 30 April 2022. As at the date of approval of these financial statements, the Group has not received information about another extension of the proceedings.

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(PLN thousand)

27. Off-balance sheet liabilities

Off-balance sheet liabilities as at 31 March 2022 and 31 December 2021 were as follows.

	31.03.2022	31.12.2021
Contingent liabilities granted and received	50 708 133	46 491 411
Commitments granted	41 343 112	38 363 829
Financing	31 715 398	31 372 747
Guarantees and other financial facilities	6 941 217	6 988 541
Other liabilities	2 686 497	2 541
Commitments received	9 365 021	8 127 582
Financial commitments received	1 647 064	464 840
Guarantees received	7 717 957	7 662 742
Derivative financial instruments (nominal value of contracts)	897 673 544	819 823 544
Interest rate derivatives	753 814 786	682 657 256
Currency derivatives	132 607 859	130 163 781
Market risk derivatives	11 250 899	7 002 507
Total off-balance sheet items	948 381 677	866 314 955

28. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 31 March 2022 and as at 31 December 2021, and related costs and income for the period from 1 January to 31 March 2022 and from 1 January to 31 March 2021 are presented in the table below.

	mBank's subsidiaries			Commerzbank AG			Other companies of the Commerzbank AG Group		
	31.03.2022	31.12.2021	31.03.2021	31.03.2022	31.12.2021	31.03.2021	31.03.2022	31.12.2021	31.03.2021
Statement of financial position									
Assets	7 998	23 877		792 427	1 255 004		25	37	
Liabilities	30 277	28 048		3 124 931	3 151 867		78 826	73 658	
Income Statement									
Interest income	12		225	10 034		7 219	13		50
Interest expense	-		-	(8 922)		(5 752)	(2)		(5)
Fee and commission income	59		43	1 122		1 261	131		218
Fee and commission expense	(6 781)		-	-		-	-		-
Other operating income	892		68	-		523	-		-
Overhead costs, amortisation and other operating expenses	-		(1 233)	(2 653)		(966)	-		-
Contingent liabilities granted and received									
Liabilities granted	390 304	380 145		1 566 201	1 564 733		3 522	3 514	
Liabilities received	-	-		1 465 644	1 895 575		-	-	

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 31 March 2022 recognised in the Group's income statement for that period amounted to PLN 9 805 thousand (in the period from 1 January to 31 March 2021: PLN 5 553 thousand).

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

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

In the three-month period, ended on 31 March 2022, Group has not concluded any substantial agreements regarding credit and loan guarantees or guarantees granted of a significant amount.

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

In the first quarter of 2022, events as indicated above did not occur in the Group.

31. Factors affecting the results in the coming quarter

Increases in interest rates by 100 basis points and by 75 basis points, made by the Monetary Policy Council on 7 April 2022 and 5 May 2022 respectively, will have a positive impact on the net interest income of mBank Group, but at the same time will have a negative impact on the valuation of derivatives and financial assets based on a fixed interest rate and valued at fair value.

In the coming quarter, the financial situation and quality of asset of mBank S.A. Group will also be affected by the repercussions of the war in Ukraine, such as sanctions and restrictions in international trade.

In addition, the financial results and operations of mBank Group in the next quarters may be significantly influenced by the support proposals for borrowers presented by Prime Minister Mateusz Morawiecki in April 2022, including, inter alia, replacing the WIBOR rate for mortgage loans, increasing the Support Fund for Borrowers and establishing a new fund increasing the resilience of the banking sector.

The results in the coming quarter may also be affected by potential settlements of the Supreme Court, other national institutions or Court of Justice of the European Union in cases related to foreign currencies loans, which is presented in detail in the Note 30.

32. Other information

■ Requirements on mBank Group capital ratios as of 31 March 2022

The minimum required level of capital ratios at the end of 31 March 2022 amounted to:

- Individual total capital ratio: 13.50% and Tier 1 capital ratio: 10.88%
- Consolidated total capital ratio: 13.17% and Tier 1 capital ratio: 10.64%.

At the date of approval 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.

■ Transitional arrangements in response to the COVID-19 pandemic

As of 31 March 2022 mBank Group included transitional provisions regarding the temporary treatment of unrealised gains and losses on financial instruments measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, contained in the regulation of the European Parliament and of the Council (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic in the calculation of own funds, capital ratios and leverage ratio for the first time.

The application of the transitional provisions is intended to mitigate the negative impact of unrealized losses on government and local government debt instruments during the COVID-19 pandemic and the decision to apply them means that the Group will be able to limit the impact of significant part of the volatility of the market valuation of the government and local government bonds portfolio.

The measures reported calculated taking into account the transitional provisions as well as measures calculated without taking into account the transitional provisions are presented below.

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed consolidated financial statement of mBank S.A. Group for the first quarter of 2022

(PLN thousand)

	31.03.2022		31.12.2021	
	Measures reported	Measures calculated without taking into account transitional provisions	Measures reported	Measures calculated without taking into account transitional provisions
Common Equity Tier I capital (PLN thousand)	12 666 742	12 252 865	13 552 027	13 037 746
Tier I capital (PLN thousand)	12 666 742	12 252 865	13 552 027	13 037 746
Own funds (PLN thousand)	14 967 499	14 553 622	15 871 711	15 357 430
Common Equity Tier I ratio (%)	13.47	13.07	14.16	13.59
Tier I capital ratio (%)	13.47	13.07	14.16	13.59
Total capital ratio (%)	15.92	15.53	16.58	16.01
Leverage ratio (%)	5.85	5.67	6.32	6.10

33. Events after the balance sheet date

From 31 April 2022 until the date of approval of these condensed consolidated financial statements, no events occurred, which would require additional disclosure in these condensed consolidated financial statements.

