mBank S.A.
IFRS Financial Statements
2022

Official Financial Statements of mBank S.A. for 2022 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Financial Statements of mBank S.A. for 2022, but was prepared on the basis of the original prepared in the ESEF format and is a copy of it. This document was not the subject of the attestation procedures performed by the statutory auditor

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

Selected financial data

The selected financial data are supplementary information to these financial statements of mBank S.A. for 2022.

SELECTED FINANCIAL DATA		PLN thousand		EUR thousand	
		Year ended 31 December		Year ended 31 December	
		2022	2021 - restated	2022	2021 - restated
I.	Interest income	8 837 715	3 901 513	1 885 057	852 324
II.	Fee and commission income	2 823 719	2 510 045	602 291	548 344
III.	Net trading income	71 895	78 317	15 335	17 109
IV.	Operating profit	782 860	(273 324)	166 982	(59 710)
V.	Profit (loss) before income tax	(59 529)	(680 227)	(12 697)	(148 602)
VI.	Net profit (loss)	(696 724)	(1 215 353)	(148 609)	(265 506)
VII.	Cash flows from operating activities	6 325 892	9 863 509	1 349 293	2 154 781
VIII.	Cash flows from investing activities	(392 988)	(417 555)	(83 823)	(91 219)
IX.	Cash flows from financing activities	(2 239 579)	(1 218 481)	(477 695)	(266 189)
X.	Net increase / decrease in cash and cash equivalents	3 693 325	8 227 473	787 775	1 797 373
XI.	Basic earnings / (losses) per share (in PLN/EUR)	(16.43)	(28.68)	(3.50)	(6.27)
XII.	Diluted earnings / (losses) per share (in PLN/EUR)	(16.41)	(28.63)	(3.50)	(6.25)
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA		PLN thousand		EUR thousand	
		As at		As at	
		31.12.2022	31.12.2021 - restated	31.12.2021	31.12.2021 - restated
I.	Total assets	203 975 778	190 708 308	43 492 564	41 463 736
II.	Amounts due to other banks	3 305 751	5 326 622	704 866	1 158 112
III.	Amounts due to customers	174 000 911	157 045 374	37 101 199	34 144 752
IV.	Equity	12 497 196	13 381 823	2 664 704	2 909 471
V.	Registered share capital	169 734	169 540	36 191	36 861
VI.	Number of shares	42 433 495	42 384 884	42 433 495	42 384 884
VII.	Book value per share (in PLN/EUR)	294.51	315.72	62.80	68.64
VIII.	Total capital ratio (%)	19.4	19.0	19.4	19.0
IX.	Common Equity Tier I capital ratio (%)	16.4	16.2	16.4	16.2

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 December 2022: EUR 1 = PLN 4.6899 and 31 December 2021: EUR 1 = PLN 4.5994;
- for items of the income statement and statement of cash flows – 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 2022 and 2021: EUR 1 = PLN 4.6883 and EUR 1 = PLN 4.5775, respectively.

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INCOME STATEMENT

	Note	Year ended 31 December	
		2022	**2021 - restated**
Interest income, including:	5	8 837 715	3 901 513
Interest income accounted for using the effective interest method		*8 667 715*	*3 431 357*
Income similar to interest on financial assets at fair value through profit or loss		*170 000*	*470 156*
Interest expenses	5	(3 094 862)	(257 066)
Net interest income		**5 742 853**	**3 644 447**
Fee and commission income	6	2 823 719	2 510 045
Fee and commission expenses	6	(783 433)	(712 664)
Net fee and commission income		**2 040 286**	**1 797 381**
Dividend income	7	48 736	30 095
Net trading income	8	71 895	78 317
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	(46 034)	3 744
Gains less losses from derecognition of assets and liabilities not measured at fair value through profit or loss	10	(96 603)	76 622
Other operating income	11	70 319	44 314
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(646 132)	(782 861)
Result on provisions for legal risk related to foreign currency loans	34	(3 112 265)	(2 758 079)
Overhead costs	12	(2 621 691)	(1 817 885)
Depreciation		(402 729)	(376 780)
Other operating expenses	13	(265 775)	(212 639)
Operating profit (loss)		**782 860**	**(273 324)**
Tax on the Bank's balance sheet items		(651 954)	(577 565)
Share in profits (losses) of entities under the equity method	23	(190 435)	170 662
Profit (loss) before income tax		**(59 529)**	**(680 227)**
Income tax expense	15	(637 195)	(535 126)
Net profit (loss)		**(696 724)**	**(1 215 353)**

Earnings (losses) per share (in PLN)	**16**	**(16.43)**	**(28.68)**
Diluted earnings (losses) per share (in PLN)	**16**	**(16.41)**	**(28.63)**

Notes presented on pages 10–156 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2022 (PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2022	2021
Net profit (loss)		**(696 724)**	**(1 215 353)**
Other comprehensive income net of tax, including:		**(200 770)**	**(1 881 075)**
Items that may be reclassified subsequently to the income statement	**17**	**(204 249)**	**(1 899 220)**
Exchange differences on translation of foreign operations (net)		6 129	4 803
Cash flows hedges (net)	17	(199 646)	(901 645)
Share of other comprehensive income of entities under the equity method (net)	17	(92 514)	(28 110)
Debt instruments at fair value through other comprehensive income (net)	17	81 782	(974 268)
Items that will not be reclassified to the income statement		**3 479**	**18 145**
Actuarial gains and losses relating to post-employment benefits (net)	17	3 479	6 709
Reclassification to investment properties (net)	17	-	11 436
Total comprehensive income (net)		**(897 494)**	**(3 096 428)**

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IFRS Financial Statements 2022 (PLN thousand)

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2022	31.12.2021 - restated	01.01.2021 - restated
Cash and balances with the Central Bank	18	15 906 492	12 087 608	3 939 298
Financial assets held for trading and derivatives held for hedges	19	2 589 681	2 581 174	2 493 535
Non-trading financial assets mandatorily at fair value through profit or loss, including:	20	878 995	1 221 063	1 585 029
Equity instruments		*121 416*	*148 466*	*136 480*
Debt securities		*45 009*	*81 128*	*76 068*
Loans and advances to customers		*712 570*	*991 469*	*1 372 481*
Financial assets at fair value through other comprehensive income, including:	21	53 842 726	54 162 657	47 731 612
Debt securities		34 420 653	35 971 403	35 216 599
Loans and advances to customers		19 422 073	18 191 254	12 515 013
Financial assets at amortised cost, including:	22	123 405 293	113 949 598	109 230 985
Debt securities		*20 206 976*	*16 632 915*	*15 952 501*
Loans and advances to banks		*15 392 870*	*11 194 916*	*10 845 844*
Loans and advances to customers		*87 805 447*	*86 121 767*	*82 432 640*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19	-	(110 033)	(10 986)
Investments in subsidiaries	23	2 057 455	2 357 068	2 204 922
Non-current assets and disposal groups classified as held for sale	24	26 747	31 247	-
Intangible assets	25	1 209 722	1 111 479	1 013 746
Tangible assets	26	1 172 714	1 204 680	1 246 496
Investment properties	27	136 909	127 510	-
Current income tax assets		28 302	28 077	22 826
Deferred income tax assets	32	1 145 916	721 324	206 924
Other assets	28	1 574 826	1 234 856	1 069 634
TOTAL ASSETS		**203 975 778**	**190 708 308**	**170 734 021**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and derivatives held for hedges	19	2 075 013	2 044 601	1 414 374
Financial liabilities measured at amortised cost, including:	29	185 551 517	172 634 071	149 315 812
Amounts due to banks		*3 305 751*	*5 326 622*	*5 878 877*
Amounts due to customers		*174 000 911*	*157 045 374*	*133 774 946*
Lease liabilities		*955 436*	*953 996*	*748 497*
Debt securities issued		*4 548 698*	*6 683 623*	*6 335 165*
Subordinated liabilities		*2 740 721*	*2 624 456*	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19	(1 528 582)	(1 055 478)	48 638
Liabilities classified as held for sale	24	7 375	7 425	-
Provisions	31	1 287 578	863 829	547 008
Current income tax liabilities		594 203	54 467	225 029
Deferred income tax liabilities	32	-	89	89
Other liabilities	30	3 491 478	2 777 481	2 715 379
TOTAL LIABILITIES		**191 478 582**	**177 326 485**	**154 266 329**
EQUITY				
Share capital:		**3 604 778**	**3 593 944**	**3 587 035**
Registered share capital	37	169 734	169 540	169 468
Share premium	38	3 435 044	3 424 404	3 417 567
Retained earnings:	39	**10 554 212**	**11 248 903**	**12 460 606**
- Profit from previous years		11 250 936	12 464 256	12 367 559
- Profit (loss) for the current year		(696 724)	(1 215 353)	93 047
Other components of equity	**40**	**(1 661 794)**	**(1 461 024)**	**420 051**
TOTAL EQUITY		**12 497 196**	**13 381 823**	**16 467 692**
TOTAL LIABILITIES AND EQUITY		**203 975 778**	**190 708 308**	**170 734 021**

Notes presented on pages 10–156 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2022 (PLN thousand)

STATEMENT OF CHANGES IN EQUITY

Changes from 1 January to 31 December 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**	**12 464 256**	**(1 215 353)**	**(1 461 024)**	**13 381 823**
Transfer of profit/loss from previous year			(1 215 353)	1 215 353		
Total comprehensive income	**-**	**-**	**-**	**(696 724)**	**(200 770)**	**(897 494)**
Issuance of ordinary shares	194	-	-	-	-	194
Stock option program for employees	**-**	**10 640**	**2 033**	**-**	**-**	**12 673**
value of services provided by the employees	-	-	*12 673*	-	-	*12 673*
settlement of exercised options	-	*10 640*	*(10 640)*	-	-	-
Equity as at 31 December 2022	**169 734**	**3 435 044**	**11 250 936**	**(696 724)**	**(1 661 794)**	**12 497 196**