CONDENSED STAND-ALONE FINANCIAL STATEMENT OF MBANK S.A. FOR THE FIRST QUARTER OF 2022

CONDENSED STAND-ALONE INCOME STATEMENT

	1 st quarter (current year) period from 01.01.2022 to 31.03.2022	1 st quarter (previous year) period from 01.01.2021 to 31.03.2021
Interest income, including:	1 560 168	889 799
<i>Interest income accounted for using the effective interest method</i>	1 516 177	772 465
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	43 991	117 334
Interest expenses	(185 361)	(55 369)
Net interest income	1 374 807	834 430
Fee and commission income	742 558	605 434
Fee and commission expenses	(165 597)	(153 359)
Net fee and commission income	576 961	452 075
Dividend income	835	440
Net trading income	90 904	58 590
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(8 108)	(11 828)
Gains less losses from derecognition of assets and liabilities not measured at fair value through profit or loss	(24 017)	88 923
Other operating income	16 260	19 654
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(230 996)	(161 656)
Result on provisions for legal risk related to foreign currency loans	(192 754)	(66 268)
Overhead costs	(664 490)	(497 902)
Depreciation	(101 317)	(96 891)
Other operating expenses	(46 447)	(61 360)
Operating profit (loss)	791 638	558 207
Tax on the Bank's balance sheet items	(152 011)	(131 269)
Share in profits (losses) of entities under the equity method	64 339	57 337
Profit (loss) before income tax	703 966	484 275
Income tax expense	(189 859)	(169 190)
Net profit (loss)	514 107	315 085
Net profit (loss)	514 107	315 085
Weighted average number of ordinary shares	42 384 884	42 367 040
Earnings (losses) per share (in PLN)	12.13	7.44
Weighted average number of ordinary shares for diluted earnings	42 491 139	42 416 982
Diluted earnings (losses) per share (in PLN)	12.10	7.43

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed stand-alone financial statement of mBank S.A. for the first quarter of 2022

(PLN thousand)

CONDENSED STAND-ALONE STATEMENT OF COMPREHENSIVE INCOME

	1 st quarter (current year) period from 01.01.2022 to 31.03.2022	1 st quarter (previous year) period from 01.01.2021 to 31.03.2021
Net profit (loss)	514 107	315 085
Other comprehensive income net of tax, including:	(759 106)	(320 218)
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT		
Exchange differences on translation of foreign operations (net)	623	567
Cash flows hedges (net)	(304 520)	(150 230)
Share of other comprehensive income of entities under the equity method (net)	(38 167)	(13 603)
Debt instruments at fair value through other comprehensive income (net)	(417 042)	(156 952)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT		
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Reclassification to investment properties (net)	-	-
Total comprehensive income (net)	(244 999)	(5 133)

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed stand-alone financial statement of mBank S.A. for the first quarter of 2022

(PLN thousand)

CONDENSED STAND-ALONE STATEMENT OF FINANCIAL POSITION

ASSETS	31.03.2022	31.12.2021
Cash and balances with the Central Bank	17 933 785	12 087 608
Financial assets held for trading and derivatives held for hedges	2 811 263	2 581 174
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 155 958	1 221 063
<i>Equity instruments</i>	148 578	148 466
<i>Debt securities</i>	85 479	81 128
<i>Loans and advances to customers</i>	921 901	991 469
Financial assets at fair value through other comprehensive income	46 365 967	54 162 657
<i>Debt securities</i>	26 917 588	35 971 403
<i>Loans and advances to customers</i>	19 448 379	18 191 254
Financial assets at amortised cost, including:	120 836 062	114 326 977
<i>Debt securities</i>	19 888 649	16 632 915
<i>Loans and advances to banks</i>	10 440 664	11 194 916
<i>Loans and advances to customers</i>	90 506 749	86 499 146
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1 551 064	1 055 478
Investments in subsidiaries	2 384 196	2 357 068
Non-current assets and disposal groups classified as held for sale	31 247	31 247
Intangible assets	1 127 558	1 111 479
Tangible assets	1 204 108	1 204 680
Investment properties	127 510	127 510
Current income tax assets	35 488	28 077
Deferred income tax assets	958 745	721 324
Other assets	1 033 926	857 477
TOTAL ASSETS	197 556 877	191 873 819
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and derivatives held for hedges	2 398 044	2 044 601
Financial liabilities measured at amortised cost, including:	176 802 722	172 634 071
<i>Amounts due to banks</i>	2 180 772	3 420 001
<i>Amounts due to customers</i>	164 668 680	159 905 991
<i>Debt securities issued</i>	7 307 553	6 683 623
<i>Subordinated liabilities</i>	2 645 717	2 624 456
Fair value changes of the hedged items in portfolio hedge of interest rate risk	126 775	110 033
Liabilities classified as held for sale	7 269	7 425
Provisions	898 544	839 698
Current income tax liabilities	253 862	54 467
Deferred income tax liabilities	90	89
Other liabilities	3 928 703	2 801 612
TOTAL LIABILITIES	184 416 009	178 491 996
EQUITY		
Share capital:	3 593 944	3 593 944
Registered share capital	169 540	169 540
Share premium	3 424 404	3 424 404
Retained earnings:	11 767 054	11 248 903
- Profit from previous years	11 252 947	12 464 256
- Profit (loss) for the current year	514 107	(1 215 353)
Other components of equity	(2 220 130)	(1 461 024)
TOTAL EQUITY	13 140 868	13 381 823
TOTAL LIABILITIES AND EQUITY	197 556 877	191 873 819

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed stand-alone financial statement of mBank S.A. for the first quarter of 2022

(PLN thousand)

CONDENSED STAND-ALONE STATEMENT OF CHANGES IN EQUITY

Changes from 1 January to 31 March 2022

	Share capital		Retained earnings		Other components of equity	Total
	Registered share capital	Share premium	Profit from the previous years	Profit (loss) for the current year		
Equity as at 1 January 2022	169 540	3 424 404	11 248 903	-	(1 461 024)	13 381 823
Total comprehensive income	-	-	-	514 107	(759 106)	(244 999)
Stock option program for employees	-	-	4 044	-	-	4 044
<i>value of services provided by the employees</i>	-	-	<i>4 044</i>	-	-	<i>4 044</i>
Equity as at 31 March 2022	169 540	3 424 404	11 252 947	514 107	(2 220 130)	13 140 868

Changes from 1 January to 31 December 2021

	Share capital		Retained earnings		Other components of equity	Total
	Registered share capital	Share premium	Profit from the previous years	Profit (loss) 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	-	-	-	(1 215 353)	(1 881 075)	(3 096 428)
Issuance of ordinary shares	72	-	-	-	-	72
Stock option program for employees	-	6 837	3 650	-	-	10 487
<i>value of services provided by the employees</i>	-	-	<i>10 487</i>	-	-	<i>10 487</i>
<i>settlement of exercised options</i>	-	<i>6 837</i>	<i>(6 837)</i>	-	-	-
Equity as at 31 December 2021	169 540	3 424 404	12 464 256	(1 215 353)	(1 461 024)	13 381 823

Changes from 1 January to 31 March 2021

	Share capital		Retained earnings		Other components of equity	Total
	Registered share capital	Share premium	Profit from the previous years	Profit (loss) 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	-	-	-	315 085	(320 218)	(5 133)
Stock option program for employees	-	-	1 599	-	-	1 599
<i>value of services provided by the employees</i>	-	-	<i>1 599</i>	-	-	<i>1 599</i>
Equity as at 31 March 2021	169 468	3 417 567	12 462 205	315 085	99 833	16 464 158

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Consolidated financial report for the first quarter of 2022

Condensed stand-alone financial statement of mBank S.A. for the first quarter of 2022

(PLN thousand)

CONDENSED STAND-ALONE STATEMENT OF CASH FLOW

	1 st quarter (current year) period from 01.01.2022 to 31.03.2022	1 st quarter (previous year) period from 01.01.2021 to 31.03.2021
Profit before income tax	703 966	484 275
Adjustments:	5 209 426	15 195 534
Income taxes paid	(77 421)	(313 438)
Depreciation, including depreciation of fixed assets provided under operating lease	103 966	98 685
Foreign exchange (gains) losses related to financing activities	292 074	(93 267)
(Gains) losses on investing activities	(68 712)	(57 460)
Change in valuation of investments in subsidiaries accounted for using other than the equity method	(1 551)	-
Dividends received	(835)	(440)
Interest income (income statement)	(1 560 168)	(889 799)
Interest expense (income statement)	185 361	55 369
Interest received	1 322 093	834 853
Interest paid	(144 127)	(38 390)
Changes in loans and advances to banks	1 117 489	1 416 340
Changes in financial assets and liabilities held for trading and hedging derivatives	(730 700)	(972 568)
Changes in loans and advances to customers	(5 089 147)	(4 314 411)
Changes in securities at fair value through other comprehensive income	8 635 400	3 404 581
Changes in securities at amortised cost	(3 200 421)	(376 741)
Changes of non-trading equity securities mandatorily at fair value through profit or loss	(4 463)	(1 678)
Changes in other assets	(191 504)	72 355
Changes in amounts due to banks	(1 222 709)	346 065
Changes in amounts due to customers	4 675 962	15 467 769
Changes in issued debt securities	(116 164)	(8 212)
Changes in provisions	58 846	11 245
Changes in other liabilities	1 226 157	554 676
A. Cash flows from operating activities	5 913 392	15 679 809
Disposal of intangible assets and tangible fixed assets	4 506	138
Dividends received	835	440
Purchase of intangible assets and tangible fixed assets	(158 884)	(154 712)
B. Cash flows from investing activities	(153 543)	(154 134)
Proceeds from issue of debt securities	642 500	-
Repayments of other loans and advances	-	(1 358 250)
Payments of financial lease liabilities	(22 787)	(21 598)
Interest paid from loans and advances received from banks and subordinated liabilities	(14 514)	(15 212)
C. Cash flows from financing activities	605 199	(1 395 060)
Net increase / decrease in cash and cash equivalents (A+B+C)	6 365 048	14 130 615
Effects of exchange rate changes on cash and cash equivalents	(155 634)	45 760
Cash and cash equivalents at the beginning of the reporting period	12 422 956	4 205 132
Cash and cash equivalents at the end of the reporting period	18 632 370	18 381 507

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 3-month period ended 31 March 2022. Comparative data include the period from 1 January 2021 to 31 March 2021 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 2021 for the condensed statement of changes in equity, and in the case of the condensed statement of financial position, data as at 31 December 2021.