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**	**12 367 559**	**93 047**	**420 051**	**16 467 692**
Transfer of profit/loss from previous year			93 047	(93 047)		
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**
value of services provided by the employees	-	-	*10 487*	-	-	*10 487*
settlement of exercised options	-	*6 837*	*(6 837)*	-	-	-
Equity as at 31 December 2021	**169 540**	**3 424 404**	**12 464 256**	**(1 215 353)**	**(1 461 024)**	**13 381 823**

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IFRS Financial Statements 2022 (PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2022	2021 - restated
Profit (loss) before income tax		**(59 529)**	**(680 227)**
Adjustments:		***6 385 421***	***10 543 736***
Income taxes paid		(445 321)	(818 904)
Depreciation	25,26	416 942	389 157
Foreign exchange (gains) losses related to financial activities		417 355	222 425
(Gains) losses on investing activities		176 147	(155 925)
Change of valuation of investment in subsidiaries not measured at equity method	23	16 664	(78)
Dividends received	7	(48 736)	(30 095)
Interest income (income statement)	5	(8 837 715)	(3 901 513)
Interest expense (income statement)	5	3 094 862	257 066
Interest received		8 627 821	4 144 788
Interest paid		(2 386 782)	(226 000)
Changes in loans and advances to banks		(4 164 983)	(279 558)
Changes in financial assets and liabilities held for trading and hedging derivatives		(1 003 109)	(1 572 774)
Changes in loans and advances to customers		(2 686 686)	(8 947 247)
Changes in debt securities at fair value through other comprehensive income		1 720 262	(2 144 622)
Changes in securities at amortised cost		(3 550 758)	(753 545)
Changes in non-trading equity securities mandatorily at fair value through profit or loss		63 169	(17 046)
Changes in other assets		(314 201)	(35 836)
Changes in amounts due to banks		(2 147 960)	780 685
Changes in amounts due to customers		16 565 635	23 283 907
Changes in lease liabilities		4 195	(25 345)
Changes in issued debt securities		(308 957)	(62 715)
Changes in provisions		427 216	316 821
Changes in other liabilities		750 361	120 090
A. Cash flows from operating activities		**6 325 892**	**9 863 509**
Disposal of shares in subsidiaries		122	5 147
Disposal of intangible assets and tangible fixed assets		5 251	833
Dividends received	7	48 736	30 095
Acquisition of shares in subsidiaries	23	-	(17 039)
Purchase of intangible assets and tangible fixed assets		(447 097)	(436 591)
B. Cash flows from investing activities		**(392 988)**	**(417 555)**
Issue of debt securities	29	939 230	2 309 950
Issue of ordinary shares		194	72
Repayments of loans advances from banks		-	(1 358 250)
Redemption of debt securities		(2 969 117)	(2 020 661)
Payments due to lease agreements		(115 395)	(89 901)
Interest paid from loans and advances received from banks and from subordinated liabilities		(94 491)	(59 691)
C. Cash flows from financing activities		**(2 239 579)**	**(1 218 481)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**3 693 325**	**8 227 473**
Effect of exchange rate changes in cash and cash equivalents		4 020	(9 649)
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	**42**	**16 120 301**	**12 422 956**

Notes presented on pages 10–156 constitute an integral part of these Financial Statements.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. Information regarding mBank S.A.

The bank operates under the name mBank S.A. with its registered office in Poland, 00-850 Warsaw, 18 Prosta Street, under the number 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 legal and natural persons, domestic and foreign, both in 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 the Czech Republic and Slovakia through its foreign mBank branches in these countries.

As at 31 December 2022, the headcount of mBank S.A. amounted to 6 382 FTEs (Full Time Equivalents) (31 December 2021: 6 075 FTEs).

As at 31 December 2022, the headcount of mBank S.A. amounted to 7 387 persons (31 December 2021: 7 088 persons).

The Management Board of mBank S.A. approved these financial statements on 28 February 2023.

2. Description of relevant accounting policies

The principal accounting policies used in the preparation of these financial statements are set forth below. These accounting policies have been applied consistently in all periods presented, except for accounting policies concerning hedge accounting. For accounting policy for hedge accounting until 30 June 2022 the Group applied the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9. Starting 1 July 2022 the Bank applies IFRS 9 requirements in the area of hedge accounting to all hedge relations except for fair value portfolio hedges of interest rate risk where the hedged item is designated as portion that is a currency amount. The above change in accounting policy, as required by IFRS 9, was implemented prospectively from 1 July 2022 and did not have a material impact on the Bank's financial statements. In particular, no hedge relationships were discontinued as a result of this change. New accounting policies are presented in Note 2.11. In addition, the Bank changed the presentation of certain items in the statement of financial position. These changes are described in Note 2.30.

2.1. Accounting basis

These Financial Statements of mBank S.A. have been prepared for the 12-month period ended 31 December 2022. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2021.

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

The data for the year 2021 presented in these financial statements was audited by the auditor, except for the restated data presented in Note 2.31.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 4.

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 the 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 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.

The Management Board, in its assessment of the appropriateness of the going concern assumption for the Bank, considered, inter alia, net loss incurred by the Bank in 2022 in the amount of PLN 696 724 thousand. This loss results mainly from the legal risk costs related to FX loans in the amount of PLN 3 112.3 million (as described in detail in the Note 34), impact of credit holidays in the amount of PLN 1 334.4 million (Note 4), contributions to Institutional Protection Scheme in the amount of PLN 428.1 million and to the Borrowers Support Fund in the amount of PLN 162.5 million (Note 12).

The results for 2022 were influenced by extraordinary events listed above. The profitability of core business model of the Bank in 2022 after eliminating the impact of those events remained high.

It should be emphasised that despite the net loss in 2022, in accordance with the applicable provisions regarding recovery plans, in particular Article 142(2) of the Banking Law, the prerequisite related to significant deterioration of the financial situation of the Bank and the Group has not been met. Recovery plan indicators in the areas of liquidity, capital and assets quality demonstrate the safe situation of the Bank and the Group.

Therefore, 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 at least 12 months from the reporting date.

The Bank also prepares consolidated financial statements in accordance with IFRS. mBank S.A. Group Consolidated Financial Statements for the year 2022 were approved on 28 February 2023.

2.2. Interest income and expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method, as well as interest income from financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income, are recognised in the income statement.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial assets or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual terms of the financial instrument, but without taking into account the expected credit losses. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

The Bank calculates interest income using the effective interest rate on the gross carrying amount of the financial asset except for the financial assets which subsequently have become credit-impaired. In case of reclassification of a financial asset or a group of similar financial assets to Stage 3, the interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance) and recognised using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognised in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognised in the income statement and on the other side in the statement of financial position as part of receivables from banks or from other customers.

Amounts calculated with the use of negative interest rates are qualified accordingly to interest income in case when they relate to financial liabilities, and to interest expenses when they relate to financial assets.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position Interest income/expense on derivatives under the fair value hedge.

Interest income related to the interest measurement component of derivatives concluded as hedging instruments under cash flow hedge are presented in the interest result in the position Interest income on derivatives under the cash flow hedge.

2.3. Fee and commission income

Fee and commission income is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, which consists of:

Step 1: Identifying the contract with a customer

The Bank accounts for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

1. the parties to the contract have approved the contract (in writing, orally or in accordance with business practices) and are committed to perform their respective obligations;
2. the Bank can identify each party’s rights regarding the goods or services to be transferred;
3. the Bank can identify the payment terms for the goods or services to be transferred;
4. the contract has commercial substance (i.e. the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and
5. it is probable that the Bank will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Bank considers only the customer’s ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the Bank may offer the customer a price discount.

Step 2: Identifying performance obligations in the contract

The performance obligation is a promise (presumed or specified) to provide the client with goods or services that are identified at the time of entering into the contract on the basis of contractual terms as well as the Bank’s business practice.

At contract inception, the Bank assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

1. a good or service (or a bundle of goods or services) that is distinct; or
2. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

1. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
2. the Bank’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).

The Bank identifies options for purchasing additional goods or services for the customer (loyalty points) as separate obligations to provide benefits, if they give the customer relevant rights (material law, which the client would not have obtained if he did not conclude the contract).

If a third party is involved in the process of providing selected services for the client, the Bank assesses whether it acts as an agent or principal, taking into account in particular the possibility of controlling the given service before it is passed on to the client (control principle).

Step 3: Determining the transaction price

The transaction price reflects the amount of consideration that the Bank expects to be entitled to in exchange for distinct good or service transferred as provided by the terms of the contract and the Bank’s business practice.

The transaction price is the amount of remuneration which, in line with the Group's expectations, will be due in exchange for transfer of promised goods or services to the client, excluding amounts collected on behalf of third parties.

Determining the transaction price can become complex where a contract includes any of the following: variable consideration, a significant financing component, non-cash consideration, consideration payable to a customer. In terms of variable remuneration (e.g. rebates from payment organisations), the Bank estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised services.

Step 4: Allocating the transaction price to the performance obligations

The transaction price is allocated to each separate performance obligation, or distinct good or service, so that revenue is recorded at an amount that depicts the amount of consideration that the Bank expects to be entitled to in exchange for transferring the promised goods or services. The transaction price is allocated to each performance obligation based on a relative stand-alone selling price.

Step 5: Recognition of revenue when (or as) the Bank satisfies a performance obligation

The Bank recognises revenue when (or as) it satisfies a performing obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The Bank recognises at a point in time the fees charged at a point in time not related directly to origination of loans and advances. Fees for services delivered over time longer than 3 months are recognised by the Bank over time. As the fee and commission income, the Bank treats also fees and commissions recognised over time on a straight line basis, related to loans and advances with not established timing of cash flows, for which effective interest rate is not possible to be determined. Straight line method for those services presents fairly the timing of transfer of services, because they are delivered evenly over time.