These interim financial statements the first quarter of 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Financial statements of mBank S.A. for 2021, published on 3 March 2022. They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards.

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).

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 2021, published on 3 March 2022.

The preparation of the financial statements 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.

New standards, interpretations and amendments to published standards

The detailed information regarding the new International Accounting Standards and the International Financial Reporting Standards is presented in the condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

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.

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

Detailed information on the impact of legal risk related to CHF mortgage and housing loans is provided in Note 30 of Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

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

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(PLN thousand)

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 realisation 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 32.6 million or increase by PLN 35.2 million (as at 31 December 2021: PLN 31.4 million and PLN 32.8 million). 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 of financial statements of mBank S.A. for 2021, published on 3 March 2022.

Actions taken in relation to the current situation in Ukraine

In the first quarter of 2022, the Bank conducted a portfolio review in connection with Russia's aggression against Ukraine. The review concerned the Bank's involvement in war countries (Ukraine, Russia) or in conflict-related countries (Belarus), taking into account sanctions imposed by the European Union, the United Kingdom and the USA. The review identified engagement in the following countries:

Country	Direct exposure as at 31 March 2022												
	Balance sheet gross exposure in PLN thousand				Off-balance sheet exposure in PLN thousand				Expected credit losses in PLN thousand				
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Ukraine	-	-	-	-	-	-	-	-	-	-	-	-	-
Russia	-	-	630	222 918	-	-	-	-	-	-	621	176 367	-
Belarus	-	3 302	-	-	-	-	-	-	-	106	-	-	-

Country	Indirect exposure* as at 31 March 2022												
	Balance sheet gross exposure in PLN thousand				Off-balance sheet exposure in PLN thousand				Expected credit losses in PLN thousand				
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Ukraine	53 003	1 389	569	-	107 393	-	-	-	177	4	175	-	-
Russia	220 401	6 259	48 286	-	183 968	2 446	-	-	1 557	139	23 260	-	-
Belarus	3 785	-	-	-	13 011	-	-	-	2	-	-	-	-

* Exposures related to indirect risk - a material relationship with the country of risk, e.g. above 30% of imports/exports from/to the country of risk, the main shareholder is a resident from the country of risk.

The Bank identified the exposure of PLN 547 million to clients (corporations) with a potential indirect risk resulting from the conflict between Russia and Ukraine, for whom the relationship with the country of risk was not material.

For the entities identified in the review, the industry, risk factors and risk-mitigating mitigants were identified.

In addition, since 7 April 2022, the maximum concentration limits for residents from the three indicated countries are zero, which means that the Bank has ceased operations in countries affected by the conflict.

Additional cost of risk due to the current situation in Ukraine

Due to the changes in the economic situation in Poland resulting from the Russia's invasion of Ukraine, Bank has taken additional actions aimed at including this information in the expected credit losses. It was decided to modify of the weight of macroeconomic scenarios, consisting in assigning a 100% weight to the pessimistic scenario, in the expected credit loss model.

The above-mentioned activities resulted in recognition of additional cost of credit risk in the amount of PLN 88.1 million in the portfolio measured at amortised cost (negative impact on the P&L). In addition, these activities had an impact on the valuation of the loan portfolio at fair value through profit or loss, for which Bank recognized an additional cost of PLN 1.8 million (negative impact on the P&L).

Bank will continue to analyse the impact of the situation in Ukraine on the cost of risk in the next quarters.

Apart from the above-mentioned activities, no other significant model changes were implemented in the first quarter of 2022.

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 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. of financial statements of mBank S.A. for 2021, published on 3 March 2022.

Deferred tax assets

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

Income tax in interim financial statements

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

The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base. The projected annual effective tax rate used to calculate the income tax expense during the first quarter of 2022 was 27.0% (in the first quarter of 2021: 34.9%).

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.

Currently the Bank recognises upfront 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 associated loans. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment employee benefits

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

Leasing classification

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 2.22 to the financial statements of mBank S.A. for 2021, published on 3 March 2022.

SELECTED EXPLANATORY INFORMATION

1. Compliance with international financial reporting standards

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

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

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

The description of the Bank's accounting policies is presented in Note 2 of Financial statements of mBank S.A. for 2021, published on 3 March 2022. The accounting principles adopted by the Bank were applied on a continuous basis for all periods presented in the financial statements.

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 financial results for the first quarter of 2022, Bank recognised the cost of legal risk related to foreign currency loans in the amount of PLN 192.8 million. The detailed information in this regard is presented in Note 30 of Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.
- Due to a change in economic situation caused by the Russian invasion on Ukraine, the Bank has undertaken additional action to include the impact of this event in expected losses due to the credit risk. As a consequence, in the financial results for the first quarter of 2022, Group recognised additional cost of expected credit loss in the amount of PLN 88.1 million in amortised cost portfolio (negative impact on the results). Additionally, these actions impacted the valuation of portfolio measured in fair value through profit and loss, for which the Group recognised an additional loss in the amount of PLN 1.8 million (negative impact on the results).
- Also the increase in interest rates had a significant impact on the financial condition of the Bank. The reference rate of NBP increased from the level of 1.75% as at the end of 2021 to the level of 3.50% as at 31 March 2022, which was reflected in the increase of net interest income but had a negative impact on the valuation of derivatives and financial assets based on a fixed interest rate and measured at fair value.