Accounting principles related to recognition of fee income from sale of assurance products bundled with loans and advances are described under Note 2.4.

Fees charged for granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and included in the calculation of the effective interest rate charge on the loan at the time of granting. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Bank has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. Portfolio management fees and other fees for management, advisory and other services are recognised on the basis of service contracts, usually in proportion to the passage of time. The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

Fees and commissions collected by the Bank on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for on a straight-line basis.

Fee and commissions collected by the Bank on account of cash management operations, money transfers and brokerage business activities are recognised directly in the income statement as one-off. Fees and commissions for keeping customer accounts are charged monthly and recognised at the time of collection.

In addition, fee and commission income include revenue from a fee on instalment payment for premium on insurance products sold through the Internet platform. The fee on instalment payment is settled in time in accordance with the duration of the policy.

The Bank's fee and commission income comprises also income from offering insurance products of third parties. In case of selling insurance products that are not bundled with loans, the revenues are recognised as upfront income or in majority of cases settled on a monthly basis.

2.4. Revenue and expenses from sale of insurance products bundled with loans

The Bank treats insurance products as bundled with loans, in particular when insurance product is offered to the customer only with the loan, i.e. it is not possible to purchase from the Bank the insurance product which is identical in a legal form, content and economic conditions without purchasing the loan.

Revenue and expenses 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 interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly deferred over time based on the analysis of the stage of completion of the service, in accordance with 5-step model described above.

Expenses directly linked to the sale of insurance products are recognised using the same pattern as in the case of income observing the matching concept. A part of expenses is treated as an element adjusting the calculation of effective interest rate for interest income and the remaining part of expenses is recognised in fee and commission expenses as upfront cost or as cost accrued over time.

The Bank estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

2.5. Financial assets

The Bank classifies its financial assets to the following categories: financial assets valued at fair value through profit or loss, financial assets valued at fair value through other comprehensive income and financial assets valued at amortised cost. Classification of the debt financial asset to the one of the above categories takes place at its initial recognition based on business model for managing financial assets and contractual cash flow characteristics. An equity instrument is classified as a financial asset at fair value through profit or loss unless at the time of initial recognition the Bank made an irrevocable election of specific equity investments to present subsequent fair value changes in other comprehensive income.

Standardised purchases and sales of financial assets at fair value through profit or loss and measured at fair value through other comprehensive income are recognised on the settlement date – the date on which the Bank delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value are recognised in profit or loss or in other components of equity. Loans are recognised when the funds are disbursed or made available to the borrower's account. Derivative financial instruments are recognised beginning from the date of transaction.

Derecognition of financial asset is when and only when the contractual rights to the cash flows from the financial assets expire, when the Bank transfers the financial asset and the transfer qualifies for derecognition or in case of a substantial modification of financial asset.

Financial assets measured at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

Disposals of debt and equity securities held for trading are accounted according to the weighted average cost method.

The Bank may, at the initial recognition, irrevocably designate a financial asset at fair value through profit or loss when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

As presented in this financial statements reporting periods, the Bank did not designate any financial instrument on initial recognition as financial assets at fair value through profit or loss to reduce an accounting mismatch.

Financial assets classified to this category are valued at fair value upon initial recognition.

After initial recognition, financial assets classified in this category are measured at the end of the reporting period at fair value.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement in the period in which they arise.

Interest income on financial assets measured at fair value through profit or loss (Note 2.2), except for derivatives the recognition of which is discussed in Note 2.11, is recognised in net interest income. The valuation and result on disposal of financial assets measured at fair value through profit or loss is recognised in trading income for financial assets held for trading or in gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding Financial assets at amortised cost are entered into books on the transaction date.

At initial recognition financial assets classified to this category are valued at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. After initial recognition, these assets are measured at amortised cost using the effective interest rate.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are assets that meet both of the following conditions, unless the Bank designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows as well as selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income and expense from financial assets measured at fair value through other comprehensive income are presented in net interest income. Gains and losses from sale of financial assets measured at fair value through other comprehensive income are presented in gains less losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are valued at the end of the reporting period according to their fair value.

Gains and losses arising from changes in the fair value of debt financial assets measured at fair value through other comprehensive income are recognised in other comprehensive income until the derecognition of the respective financial asset in the statement of financial position: at such time the aggregate net gain or loss previously recognised in other comprehensive income is now recognised in the income statement. However, interest calculated using the effective interest rate is recognised in the income statement.

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the Bank determines the fair value by applying valuation techniques. These comprise recently conducted transactions concluded according to normal market principles, reference to other instruments, discounted cash flow analysis, as well as valuation models for options and other valuation methods generally applied by market participants.

Equity instruments

Investments in equity instruments are measured at fair value through profit or loss. Upon initial recognition, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value (the option of measurement at fair value through other comprehensive income) of an investment in an equity instrument that is not held for trading and does not constitute a contingent payment recognised by the Bank as part of a business combination in accordance with IFRS 3.

In the case of the financial instruments for which the option of measurement at fair value through other comprehensive income was used all gains and losses related to change in fair value, including foreign exchange differences, are recognised in other comprehensive income. There is no possibility to reclassify them to income statement even if the instrument is derecognised. Only dividends received related to these instruments are recognised in income statement when the entity’s right to receive payment is established.

Modification of contractual terms for financial assets

The Bank derecognises financial assets and re-recognises the financial assets in accordance with the measurement requirements for initial recognition in case of substantial modification of contractual terms of financial assets. The Bank defines modification as substantial when it meets one of the following criteria:

- increase of the credit amount of more than 10%,
- prolongation of the contractual maturity of more than 12 months,
- change of currency not provided for in the terms of the contract. Change of the currency provided for in the terms of the agreement is such a change that defines both the FX rate at which it would have place and the interest rate of the loan after the change of the currency,
- change of the borrower – only if the current borrower is exempted from the debt,
- change of the cash flow criterion from ‘SPPI compliance’ of a financial assets to ‘SPPI non-compliance’ and vice versa,
- change of the financed asset in case of object finance or project finance,
- change of the legal form/ type of financial instrument.

In the event of substantial modification the deferred income and expense related to such asset is recognised in the income statement and the provision is released. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as non-substantial modifications and the gain or loss on modification is recognised. The effect of all identified non-substantial modifications of cash flows are recognised in net interest income. The result on modification is the difference between present value of the modified cash flows discounted using the original effective interest rate and the gross carrying amount of loan before modification. Commissions received related to minor modification are settled over time using effective interest rate. In case of substantial modification in Stage 2, for which as a consequence, the exposure was moved to Stage 1, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

In the case of contract terms’ modification as a result of a market-wide reform of interest rate benchmark, including the replacement of the interest rate benchmark with an alternative benchmark, when:

- the basis for determining contractual cash flows has changed in the contract and the new basis is considered economically equivalent to the old basis, such change is recognised through a change in the effective interest rate;
- changes concern other areas, or have not been considered economically equivalent, such changes are recognised on general principles, in particular they are evaluated for a substantial modification.

Purchased or originated credit impaired financial assets (POCI assets)

POCI are financial assets measured at amortised cost that at initial recognition are credit impaired. POCI are also financial assets that are credit impaired at the moment of substantial modification. At the initial recognition POCI assets are recognised at fair value. The fair value of POCI assets at the initial recognition is calculated as present value of estimated future cash flows including credit risk discounted for the risk free rate. After the initial recognition POCI assets are measured at amortised cost. With respect to these financial assets the Bank uses credit adjusted effective interest rate in order to determine the amortised cost of financial asset and the interest income generated by these assets – CEIR. In case of POCI exposures the change of the expected credit losses relative to the estimated credit losses at the date of their initial recognition is recognised as an impairment loss. Its value can both reduce the gross book value of POCI exposure and increase it in the event of a decrease of expected losses relative to its value at the date of initial recognition.

Reclassification of financial assets

Debt financial assets are reclassified when, and only when, the Bank changes its business model for managing financial assets. In such a case the assets affected by the change of business model are subject to reclassification.

Financial liabilities are not subject to reclassification by the Bank.

2.6. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The conditions mentioned above are not satisfied and offsetting is inappropriate when: different financial instruments are used to emulate the features of a single financial instrument, financial assets and liabilities arise from financial instruments having the same risk exposure but involve different counterparties, financial or other assets are pledged as collaterals for non-recourse financial liabilities, financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in the settlement of the obligation, or obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

2.7. Impairment of financial assets

Financial instruments subject to estimation of expected credit losses are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss, financial guarantee contracts if not measured at fair value through profit or loss, leases under IFRS 16, contract assets under IFRS 15.

A detailed description of issues regarding the principles of estimation of expected credit losses is presented in Note 3.3.6.

How exposures are classified to Stages

The Transfer Logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI.

- Stage 1 includes exposures for which expected credit losses are calculated on a 12-month basis.
- Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – expected credit losses are calculated over a lifetime period.
- Stage 3 contains exposures identified as credit-impaired.
- Stage POCI contains assets identified as credit-impaired at initial recognition.

A detailed description of issues regarding the principles of classification of exposures to stages is presented in Note 3.3.6.1.

Significant deterioration in credit quality

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Rebuttable presumption

The Bank's approach that involves rejection of the presumption that a significant deterioration in credit quality occurs where DPD≥31 days (rebuttable presumption) involves introducing thresholds of materiality (thresholds of activation) for any outstanding amount payable to the Bank. The DPD≥31 days criterion (one of the qualitative criteria of the Transfer Logic) is not taken into account if at least one of the following conditions is not met:

1. the past due exposure amount exceeds PLN 400 for retail exposures in Polish branch and exposures of Private Banking debtors, registered in corporate systems, CZK 2,500 for retail exposures in the foreign branch of the Bank in Czech Republic, EUR 100 for retail exposures in the foreign branch of the Bank in Slovakia and PLN 2,000 for exposures in the area of corporate and investment banking,
2. the ratio of the past due exposure amount to the total balance sheet exposure amount exceeds 1%.