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 quarter of 2022 include cost of legal risk related to foreign currencies loans in the amount of PLN 192.8 million. The detailed information are presented in Note 30 of Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

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

On 24 March 2022, in the process of securitisation transaction, the Bank issued credit linked notes, with the maturity date on 22 October 2038, in the total nominal amount of PLN 642 500 thousand. Detailed information is presented in Note 24 of Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

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

On 31 March 2022, the 35th Annual General Meeting of mBank S.A. adopted resolution regarding the covering of loss for 2021. The net loss incurred by mBank S.A. in 2021 in the amount of PLN 1 215 353 334,02 was covered by Bank's supplementary capital. The Annual General Meeting of mBank S.A. also decided to leave the profit from the previous years in the amount of PLN 2 098 480 869,01 undivided. The Annual General Meeting of mBank S.A did not decide about dividend payment.

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 quarter of 2022.

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

Events as indicated above did not occur in the Bank.

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

In the first quarter of 2022, events as indicated above did not occur in the Bank.

11. Changes in contingent liabilities and commitments

In the first quarter of 2022, 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 quarter of 2022, 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 quarter of 2022, events as indicated above did not occur in the Bank.

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

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, including:			
Financial assets at amortised cost		(229 733)	(210 038)
- debt securities		(1 279)	(45)
- loans and advances		(228 454)	(209 993)
Financial assets at fair value through other comprehensive income		(5 673)	4 421
- equity instruments		(633)	(771)
- debt securities		(5 040)	5 192
Commitments and guarantees granted		4 410	43 961
Total gains less losses from financial assets not measured at fair value through profit or loss		(230 996)	(161 656)

15. Reversals of provisions against restructuring costs

In the first quarter of 2022, events as indicated above did not occur in the Bank.

16. Acquisitions and disposals of tangible fixed asset items

In the first quarter of 2022, 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 quarter of 2022, 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 quarter of 2022, events as indicated above did not occur in the Bank.

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 (amortised cost)

The increase in interest rates had a significant impact on the fair value of financial assets and financial liabilities. The NBP reference interest rate increased from 1.75% at the end of 2021 to 3.50% as at 31 March 2022, which had a negative impact on the valuation of derivatives and financial assets based on a fixed interest rate and measured at fair value.

Detailed information regarding fair value of financial asset and liabilities are presented in Point 32 of Selected explanatory information.

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

In the first quarter of 2022, 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 2022.

24. Registered share capital

The total number of ordinary shares as at 31 March 2022 was 42 384 884 shares (31 December 2021: 42 384 884 shares) at PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 MARCH 2022						
Share type	Type of privilege	Type of limitation	Number of shares	Series / face value of issue in PLN	Paid up	Registered on
ordinary bearer*	-	-	9 989 000	39 956 000	fully paid in cash	1986
ordinary registered*	-	-	11 000	44 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
ordinary bearer	-	-	35 037	140 148	fully paid in cash	2013
ordinary bearer	-	-	36 044	144 176	fully paid in cash	2014
ordinary bearer	-	-	28 867	115 468	fully paid in cash	2015
ordinary bearer	-	-	41 203	164 812	fully paid in cash	2016
ordinary bearer	-	-	31 995	127 980	fully paid in cash	2017
ordinary bearer	-	-	24 860	99 440	fully paid in cash	2018
ordinary bearer	-	-	13 385	53 540	fully paid in cash	2019
ordinary bearer	-	-	16 673	66 692	fully paid in cash	2020
ordinary bearer	-	-	17 844	71 376	fully paid in cash	2021
Total number of shares			42 384 884			
Total registered share capital				169 539 536		
Nominal value per share (PLN)		4				

* As at the end of the reporting period

25. Material share packages

Commerzbank AG is the only shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 March 2022 it held 69.25% of the share capital and votes at the General Meeting of mBank S.A.

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(PLN thousand)

26. Earnings per share

	the period	from 01.01.2022 to 31.03.2022	from 01.01.2021 to 31.03.2021
Basic:			
Net profit		514 107	315 085
Weighted average number of ordinary shares		42 384 884	42 367 040
Net basic profit per share (in PLN per share)		12.13	7.44
Diluted:			
Net profit applied for calculation of diluted earnings per share		514 107	315 085
Weighted average number of ordinary shares		42 384 884	42 367 040
Adjustments for:			
- share options		106 255	49 942
Weighted average number of ordinary shares for calculation of diluted earnings per share		42 491 139	42 416 982
Diluted earnings per share (in PLN per share)		12.10	7.43

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

The information regarding the proceedings before a court, an arbitration body or a public administration body are presented in Point 26 of Selected explanatory information in Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

28. Legal risk related to mortgage and housing loans granted to individual customers in CHF

Detailed information on the impact of legal risk related to CHF mortgage and housing loans is provided in Note 30 of Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