A detailed description of issues regarding the significant deterioration in credit quality is presented in Note 3.3.6.1.1.

Low credit risk

According to the IFRS 9, the Bank distinguishes a category of assets with low credit risk (ang. Low Credit Risk, LCR). Assets marked as LCR are not subject to the process of identifying indications of significant deterioration of credit quality (if they are not in the default status, they are in Stage 1).

A detailed description of issues regarding the low credit risk criteria is presented in Note 3.3.6.1.2.

Impairment

The Bank applies a common default definition in all areas of credit risk management, including for the purpose of calculating expected credit losses and capital requirement. The basis for the adopted definition of default is the definition of default 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 amending regulation (EU) No 648/2012 with further amendments ("CRR Regulation").

The customer is reclassified to the default category in case of loss event occurrence. Reclassification of at least one customer credit liability to the default category reclassifies all credit and non-credit liabilities of the customer to the default category.

A detailed description of issues regarding loss events is presented in Note 3.3.6.1.3 (corporate) and 3.3.6.1.4 (retail).

Estimating expected credit losses (ECL)

An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for on and off-balance-sheet exposures. The calculation of expected credit losses uses:

- portfolio approach: concerning all exposures for which no loss event was identified at the reporting date and exposures with identified loss event to natural persons and sole proprietorship handled in the transaction system dedicated to the retail portfolio,
- individual approach: concerning all corporate exposures and all Private Banking customer exposures registered in corporate systems for which a loss event was identified.

A detailed description of issues regarding expected credit losses estimation is presented in Note 3.3.6.2.

Loan receivable write-off

Loan receivable write-off can be partial (corporate banking) or total. In case of retail banking, writing off receivables can be done when:

1. debt recovery procedure is not possible due to e.g.:
    a. the claim limitation,
    b. fraud – inability to identify the debtor,
    c. limitation of inheritors' liability,
    d. the claim was questioned by the debtor in court.

2. debt is irrevocable e.g.:
   a. the enforcement proceedings have been completed and the whole debt was not recovered - then the unrecovered portion is written off,
   b. bankruptcy proceeding has been rejected or has been completed due to debtor's lack of liquidation assets to cover the costs of the proceedings,
   c. the conclusion is that a claim is irrevocable – costs of recovery are higher than recovered claim,
   d. limitation of heirs' liability for inheritance debts.

Cases that meet these criteria may also be included in the process of debt portfolio sale.

In the case of corporate portfolio, writing off receivables is carried out when all recovery options are exhausted. This happens when:

1. all options to recover the debt have been exercised:
   a. bankruptcy proceedings ended, the debtor was removed from the National Court Register and the debt was not recovered in whole,
   b. bankruptcy proceedings were discontinued on account of the debtor having no assets to cover the costs of the proceedings or having only enough assets to cover these costs,
   c. petition for bankruptcy was dismissed on account of the debtor having insufficient assets to cover the costs of the proceedings,
   d. during judicial restructuring proceedings the terms and conditions of an arrangement assuming partial cancellation of the debt were approved,
   e. enforcement proceedings were considered ineffective and discontinued on account of the debtor having no assets,
   f. the debt was considered irrecoverable as the costs of recovering it exceed the potential proceeds;
2. it is impossible to pursue the debt, e.g.:
   a. the debtor challenges the debt in court. The debt is cancelled by a court decision,
   b. the statute of limitations on the Bank's claim.

Cases that meet these criteria may also be included in the process of debt portfolio sale.

2.8. Financial guarantee contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract subsequently measures it at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9, the methodology is described in Note 3.3.6 Calculating expecting credit,
- the amount initially recognised less when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

2.9. Cash and cash equivalents

Cash and cash equivalents comprise items with maturities of up to three months from the date of their acquisition, including: cash in hand and cash held at the Central Bank with unlimited availability for disposal, treasury bills and other eligible bills, amounts due from other banks.

2.10. Sell and repurchase agreements

Repo and reverse-repo transactions are defined as selling and purchasing securities for which a commitment has been made to repurchase or resell them at a contractual date and for a specified contractual price and are recognised when the money is transferred.

Securities sold with a repurchase clause (repos or sell/buy back) are not eliminated from the statement of financial position. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos or buy/sell back) are recognised as loans and advances to other banks or other customers, depending on their nature. For assets subject to repurchase agreements, the Bank is exposed to the same risks as those associated with holding identical assets not subject to repurchase agreements.

When concluding a repo or sell/buy back or reverse repo or buy/sell back transaction, Bank sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the statement of financial position as financial assets measured at fair value through profit or loss or at fair value through other comprehensive income, and also as liabilities in the case of repo or sell/buy back transactions and as receivables in the case of reverse repo or buy/sell back transactions measured at amortised cost.

Securities borrowed by the Bank under buy/sell back transactions are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded in the financial statements with a gain or a loss included in trading income. The obligation to return them is recorded at fair value as amounts due to customers. Securities borrowed under buy/sell back transactions and then lent under sell/buy back transactions are not recognised as financial assets.

As a result of repo or sell/buy back transactions concluded on securities held by the Bank, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Bank retains substantially all risks and rewards of ownership of the financial assets.

2.11. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised at fair value from the date of transaction. Fair value is determined based on prices of instruments listed on active markets, including recent market transactions, and on the basis of valuation techniques, including models based on discounted cash flows and options pricing models, depending on which method is appropriate in the particular case. All derivative instruments with a positive fair value are recognised in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.12.

The hybrid contract in which derivative instrument is embedded in the host is a financial asset within the scope of IFRS 9. Such a derivative instrument is not separated and the hybrid contract is recognised in accordance with the requirements for classification of the financial assets.

Derivative instrument embedded in the hybrid contract, the host of which is not a financial asset within the scope of IFRS 9, is assessed for the need to separate it.

Derivative instruments, which are designated and constitute effective hedging instruments, are not classified under any of the categories specified above and are subject to the principles of hedge accounting.

In accordance with IFRS 9: (i) there is no need to separate the prepayment option from the host debt instrument for the needs of financial statements, if the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the prepayment option does not meet the contractual cash flow characteristic test, then the financial asset as a whole shall be classified as a financial asset measured at fair value through profit or loss; (ii) exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a host debt instrument in accordance with IAS 32.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Bank designates some derivative instruments either as (1) fair value hedges against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedges against highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Until 30 June 2022, the Bank used the option of applying hedge accounting requirements in line with IAS 39 instead of the requirements set out in IFRS 9. Starting 1 July 2022 the Bank accounting policies regarding hedge accounting were changed according with IFRS 9 to all hedge relations except for fair value portfolio hedges of interest rate risk where the hedged item is designated as portion that is a currency amount.

The hedge relations, that starting 1 July 2022 are accounted for in line with IFRS 9, qualifies for hedge accounting provided that:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements,
- the hedging relationship meets all of the following hedge effectiveness requirements:
  - there is an economic relationship between the hedged item and the hedging instrument;
  - the effect of credit risk does not dominate the value changes that result from that economic relationship; and
  - the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

The IFRS 9 introduces also the option to recognise in a separate component of equity part of the fair value of the hedging derivative instrument related to time value of option, forward element of a forward contract or currency basis spread, and reclassify it to profit or loss in the same periods during which the hedged expected future cash flows affect profit or loss. The Bank takes advantage of this option and includes in the line „Other components of equity" fair value changes of hedging CIRS contracts in the amount attributable to currency basis spread, provided that such fair value changes were not designated as part of the hedge relation.

The above change in accounting policy, as required by IFRS 9, was implemented prospectively from 1 July 2022 and did not have a material impact on the Bank's financial statements. In particular, no hedge relationships were discontinued as a result of this change.

With regard to hedge relations recognised in line with IAS 39, hedge accounting is applied provided that the following criteria are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Bank documents the objectives of risk management and the strategy of concluding hedging transactions, as well as at the time of concluding the respective transactions, the relationship between the hedging instrument and the hedged item. The Bank also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Due to the split of derivatives classified into banking book and into trading book, the Bank applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.2. The remaining result from fair value measurement of derivatives is recognised in Net trading income.

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item.

In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in other comprehensive income until the disposal of the equity security.

Cash flow hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

The amounts recognised in other comprehensive income are transferred to the income statement and recognised as income or cost of the same period in which the hedged item will affect the income statement (e.g., at the time when the forecast sale that is hedged takes place).

In case the hedging instrument has expired or has been sold, or the hedge has ceased to fulfil the criteria of hedge accounting, any aggregate gains or losses recognised at such time in other comprehensive income remain in other comprehensive income until the time of recognition in the income statement of the forecast transaction. When a forecast transaction is no longer expected to occur, the aggregate gains or losses recorded in other comprehensive income are immediately transferred to the income statement.

Derivative instruments not designated to the hedge accounting

Changes of the fair value of derivative instruments that are not designated to hedge accounting are recognised in the income statement of the current period.

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:

- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:

- Currency forwards, FX swap, FX forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options.

2.12. Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The transaction for which the fair value determined using a valuation model (where inputs are both observable and non-observable data) and the transaction price differ, the initial recognition is at the transaction price. The Bank assumes that the transaction price is the best indicator of fair value, although the value obtained from the valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit or loss", is amortised over the period of time.

The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit or loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.13. Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include borrowings, deposits taken, debt securities issued and subordinated liabilities. These liabilities are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, these liabilities are recorded at adjusted cost of acquisition (amortised cost using the effective interest method). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognised in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.14. Investments in subsidiaries

Investments in subsidiaries in the stand-alone financial statements are initially recognised at cost, and then measured using the equity method, whereby the carrying amount of investments in subsidiaries is increased or decreased in order to recognise the Bank's shares in the profit or loss of the subsidiary recorded after the date of acquisition. The Bank's share in the profit or loss of the subsidiary is recognised in the income statement under the item Share in profits (losses) of entities under the equity method. Received dividends reduce the carrying amount of the investment and are recognised under Dividend income. The Bank's share in other comprehensive income of the subsidiary the Bank recognises in other comprehensive income of the Bank. Unrealised gains or losses on transactions with subsidiaries accounted for using the equity method (including, for example, expected credit losses recognised in relation to loans or guarantees granted) are eliminated. Balance sheet balances such as receivables and liabilities or deposits and loans granted to subsidiaries are not eliminated in the stand-alone financial statements. If the Bank's share of losses exceeds the value of shares in a subsidiary, the Bank ceases to recognise its share of further losses. At the balance sheet date the Bank assesses whether there are any triggers indicating impairment of investments made in a subsidiary.

2.15. Intangible assets

The Bank measures intangible assets initially at cost. After initial recognition, intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortisation and any accumulated impairment losses. Amortisation is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (1.5-18 years). Expenses attached to the maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses directly related to the software.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life (1.5-27 years).

Computer software directly connected with the functioning of specific information technology hardware is recognised as “Tangible fixed assets”.

Intangible assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the statement of financial position might not be possible to be recovered.

2.16. Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the income statement in the reporting period in which they were incurred.

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

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Buildings and structures	20-40 years,
Equipment	2-15 years,
Vehicles	4-5 years,
Information technology hardware	2-10 years,
Leasehold improvements	5-20 years, no longer than the period of the lease contract,
Office equipment, furniture	2-10 years.

Land and buildings consist mainly of branch outlets and offices. Residual values estimated useful life periods and depreciation method are verified at the end of the reporting period and adjusted prospectively in accordance with the arising need.

Bank assesses at the end of each reporting period whether there is any indication that tangible asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

If it is not possible to estimate the recoverable amount of the individual asset, the Bank shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

The carrying amount of tangible fixed assets is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of tangible fixed assets are included in profit or loss when the item is derecognised.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the statement of financial position and they are recognised in the income statement.

2.17. Investment properties

Investment properties are defined as land and buildings held for the purpose of earning rental income or because they are expected to increase in value. Investment property also includes right-of-use assets that meet the definition of investment property under IAS 40. On initial recognition investment properties are measured at cost including directly attributable transaction costs.

In subsequent measurements, investment properties are measured at fair value. The fair value of a right-of-use that meets the definition of investment property excludes the value of expected cash outflows from lease payments, which are presented separately in the Bank's statement of financial position as a lease liability in accordance with IFRS 16.

Current income and expenses are recognised in other operating income or expenses. Remeasurement changes arising from changes in fair value are also shown under other operating income or expenses in the income statement for the period. As at the date of reclassification of the property occupied by the Bank to investment property, the difference between the carrying amount of the property determined in accordance with IAS 16 or IFRS 16 and its fair value is recognised by the Bank (i) in the profit or loss account in the event of a decrease in the carrying amount or reversal of a previously recognised impairment loss on this property, or (ii) in other comprehensive income, in the event of an increase in the current value above the amount of the reversed impairment loss. On subsequent disposal of the investment property, the revaluation reserve in other comprehensive income is transferred to retained earnings. The transfer from other comprehensive income to retained earnings is not made through the income statement.

2.18. Non-current assets held for sale and discontinued operations

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of: carrying value and fair value less costs to sell. Assets classified in this category are not depreciated.

When criteria for classification to non-current assets held for sale are not met, the Bank ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Bank measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount at a date before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and;
- its recoverable amount at the date of the subsequent decision not to sell.

Discontinued operations are a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale.

The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.19. Deferred income tax

The Bank creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as Deferred income tax liabilities. A deductible net difference is recognised under Deferred income tax assets. Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item Income Tax or Other comprehensive income, depending on how the basis for deferred taxes is recognised.

Liabilities or assets for deferred income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred income tax.

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortisation of fixed assets and intangible assets, leases, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other post-employment benefits, and also deductible tax losses.

The Bank reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

In the case of the Bank, the deferred income tax assets and provisions are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax. Assets and provisions may be offset if the Bank has the right to include them simultaneously when calculating the amount of the tax liability.

The Bank discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not recognised in the statement of financial position, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred income tax provision has been formed.

Deferred income tax for the Bank is provided on assets or liabilities due to temporary differences arising from investments in subsidiaries and associates, except where, on the basis of any probable evidence, the timing of the reversal of the temporary difference is controlled by the Bank and it is possible that the difference will not reverse in the foreseeable future.

Deferred income tax on account of revaluation of financial instruments measured through other comprehensive income and of revaluation of cash flow hedging transactions is accounted for in the same way as any revaluation, directly in other comprehensive income, and it is subsequently transferred to the income statement when the respective investment or hedged item affects the income statement.

2.20. Assets repossessed for debt

Assets repossessed for debt represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, financial assets or other assets depending on their nature and the Bank's intention in respect of recovery of these assets. In case the fair value of repossessed collateral exceeds the receivable from the debtor, the difference constitutes a liability toward the debtor.

Repossessed assets are subsequently measured and accounted for in accordance with the accounting policies relevant for these categories of assets.

2.21. Prepayments, accruals and deferred income

Prepayments are recorded if the respective expenses concern the months succeeding the month in which they were incurred. Prepayments are presented in the statement of financial position under "Other assets".

Accruals include costs of supplies delivered to the Bank but not yet resulting in its payable liabilities. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities".

2.22. Leasing

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank shall reassess whether a contract is, or contains, a lease if the terms and conditions of the contract are changed.

Transfer of the right-of-use occurs when it concerns an identified asset, for which the lessee possesses the right to obtain substantially all of the economic benefits and it controls the use of the asset throughout the period of use.

mBank S.A. Bank as a lessee

If lease definition is fulfilled, the Bank recognises the right to use of the leased asset and a financial liability representing its obligation to make future lease payments in the amount of discounted future cash flows throughout the lease period.

The Bank as a lessee applies simplified approach and it does not apply the requirements in terms of recognition, measurement and presentation for short-term lease contracts lasting no longer than 12 months for each class of underlying asset as well as for lease contracts for which the underlying asset is of low value, i.e. less than PLN 20 thousand for separate leases. Lease payments are recognised as costs using straight-line method throughout the lease period for lease contracts for which the Bank applies simplified approach.

Perpetual usufruct right is classified as a lease according to IFRS 16 due to the occurrence of future fees for the use of this right. The Bank assumed that the lease period for this type of contracts is the remaining period of the right granted since the transition to IFRS 16.

The Bank shall determine the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Bank as a lessee is reasonably certain to exercise that option, and
- periods covered by an option to terminate the lease if the Bank as a lessee is reasonably certain not to exercise that option.

The Bank shall reassess whether it is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Bank shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Bank shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Bank as a lessee, and that affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Bank shall revise the lease term if there is a change in the non-cancellable period of a lease.

At the commencement date, the Bank as a lessee shall measure the right-of-use asset at cost. The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received,
- initial direct costs incurred by the Bank as a lessee,
- an estimate of the costs to be incurred by the Bank as a lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

After the commencement date, the Bank as a lessee shall measure the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses and,
- adjusted for any remeasurement of the lease liability.

The Bank applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset and requirements in IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired.

At the commencement date, the Bank shall measure the lease liability at the present value of the lease payments that are not paid at that date. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments:

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and,
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease unless it can be assumed with reasonable certainty that the Group will not exercise the termination option.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a customer price index, payments linked to a benchmark interest rate or payments that vary to reflect changes in market rental rates.

After the commencement date, the Bank shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made and,
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Bank discounts lease payments using the interest rate of lease if this rate can be easily determined. Otherwise, the Bank applies the marginal interest rate of lessee. As the lessee the Bank estimates the discount rate taking into account the duration and the currency of the contract.

The discount rates calculated by the Bank were:

- for contracts in EUR: 0.02%,
- for contracts in PLN: 1.95%,
- for contracts in USD: 2.93%,
- for contracts in CZK: 2.19%.

All right-of-use assets are classified in tangible fixed assets (Note 26).

Lease liabilities are presented as financial liabilities measured at amortised cost (Note 29).

Cash payments of lease liabilities are classified in statement of cash flows within financial activities. Short term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified in statement of cash flows within operating activities.

mBank S.A. Bank as a lessor

Operating lease

Bank recognises the lease payments from operating leases as income on a straight-line basis or in another systematic manner. Bank recognises costs, including depreciation, incurred in order to obtain benefits from leasing. Bank adds the initial direct costs incurred in order to obtain operating leasing to the carrying value of the underlying asset and it recognises these costs as expenses incurred throughout the lease period on the same basis as lease revenues. The method of depreciation of leased out depreciable assets should be the same as that foreseen by the normal depreciation rules adopted by the Bank with regard to similar assets, and the depreciation charges should be calculated in accordance with IAS 16 and IAS 38. In order to determine whether there has been any impairment of the object of the lease, the Bank applies IAS 36.

2.23. Provisions

Loan commitments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments. Guarantees' valuation method is presented in Note 2.8.

According to IAS 37, provisions are recognised when Bank has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.24. Post-employment benefits and other employee benefits

Post-employment benefits

Bank forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. Bank uses a principle of recognition of actuarial gains or losses from the measurement of post-employment benefits related to changes in actuarial assumptions in other comprehensive income that will not be reclassified to the income statement. Bank recognises service cost and net interest on the net defined benefit liability in the "Overhead cost" and in other interest expenses, respectively.