29. Off-balance sheet liabilities

	31.03.2022	31.12.2021
Contingent liabilities granted and received	50 866 596	46 751 254
Commitments granted	41 501 575	38 623 672
Financing	31 351 716	31 064 725
Guarantees and other financial facilities	7 463 362	7 556 406
Other liabilities	2 686 497	2 541
Commitments received	9 365 021	8 127 582
Financial commitments received	1 647 064	464 840
Guarantees received	7 717 957	7 662 742
Derivative financial instruments (nominal value of contracts)	893 717 376	815 302 332
Interest rate derivatives	749 416 921	678 207 144
Currency derivatives	133 049 556	130 057 681
Market risk derivatives	11 250 899	7 037 507
Total off-balance sheet items	944 583 972	862 053 586

30. Transactions with related entities

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

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

The amounts of transactions with related entities, i.e., balances of receivables and liabilities as at 31 March 2022 and as at 31 December 2021, and related costs and income for the period from 1 January to 31 March 2022 and from 1 January to 31 March 2021 are presented in the table below.

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	mBank's subsidiaries			Commerzbank AG			Other companies of the Commerzbank AG Group		
	31.03.2022	31.12.2021	31.03.2021	31.03.2022	31.12.2021	31.03.2021	31.03.2022	31.12.2021	31.03.2021
Statement of financial position									
Assets	20 980 077	20 331 269		783 729	1 204 403		25	37	
Liabilities	587 616	556 352		2 840 908	2 884 929		78 826	73 658	
Income Statement									
Interest income	140 827		37 458	10 034		7 219	13		50
Interest expense	(62)		(89)	(8 453)		(5 116)	(2)		(5)
Fee and commission income	4 602		4 517	1 122		1 261	131		218
Fee and commission expense	(63 837)		(3 285)	-		-	-		-
Other operating income	3 650		1 879	-		523	-		-
Overhead costs, amortisation and other operating expenses	(798)		(1 912)	(2 653)		(966)	-		-
Contingent liabilities granted and received									
Liabilities granted	2 559 611	2 763 259		1 566 201	1 564 733		3 522	3 514	
Liabilities received	-	-		1 465 644	1 895 575		-	-	

The total costs of remuneration of Members of the Supervisory Board, the Management Board and other key management personnel of the Bank that perform their duties from 1 January to 31 March 2022 recognised in the Bank's income statement for that period amounted to PLN 9 805 thousand (in the period from 1 January to 31 March 2021: PLN 5 553 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.

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

In the three-month period, ended on 31 March 2022, Bank has not concluded any substantial agreements regarding credit and loan guarantees or guarantees granted of a significant amount.

32. 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, or 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 S.A. for 2021, published on 3 March 2022.

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 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.

	31.03.2022		31.12.2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	19 888 649	17 835 679	16 632 915	15 358 098
Loans and advances to banks	10 440 664	10 433 737	11 194 916	11 192 768
Loans and advances to customers, including:	90 506 749	90 025 923	86 499 146	86 415 449
Loans and advances to individuals	43 746 959	44 192 929	43 319 138	44 209 477
Current accounts	7 480 812	7 777 002	7 252 733	7 488 236
Term loans	35 892 769	36 042 549	35 680 027	36 334 863
Other	373 378	373 378	386 378	386 378
Loans and advances to corporate entities	46 657 121	45 733 274	43 099 288	42 129 128
Current accounts	6 634 733	6 444 565	5 613 678	5 475 185
Term loans	38 094 593	37 360 914	36 876 632	36 044 965
Reverse repo or buy/sell back transactions	1 430 841	1 430 841	187 630	187 630
Other loans and advances	464 237	464 237	407 704	407 704
Other	32 717	32 717	13 644	13 644
Loans and advances to public sector	102 669	99 720	80 720	76 844
Financial liabilities at amortised cost				
Amounts due to other banks	2 180 772	2 180 772	3 420 001	3 420 001
Amounts due to customers	164 668 680	164 578 477	159 905 991	159 888 932
Debt securities in issue	7 307 553	7 059 523	6 683 623	6 698 899
Subordinated liabilities	2 645 717	2 613 073	2 624 456	2 616 703

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,
- current accounts and 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 a credit risk related bonds - Credit Link Note (CLN), the bank uses the method of discounted cash flows bonds for the valuation. Discounted factor also includes a component that takes into account mBank's credit spread and a liquidity margin. Due to the fact that the bondholders are secured against the

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issuer's credit risk with the deposited collateral, an assumption was made that these parameters would remain unchanged during the life of the bond.

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 and investment properties

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.

31.03.2022	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	2 811 263	576 353	1 668 601	566 309
Loans and advances to customers	38 428	-	-	38 428
Debt securities	1 104 234	576 353	-	527 881
Derivative financial instruments, including:	1 668 601	-	1 668 601	-
Derivative financial instruments held for trading	1 989 028	-	1 989 028	-
Hedging derivative financial instruments	132 037	-	132 037	-
Offsetting effect	(452 464)	-	(452 464)	-
Non-trading financial assets mandatorily at fair value through profit or loss	1 155 958	859	-	1 155 099
Loans and advances to customers	921 901	-	-	921 901
Debt securities	85 479	-	-	85 479
Equity securities	148 578	859	-	147 719
Financial assets at fair value through other comprehensive income	46 365 967	23 586 496	1 499 853	21 279 618
Loans and advances to customers	19 448 379	-	-	19 448 379
Debt securities	26 917 588	23 586 496	1 499 853	1 831 239
Total financial assets	50 333 188	24 163 708	3 168 454	23 001 026
Investment properties	127 510	-	-	127 510
Financial liabilities				
Derivative financial instruments, including:	1 828 702	-	1 828 702	-
Derivative financial instruments held for trading	2 288 977	-	2 288 977	-
Hedging derivative financial instruments	2 646 021	-	2 646 021	-
Offsetting effect	(3 106 296)	-	(3 106 296)	-
Liabilities from short sale of securities	569 342	569 342	-	-
Total financial liabilities	2 398 044	569 342	1 828 702	-