Equity-settled share-based payment transactions

Bank runs programmes of remuneration based on and settled in own shares. Equity-settled share-based payment transactions are accounted for in compliance with IFRS 2 Share-based Payment. In case of the part of the programme settled in shares, the fair value of the service rendered by employees in return for options and shares granted increases the costs of the respective period corresponding to own equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options and shares to become exercisable are vested is determined on the basis of the fair value of the granted options and shares. There are no market vesting conditions that shall be taken into account when estimating the fair value of share options and shares at the measurement date. Non-market vesting conditions are not taken into account when estimating the fair value of share options and shares but they are taken into account through adjustment on the number of equity instruments. At the end of each reporting period, Bank revises its estimates of the number of options and shares that are expected to become exercised. In accordance with IFRS 2 it is not necessary to recognise the change in fair value of the share-based payment over the term of the programmes.

2.25. Equity

Equity consists of capital and own funds created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Bank by-laws.

Registered share capital

Share capital is presented at its nominal value, in accordance with the by-laws and with the entry in the business register.

Own shares

In the case of acquisition of shares in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

Share premium is formed from premium obtained from the issue of shares reduced by the attached direct costs incurred with that issue.

Costs directly connected with the issue of new shares and options reduce the proceeds from the issue recognised in equity. Moreover, share premium takes into account the settlements related to incentive programs based on Bank's shares.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserve capital,
- general risk reserve,
- undistributed profit from previous years,
- net profit (loss) for the current year.

Other supplementary capital, other reserve capital and general risk reserve are formed from allocations of profit and they are assigned to purposes specified in the by-laws or other regulations of the law.

Moreover, other reserve capital comprises valuation of incentive programs based on Bank's shares.

Dividends for a given year, which have been approved by the General Meeting but not distributed at the end of the reporting period, are shown under the liabilities due to dividends payable under "Other liabilities".

Other components of equity

Other components of equity result from:

- valuation of financial assets at fair value through other comprehensive income,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge,
- the Bank's shares of other comprehensive income of entities under the equity method,
- fair value measurement of assets reclassified to investment property.

2.26. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

The items contained in financial reports of particular entities of the Bank, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The financial statements are presented in the Polish zloty, which is the presentation currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through profit or loss are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences arising on account of such monetary items as equity instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange differences component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange differences component of that gain or loss is recognised in profit or loss.

Changes in fair value of monetary items valued through other comprehensive income cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the income statement.

Items of the statement of financial position of foreign branches are converted from functional currency to the presentation currency with the application of the average exchange rate as at the end of the reporting period. Income statement items of these entities are converted to presentation currency with the application of the arithmetical mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the reporting period. Foreign exchange differences so arisen are recognised in other comprehensive income.

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2.27. Trust and fiduciary activities

mBank S.A. operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds.

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties. Fee and commission income from trust and fiduciary activities is recognised in accordance with IFRS 15 using a 5-step model for revenue recognition, described in the Note 2.3. In connection with these, the Bank makes decisions concerning the allocation, purchase and sale of a wide variety of financial instruments. Assets held in a fiduciary capacity are not included in these financial statements because as they do not belong to the Bank.

2.28. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards, International Financial Reporting Standards and related interpretations as endorsed by the European Union which have been issued and are binding for annual periods starting on 1 January 2022.

Standards and interpretations endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Bank'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 percent test' in assessing whether to derecognise 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 had 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 recognise such sales proceeds and related cost in profit or loss.	1 January 2022	The application of the amended standard had 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 had 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 recognise contingent asset acquired in a business combination.	1 January 2022	The application of the amended standard had no significant impact on the financial statements.

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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 Bank's financial statements in the period of initial application
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 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.
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 revenues and result from insurance contract.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17, Deferral of use and exclusion of certain products from the scope	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 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17, Insurance contracts and IFRS 9	The amendment to the standards introduces optional facilities to minimise 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.

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 Bank's financial statements in the period of initial application
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 2024	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 16 Leasing	Amendment to IFRS 16 requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right-of-use it retains.	1 January 2024	The application of the amended standard will have no significant impact on the financial statements.

IBOR reform

Since year 2021, mBank continued efforts to implement the reform of reference rates initiated by Regulation 2016/1011 of The European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (further "BMR") which resulted, inter alia, in the Financial Conduct Authority's (further "FCA") decision to cease quoting or lose representativeness of LIBOR rates (hereinafter IBOR reform).

In order to effectively implement the changes resulting from the IBOR reform, a project has already been launched at mBank in 2020 involving mBank's units responsible for risk management, treasury, retail and corporate banking, financial markets, IT, accounting, reporting and compliance areas. The implementation of the project is supervised by the Steering Committee and the Capital, Asset and Liability Management Committee.

The key risks faced by the Bank in relation to the IBOR reform identified and managed under the project are:

- risks resulting from lack of established market practices and uncertainty related to transition of the contracts to new alternative reference rates, which could lead to deterioration of the risk profile of these contracts,
- risk of customers not cooperating with the Bank in the process of introducing IBOR reform required contractual changes and the resulting uncertainty concerning the appropriate basis to calculate the contractual cashflows after cessation of or losing representativeness of LIBOR indexes,
- risk of delayed implementation of required IT changes which could hinder correct interest calculation or financial asset and liabilities valuation,
- operational risks related to the number of contracts that require amending as a result of the IBOR reform, including risks related to mass processing of client's personal data required to implement changes to client contracts.

As a result of the project, the Bank updated and implemented changes to its action plan in the event of material changes or discontinuation of an index or benchmark.

In the first half of 2022 activities related to IBOR reform were focused on of finalising implementation of alternative interest rates for LIBOR, including introducing fallback clauses in customer contracts.

Derivative instruments based on LIBOR rates (except for LIBOR USD) were converted to instruments based on alternative reference rates by clearing houses or in case of derivatives not cleared centrally in accordance with methodology developed by ISDA in the course of market consultations. LIBOR USD contracts are scheduled for conversion to USD SOFR in 2nd quarter 2023.

Bank has also adjusted risk models to the new reference rates and implemented IT changes to properly handle the new reference rates as well as business relevant products and instruments based on those rates.

In the second half of 2022, the National Working Group on Reference Rate Reform (NGR) was established to prepare a 'roadmap' and a timetable of actions for the smooth and safe implementation of the various elements of the process leading to the replacement of the WIBOR interest rate index with a new reference index (hereinafter WIBOR reform).

Representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the GPW Benchmark, and banks participate in the NGR activities.

In line with the decision taken by the NGR Steering Committee, the WIBOR index will be replaced by the new WIRON index by the end of 2024.

Due to the role of the WIBOR index and its prevalence in the Polish financial market, the uncertainty related to how the WIBOR index will be replaced by the new WIRON index, as well as uncertainty regarding the final scope of the legislation sanctioning this change, the risks previously identified during the IBOR reform in the case of the WIBOR reform are of much higher severity.

In order to mitigate these risks, the Bank has launched a separate project for implementation of the WIBOR reform, actively participates it the NGR activities and takes advantage of the solutions developed during consultation process led by International Swaps and Derivatives Association (ISDA), Polish Bank Association and other international organisations.

The Bank has also intensified activities related to implementing required changes to WIBOR based contracts with retail and corporate customers. Particular emphasis, in order to maximise the percentage of annexed agreements was placed on effective and transparent communication of the required changes.

The table below presents the Bank's exposure as at 31 December 2022 to material reference rates in scope of the interest rate benchmark reform for which the transition to the alternative reference rates was yet not completed.

(PLN million)	The contractual amount of non-derivative financial asset	The contractual amount of non-derivative financial liabilities	Nominal amount of derivatives as a net amount of receivables and liabilities for derivative transactions
PLN WIBOR/WIBID	66 168	4 012	(23 326)
USD LIBOR	387	5	(44)
Other	4	-	-

Bank currently is not offering any products based on BMR non-compliant reference rates.

The impact of the IBOR reform is presented in Note 19.

2.29. Business segments

Data concerning business segments was presented in the Consolidated Financial Statements of mBank S.A. Group for the year 2022, prepared in compliance with the International Financial Reporting Standards and published on 28 February 2023.

2.30. Comparative data

- Reclassification of a portion of revenue from the sale of insurance linked to credit products (adjustment 1)

The Bank has changed the recognition of revenue from the sale of mortgage-related insurance. Previously, the Bank recognised the remuneration received monthly for insurance sales entirely as commission income. Beginning with the 2022 financial statements, the Bank recognises the portion of the remuneration corresponding to the intermediary service as commission income. The remaining part of the remuneration is recognised now as interest income.

- Separation of the item Lease liabilities (adjustment 2)

In the statement of financial position, within the item Financial liabilities measured at amortised cost, the Bank has separated a new item - Lease liabilities. Previously, lease liabilities were presented within the item Liabilities to customers.

- Reclassification of loans and advances received from the European Investment Bank (adjustment 3)

The Bank has changed the presentation of liabilities from loans and advances received from the European Investment Bank and now presents them under Financial liabilities at amortised cost - Amounts due to banks. Previously, the Bank presented these liabilities within Financial liabilities at amortised cost - Due to customers.

- Reclassification of provisions for post-employment benefits (adjustment 4)

The Bank has changed the presentation of provisions for post-employment benefits and now presents them within Provisions. Previously, the Bank presented these liabilities under Other Liabilities.

- Reclassification of receivables from the settlement of cash deposit machines and cash sorting companies (adjustment 5)

The Bank has changed the presentation of receivables from the settlement of deposit machines and sorting plants and now presents them within Other assets. Previously, the Bank presented these settlements under Financial assets measured at amortised cost - Loans and advances to customers.

- Presentation of the fair value changes of the hedged items in portfolio hedge of interest rate risk (adjustment 6)

The Bank has changed the presentation of gains and losses on the hedged item for the fair value hedge of the interest rate exposure of a portion of portfolio of financial assets or financial liabilities and since the end of 2022 the Bank presents them in a single separate line item within assets, for those repricing time periods for which the hedged item is an asset or in a single separate line item within liabilities, for those repricing time periods for which the hedged item is a liability. Previously, changes in the fair value of hedged items in the interest rate hedge portfolio were presented in a separate line item on the asset or liability side depending on the sign of the balance, i.e. gains related to hedging the portfolio of assets or losses related to hedging the portfolio of liabilities were reported as a separate title in the asset line item, while losses related to hedging the portfolio of assets or gains related to hedging the portfolio of liabilities were reported as a separate title in the liability line item.

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The above changes were due to the adjustment of the presentation of selected assets, liabilities and income positions to the prevailing market practice. The changes did not affect equity levels and the Bank's income statements in the comparative periods presented in these financial statements. Comparative figures as of 1 January 2021 and 31 December 2021 and for the period from 1 January to 31 December 2021 have been restated accordingly. The impact of the restatements on the comparative data presented is shown in the following tables.

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

Restatements in income statement for the period from 1 January to 31 December 2021

Income statement	No.	Period from 01.01.2021 till 31.12.2021 before restatement	restatement	Period from 01.01.2021 till 31.12.2021 after restatement
Interest income, including:		3 879 243	22 270	3 901 513
Interest income accounted for using the effective interest method	*1*	*3 409 087*	*22 270*	*3 431 357*
Income similar to interest on financial assets at fair value through profit or loss		*470 156*	*-*	*470 156*
Interest expenses		(257 066)	-	(257 066)
Net interest income		**3 622 177**	**22 270**	**3 644 447**
Fee and commission income	1	2 532 315	(22 270)	2 510 045
Fee and commission expenses		(712 664)	-	(712 664)
Net fee and commission income		**1 819 651**	**(22 270)**	**1 797 381**
Dividend income		30 095	-	30 095
Net trading income		78 317	-	78 317
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		3 744	-	3 744
Gains less losses from derecognition of assets and liabilities not measured at fair value through profit or loss		76 622	-	76 622
Other operating income		44 314	-	44 314
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss		(782 861)	-	(782 861)
Result on provisions for legal risk related to foreign currency loans		(2 758 079)	-	(2 758 079)
Overhead costs		(1 817 885)	-	(1 817 885)
Depreciation		(376 780)	-	(376 780)
Other operating expenses		(212 639)	-	(212 639)
Operating profit (loss)		**(273 324)**	**-**	**(273 324)**
Tax on the Bank's balance sheet items		(577 565)	-	(577 565)
Share in profits (losses) of entities under the equity method		170 662	-	170 662
Profit (loss) before income tax		**(680 227)**	**-**	**(680 227)**
Income tax expense		(535 126)	-	(535 126)
Net profit (loss)		**(1 215 353)**	**-**	**(1 215 353)**

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Restatements in statement of financial position at 1 January 2021

ASSETS	No.	01.01.2021 before restatement	restatement	01.01.2021 after restatement
Financial assets at amortised cost, including:		109 527 366	(296 381)	109 230 985
Debt securities		*15 952 501*	-	*15 952 501*
Loans and advances to banks		*10 845 844*	-	*10 845 844*
Loans and advances to customers	*5*	*82 729 021*	*(296 381)*	*82 432 640*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	6	-	(10 986)	(10 986)
Other assets	5	773 253	296 381	1 069 634
Other items		60 444 388	-	60 444 388
TOTAL ASSETS		**170 745 007**	**(10 986)**	**170 734 021**

LIABILITIES AND EQUITY		01.01.2021 before restatement	restatement	01.01.2021 after restatement
Financial liabilities measured at amortised cost, including:		149 315 812	-	149 315 812
Amounts due to banks	*3*	*2 624 286*	*3 254 591*	*5 878 877*
Amounts due to customers	*2,3*	*137 778 034*	*(4 003 088)*	*133 774 946*
Lease liabilities	*2*	-	*748 497*	*748 497*
Debt securities issued		*6 335 165*	-	*6 335 165*
Subordinated liabilities		*2 578 327*	-	*2 578 327*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	6	59 624	(10 986)	48 638
Provisions	4	515 211	31 797	547 008
Other liabilities	4	2 747 176	(31 797)	2 715 379
Other items		1 639 492	-	1 639 492
TOTAL LIABILITIES		**154 277 315**	**(10 986)**	**154 266 329**
TOTAL EQUITY		**16 467 692**	**-**	**16 467 692**
TOTAL LIABILITIES AND EQUITY		**170 745 007**	**(10 986)**	**170 734 021**

Restatements in statement of financial position at 31 December 2021

ASSETS	No.	31.12.2021 before restatement	restatement	31.12.2021 after restatement
Financial assets at amortised cost, including:		114 326 977	(377 379)	113 949 598
Debt securities		*16 632 915*	-	*16 632 915*
Loans and advances to banks		*11 194 916*	-	*11 194 916*
Loans and advances to customers	*5*	*86 499 146*	*(377 379)*	*86 121 767*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	6	1 055 478	(1 165 511)	(110 033)
Other assets	5	857 477	377 379	1 234 856
Other items		75 633 887	-	75 633 887
TOTAL ASSETS		**191 873 819**	**(1 165 511)**	**190 708 308**

LIABILITIES AND EQUITY		31.12.2021 before restatement	restatement	31.12.2021 after restatement
Financial liabilities measured at amortised cost, including:		172 634 071	-	172 634 071
Amounts due to banks	*3*	*3 420 001*	*1 906 621*	*5 326 622*
Amounts due to customers	*2,3*	*159 905 991*	*(2 860 617)*	*157 045 374*
Lease liabilities	*2*	-	*953 996*	*953 996*
Debt securities issued		*6 683 623*	-	*6 683 623*
Subordinated liabilities		*2 624 456*	-	*2 624 456*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	6	110 033	(1 165 511)	(1 055 478)
Provisions	4	839 698	24 131	863 829
Other liabilities	4	2 801 612	(24 131)	2 777 481
Other items		2 106 582	-	2 106 582
TOTAL LIABILITIES		**178 491 996**	**(1 165 511)**	**177 326 485**
TOTAL EQUITY		**13 381 823**	**-**	**13 381 823**
TOTAL LIABILITIES AND EQUITY		**191 873 819**	**(1 165 511)**	**190 708 308**

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Restatements in statement of cash flows for the period from 1 January to 31 December 2021

	No.	Period from 01.01.2021 to 31.12.2021 before restatement	restatement	Period from 01.01.2021 to 31.12.2021 after restatement
Profit (loss) before income tax		**(680 227)**	**-**	**(680 227)**
Adjustments:		***10 543 736***	**-**	***10 543 736***
Income taxes paid		(818 904)	-	(818 904)
Depreciation including depreciation of fixed assets provided under operating lease		389 157	-	389 157
Foreign exchange (gains) losses related to financial activities		222 425	-	222 425
(Gains) losses on investing activities		(155 925)	-	(155 925)
Change of valuation of investment in subsidiaries not measured at equity method		(78)	-	(78)
Dividends received		(30 095)	-	(30 095)
Interest income (income statement)	1	(3 879 243)	(22 270)	(3 901 513)
Interest expense (income statement)		257 066	-	257 066
Interest received	1	4 122 518	22 270	4 144 788
Interest paid		(226 000)	-	(226 000)
Changes in loans and advances to banks		(279 558)	-	(279 558)
Changes in financial assets and liabilities held for trading and hedging derivatives		(1 572 774)	-	(1 572 774)
Changes in loans and advances to customers	5	(9 028 245)	80 998	(8 947 247)
Changes in financial assets at fair value through other comprehensive income		(2 144 622)	-	(2 144 622)
Changes in securities at amortised cost		(753 545)	-	(753 545)
Changes in non-trading securities mandatorily at fair value through profit or loss		(17 046)	-	(17 046)
Changes in other assets	5	45 162	(80 998)	(35 836)
Changes in amounts due to banks	3	827 197	(46 512)	780 685
Changes in amounts due to customers	2,3	23 212 050	71 857	23 283 907
Changes in lease liabilities	2	-	(25 345)	(25 345)
Changes in issued debt securities		(62 715)	-	(62 715)
Changes in provisions	4	324 487	(7 666)	316 821
Changes in other liabilities	4	112 424	7 666	120 090
A. Cash flows from operating activities		**9 863 509**	**-**	**9 863 509**
B. Cash flows from investing activities		**(417 555)**	**-**	**(417 555)**
Issue of debt securities		2 309 950	-	2 309 950
Issue of ordinary shares		72	-	72
Repayments of loans advances from banks	3	-	(1 358 250)	(1 358 250)
Repayments of loans advances from other customers	3	(1 358 250)	1 358 250	-
Redemption of debt securities		(2 020 661)	-	(2 020 661)
Payments due to lease agreements		(89 901)	-	(89 901)
Interest paid from loans and advances received from banks and from subordinated liabilities		(59 691)	-	(59 691)
C. Cash flows from financing activities		**(1 218 481)**	**-**	**(1 218 481)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**8 227 473**	**-**	**8 227 473**
Effect of exchange rate changes in cash and cash equivalents		(9 649)	-	(9 649)
Cash and cash equivalents at the beginning of the reporting period		4 205 132	-	4 205 132
Cash and cash equivalents at the end of the reporting period		**12 422 956**	**-**	**12 422 956**

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

3. Risk Management

mBank S.A. manages risk on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and guidelines.

The risk management process is conducted at all levels of the organisational structure, starting at the levels of the Supervisory Board (including Risk Committee of the Supervisory Board) and the Bank's Management Board, through specialised committees and organisational units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit of the Bank.

3.1. mBank risk management in 2022 – external environment

The Bank takes actions on an ongoing basis to adapt the risk management principles to changing external conditions, including changes in the law.

Regulatory changes resulting from the work of the Basel Committee on Banking Supervision

The Bank monitors regulatory changes resulting from the work of the Basel Committee on Banking Supervision, in particular those related to the review and revision of the methodologies for calculating capital requirements (the so-called Basel IV).