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31.12.2021	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	2 581 174	248 906	1 866 663	465 605
Loans and advances to customers	40 426	-	-	40 426
Debt securities	674 085	248 906	-	425 179
Derivative financial instruments, including:	1 866 663	-	1 866 663	-
Derivative financial instruments held for trading	2 104 819	-	2 104 819	-
Hedging derivative financial instruments	163 715	-	163 715	-
Offsetting effect	(401 871)	-	(401 871)	-
Non-trading financial assets mandatorily at fair value through profit or loss	1 221 063	870	-	1 220 193
Loans and advances to customers	991 469	-	-	991 469
Debt securities	81 128	-	-	81 128
Equity securities	148 466	870	-	147 596
Financial assets at fair value through other comprehensive income	54 162 657	25 971 560	8 495 243	19 695 854
Loans and advances to customers	18 191 254	-	-	18 191 254
Debt securities	35 971 403	25 971 560	8 495 243	1 504 600
Total financial assets	57 964 894	26 221 336	10 361 906	21 381 652
Investment properties	127 510	-	-	127 510
Financial liabilities				
Derivative financial instruments, including:	1 959 827	-	1 959 827	-
Derivative financial instruments held for trading	2 272 167	-	2 272 167	-
Hedging derivative financial instruments	1 598 547	-	1 598 547	-
Offsetting effect	(1 910 887)	-	(1 910 887)	-
Liabilities from short sale of securities	84 774	84 774	-	-
Total financial liabilities	2 044 601	84 774	1 959 827	-

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Assets and liabilities measured at fair value and investment properties based on Level 3 changes in the period from 1 January to 31 March 2022	Financial assets held for trading and hedging derivatives		Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Investment properties
	Loans and advances to customers	Debt securities	Loans and advances to customers	Debt securities	Equity securities	Loans and advances to customers	Debt securities	
As at the beginning of the period	40 426	425 179	991 469	81 128	147 596	18 191 254	1 504 600	127 510
Gains and losses for the period:	(188)	2 456	(9 904)	4 351	20	(141 041)	(7 401)	-
Recognised in profit or loss:	(188)	2 456	(9 904)	4 351	20	(3 766)	-	-
<i>Net trading income</i>	<i>(188)</i>	<i>2 456</i>	<i>-</i>	<i>2 544</i>	<i>20</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>(9 904)</i>	<i>1 807</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(3 766)</i>	<i>-</i>	<i>-</i>
Recognised in other comprehensive income:	-	-	-	-	-	(137 275)	(7 401)	-
<i>Financial assets at fair value through other comprehensive income</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(137 275)</i>	<i>(7 401)</i>	<i>-</i>
Purchases	-	303 387	18 369	-	103	1 769 452	603 860	-
Redemptions	-	(15 892)	(59 534)	-	-	-	(69 616)	-
Sales	-	(569 560)	-	-	-	(584 136)	(304 974)	-
Issues	-	382 311	-	-	-	-	104 770	-
Reckonings	(1 810)	-	(18 499)	-	-	212 850	-	-
As at the end of the period	38 428	527 881	921 901	85 479	147 719	19 448 379	1 831 239	127 510

Assets and liabilities measured at fair value and investment properties based on Level 3 changes in the period from 1 January to 31 December 2021	Financial assets held for trading and hedging derivatives		Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Investment properties
	Loans and advances to customers	Debt securities	Loans and advances to customers	Debt securities	Equity securities	Loans and advances to customers	Debt securities	
As at the beginning of the period	187 902	333 151	1 372 481	76 068	135 520	12 515 013	1 509 952	-
Gains and losses for the period:	(2 658)	11 032	(6 211)	5 060	11 182	(93 141)	(65 509)	14 118
Recognised in profit or loss:	(2 658)	11 032	(6 211)	5 060	11 182	(17 250)	-	-
<i>Net trading income</i>	<i>(2 658)</i>	<i>11 032</i>	<i>-</i>	<i>6 196</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>(6 211)</i>	<i>(1 136)</i>	<i>11 182</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(17 250)</i>	<i>-</i>	<i>-</i>
Recognised in other comprehensive income:	-	-	-	-	-	(75 891)	(65 509)	14 118
<i>Financial assets at fair value through other comprehensive income</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(75 891)</i>	<i>(65 509)</i>	<i>14 118</i>
Purchases	3 813	2 368 719	18 627	-	894	7 463 990	1 364 162	-
Redemptions	(145 222)	(204 372)	(331 906)	-	-	-	(394 816)	-
Sales	-	(8 098 131)	-	-	-	(2 056 116)	(2 510 472)	-
Issues	-	6 014 780	-	-	-	-	1 601 283	-
Reckonings	(3 409)	-	(61 522)	-	-	361 508	-	-
Reclassification to other reporting items	-	-	-	-	-	-	-	113 392
As at the end of the period	40 426	425 179	991 469	81 128	147 596	18 191 254	1 504 600	127 510

During the first quarter of 2022 and during 2021 there were no transfers of financial instruments between the levels of fair value hierarchy.

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

Level 1

As at 31 March 2022 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 576 353 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 22 097 078 thousand (31 December 2021: PLN 248 906 thousand and PLN 24 468 564 thousand, respectively). Level 1 includes the fair values of corporate bonds in the amount of PLN 1 489 418 thousand (31 December 2021: PLN 1 502 996 thousand).

In addition, as at 31 March 2022 level 1 includes the value of the registered privileged shares of Giełda Papierów Wartościowych in the amount of PLN 859 thousand (31 December 2021: PLN 870 thousand).

As at 31 March 2022 also includes liabilities from short sale of securities quoted on active markets in the amount of PLN 569 342 thousand (31 December 2021: PLN 84 774 thousand).

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

Level 2

Level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 1 499 853 thousand (31 December 2021: PLN 8 495 243 thousand), valuation of which 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 2 410 881 thousand (31 December 2021: PLN 1 977 236 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 33 718 thousand (31 December 2021: PLN 33 671 thousand).

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

Level 3 as at 31 March 2022 includes the value of loans and advances to customers in the amount of PLN 20 408 708 thousand (31 December 2021: PLN 19 223 149 thousand). The fair value calculation process for loans and advances to customers is described in detail in the Note 3.3.7. of financial statement of mBank S.A. for 2021, published on 3 March 2022.

Moreover level 3 includes the value of loans and advances to customers in the amount of PLN 147 719 thousand (31 December 2021: PLN 147 596 thousand). The equity securities presented at

level 3 have been valued using the market multiples method. The market multiples method consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

As at 31 March 2022 and 31 December 2021 level 3 also includes fair value of investment property in the amount of PLN 127 510 thousand.

33. 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

In the first quarter of 2022, events as indicated above did not occur in the Group.

34. Factors affecting the results in the coming quarter

Increases in interest rates by 100 basis points and by 75 basis points, made by the Monetary Policy Council on 7 April 2022 and 5 May 2022 respectively, will have a positive impact on the net interest income of mBank, but at the same time will have a negative impact on the valuation of derivatives and financial assets based on a fixed interest rate and valued at fair value.

In the coming quarter, the financial situation and quality of asset of mBank will also be affected by the repercussions of the war in Ukraine, such as sanctions and restrictions in international trade.

In addition, the financial results and operations of mBank in the next quarters may be significantly influenced by the support proposals for borrowers presented by Prime Minister Mateusz Morawiecki in April 2022, including, inter alia, replacing the WIBOR rate for mortgage loans, increasing the Support Fund for Borrowers and establishing a new fund increasing the resilience of the banking sector.

The results in the coming quarter may also be affected by potential settlements of the Supreme Court, other national institutions or Court of Justice of the European Union in cases related to foreign currencies loans, which is presented in detail in the Note 30 of Condensed consolidated financial statements of mBank S.A. Group for the first quarter of 2022.

35. Other information

■ Requirements on mBank Group capital ratios as of 31 March 2022

The minimum required level of capital ratios at the end of 31 March 2022 amounted to:

- Individual total capital ratio: 13.50% and Tier 1 capital ratio: 10.88%
- Consolidated total capital ratio: 13.17% and Tier 1 capital ratio: 10.64%.

At the date of approval 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.

■ Transitional arrangements in response to the COVID-19 pandemic

As of 31 March 2022 mBank included transitional provisions regarding the temporary treatment of unrealized gains and losses on financial instruments measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, contained in the regulation of the European Parliament and of the Council (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic in the calculation of own funds, capital ratios and leverage ratio for the first time.

The application of the transitional provisions is intended to mitigate the negative impact of unrealized losses on government and local government debt instruments during the COVID-19 pandemic and the decision to apply them means that the Bank will be able to limit the impact of significant part of the volatility of the market valuation of the government and local government bonds portfolio.

mBank S.A. Group

Consolidated financial report for the first quarter of 2022

Condensed stand-alone financial statement of mBank S.A. for the first quarter of 2022

(PLN thousand)

The measures reported calculated taking into account the transitional provisions as well as measures calculated without taking into account the transitional provisions are presented below.

	31.03.2022		31.12.2021	
	Measures reported	Measures calculated without taking into account transitional provisions	Measures reported	Measures calculated without taking into account transitional provisions
Common Equity Tier I capital (PLN thousand)	12 779 123	12 402 871	13 529 356	13 061 828
Tier I capital (PLN thousand)	12 779 123	12 402 871	13 529 356	13 061 828
Own funds (PLN thousand)	15 079 881	14 703 629	15 849 040	15 381 512
Common Equity Tier I ratio (%)	15.62	15.20	16.23	15.67
Tier I capital ratio (%)	15.62	15.20	16.23	15.67
Total capital ratio (%)	18.43	18.02	19.01	18.45
Leverage ratio (%)	6.09	5.92	6.53	6.32

36. Events after the balance sheet date

From 31 April 2022 until the date of approval of these condensed financial statements, no events occurred, which would require additional disclosure in these condensed financial statements.