On 27 October 2021, the European Commission has proposed a draft amendment to the CRR/CRD IV regulatory package to implement the updated Basel standards (Basel 4), primarily with regard to the calculation of capital requirements for individual types of risk. The new requirements are planned to take effect in the European Union from 2025.

mBank analyses the proposed regulatory changes and assesses their impact in preparation for their implementation. The Bank also follows the legislative work, as the published draft amendments have not yet been finally approved in the EU and may still change.

AIRB models

In 2016-2022 the EBA published documents, as part of a broader regulatory initiative concerning revision of the Internal Ratings Based Approach (AIRB), which include:

- draft Regulatory Technical Standards on assessment methodology for IRB approach,
- guidelines on PD estimation, LGD estimation and treatment of defaulted assets,
- guidelines and regulatory technical standard on estimation and identification of an economic downturn in IRB modelling (with regard to LGD parameter),
- guidelines on Credit Risk Mitigation for institutions applying the IRB approach with own estimates of LGDs,
- Commission delegated regulation (EU) 2021/598 of 14 December 2020 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assigning risk weights to specialised lending exposures.

In June 2021 Bank submitted the application for approval of material changes in all PD, CCF and LGD parameters models in portfolios covered by AIRB approach to banking supervisory authorities. The implementation of AIRB models adapted to the aforementioned guidelines is planned for 2023, immediately after the approval of the banking supervisory authorities.

The Bank adjusted the CRE (Commercial Real Estate) dedicated model to Regulation 2021/598, which went live in April 2022. As part of this process, the Bank submitted notification addressing the model adjustment to the banking supervisory authorities in February 2022 and started using the adjusted model from May 2022. The model adjustment will not be classified as significant change according to the criteria specified in RTS 529/2014.

Recommendations of the Polish Financial Supervision Authority (PFSA)

In order to update good practices binding on banks, including in the context of new guidelines and requirements defined by the European supervisory authorities, taking into account regulatory solutions and practices applied in other countries, the Polish Financial Supervision Authority (PFSA) regularly works on updating recommendations addressed to banks.

On 1 January 2022, an updated Recommendation R on the principles of credit risk management and recognition of expected credit losses entered into force. The most important changes resulting from the implementation of Recommendation R in the area of the definition of default and expected credit losses are described in Note 3.3.6.2.3.

In 2022, the PFSA adopted the amended Recommendation A on the management by banks of risk related to derivatives activities, which replaced Recommendation A from 2010. The amendment is aimed at identifying good practices in the area of risk management on the derivatives market, unifying these rules and supplementing European guidelines and technical standards (ESMA, EBA). The PFSA set the end of

2023 as the deadline for banks to comply with the provisions of the Recommendation. Recommendation A will be implemented by the Bank within the time limit set by the PFSA.

In addition, in 2022, the PFSA carried out work on updating:

- Recommendation G on interest rate risk management,
- Recommendation J on the principles of collecting and processing data on the real estate market by banks,
- Recommendation U on good practices in the field of bancassurance.

Drafts of updated Recommendations J and U were subject to public consultations in 2022.

IBOR reform

The Bank has carried out work to convert LIBOR CHF, EUR and JPY, which were withdrawn in accordance with the Financial Conduct Authority (FCA) announcement of 5 March 2021. In the case of other currencies (GBP, USD), adjustment work is underway, as the indicators have not yet officially been liquidated.

The Bank is also involved in the work of the National Working Group on Benchmark Reform (NGR), which was established in connection with the planned reform of benchmarks in Poland and, among others, is to introduce a new interest rate benchmark, for which the input data is information representing ON (overnight) transactions. The work of the NGR is aimed at ensuring the credibility, transparency and reliability of the development and application of the new reference interest rate index. The Bank has given this work a very high priority and is guided by the schedule published by the NGR.

Additional information on the impact of IBOR reform is presented in Note 2.28 and Note 19.

EBA guidelines and standards on interest rate risk in the banking book

In October 2022, EBA published final standards and guidelines with regard to the management of interest rate risk in the banking book as part of the review of existing guidelines:

- revised guidelines on the interest rate risk in the banking book (IRRBB) and credit spread risk arising from banking book activities (CSRB); they will replace the current EBA Guidelines issued in 2018,
- final draft technical standards on the standardised approach and the simplified standardised approach for the assessment of IRRBB,
- final draft technical standards on supervisory outlier testing for interest rate risk in the banking book.

The indicated regulations contain provisions and requirements for the management of IRRBB. In particular they extend the CSRBB risk management rules analogous to the current IRRBB rules, clarify the rules for calculating the sensitivity of interest income and specify the calculation of regulatory measures, including the level of regulatory limits. The revised IRRBB guidelines enter into force on 30 June 2023, and on CSRBB on 31 December 2023.

Threats related to ESG factors

The Bank analyses threats posed by ESG factors, including adverse changes in the natural environment (especially climate change) or the long-term effects of these changes in a horizontal manner. This means that it examines their impact on the Bank's business profile in the widest possible spectrum, e.g. translates them into individual risk categories, including credit risk.

An important element of risk management was the update of the risk assessment rules for corporate clients in the environmental, social and governance areas to better reflect the specificity of the Polish economy and ESG risk factors in individual sectors. ESG risk assessment is one of the elements of customer credit risk assessment. The result of the ESG risk analysis is taken into account when making a credit decision on granting financing and every year when renewing the customer's PD-rating.

The outcomes of ESG risk analysis during the credit risk analysis process impact neither credit pricings for corporate clients nor their PD-ratings in a quantitative manner. ESG risk assessment is qualitative, considered independently from clients’ financial results and credit risk parameters. In the case of smaller exposures, the analysis is simplified and conducted on a portfolio basis while in the case of exposures exceeding PLN 8 million (for K2 and K1 clients) – on case by case basis. Having committed to the Science-Based Targets initiative (SBTi) in 2022 and considering earlier Group’s strategic commitment to achieving net-zero emissions, preliminary analyses leading to decarbonisation pathways’ conceptualisation for the Group have been initiated.

3.2. Principles of risk management

In 2022, after the beginning of armed conflict in Ukraine, the Bank monitored the impact of the conflict on the economic situation in Poland, particularly the availability and changes in fuel and commodity prices, as well as the stability of supply chains. Managing credit risk, the Bank focused on identifying factors that could significantly affect customers and the quality of the Bank's loan portfolio.

In the corporate banking area, the Bank was cautious in updating its credit risk policies. At the same time, the Bank continued projects that are expected to result in the automation and simplification of the credit process.

In the retail banking area, the Bank takes into account the risks associated with the current economic situation. The situation of households and SMEs is subject to strong pressure caused by high volatility of macroeconomic and geopolitical factors. The Bank adapts to this situation by maintaining a conservative credit policy, particularly in the area of creditworthiness.

3.2.1. Risk management culture

The foundations of the risk culture implemented in the Bank and the mBank Group have been specified in the Risk Management Strategy of mBank Group and strategies for managing individual types of risk (concentration risk, retail and corporate portfolio credit risk, market risk, liquidity risk, operational risk, reputational risk) approved by the Management Board and the Supervisory Board of mBank.

Risk management roles and responsibilities in the mBank Group are organised around the three lines of defence scheme:

- The first line of defence consists of Business (business lines) whose task is to take risk and capital aspects into consideration when making all business decisions within the risk appetite set for the Group.
- The second line of defence, mainly the organisational units of the risk management area, Security, Data Protection Inspector and Compliance function, determines framework and guidelines for managing individual risks, supports and supervises Business in their implementation and independently analyses and assesses the risk. To ensure that the Business is supported and supervised in an objective manner, the second line functions act independently of the Business.
- The third line of defence is Internal Audit, ensuring independent assessment of activities connected with risk management performed by the first and the second line of defence.

3.2.2. Division of responsibilities in the risk management process

Supervisory Board supervises the Bank's operations in the area of the risk management system. This includes approving the Risk Management Strategy of the mBank Group and supervising its implementation.

Risk Committee of the Supervisory Board exercises constant supervision over the risk, in particular issues recommendations regarding approval of risk management strategies, including the Risk Management Strategy of mBank Group, by the Supervisory Board.

Management Board of the Bank designs, implements and ensures the operation of the risk management system. In particular the Management Board defines and implements the Risk Management Strategy of the Group and is responsible for defining and implementing the principles of managing individual risk types and for their consistency with the Strategy. The Management Board establishes the organisational structure of the Bank and allocates tasks and responsibilities to individual organisational units, ensuring the appropriate distribution of roles in the risk management. The Management Board is also responsible for developing, implementing, effectiveness and updating written strategies, policies and procedures for: risk management system, internal capital adequacy assessment process, capital management and capital planning, and internal control system.

Chief Risk Officer is responsible for integrated risk and capital management of the Bank and the Group in the scope of: defining strategies and policies, measuring, controlling and independent reporting on all risk types (in particular credit risk, market risk, liquidity risk, non-financial risk including operational risk), approving limits (in accordance with internal regulations), and for processes of managing the risk of the retail credit portfolio and corporate portfolio.

The Committees:

- **The Committees of the Business and Risk Forum of mBank Group** (Retail Banking Risk Committee – KRD, Corporate and Investment Banking Risk Committee – KRK, Financial Markets Risk Committee – KRF) are a platform for making decisions and dialogue for organisational units in particular business lines and the risk management area in mBank as well as between the Bank and the Group subsidiaries. In particular, the Committees take decisions and make recommendations concerning i.a.: risk policies, risk assessment processes and tools, risk limit system, assessment of the quality and profitability of the portfolio of exposures to clients, approval of introducing new products to the offer.
- **Model Risk Committee** is responsible for supervising the model risk management process, performing an informative, discussion, decision-making and legislative function in this respect.
- **Capital, Assets and Liabilities Committee** is responsible for the systematic monitoring of the balance sheet structure and capital, and the allocation of funds within acceptable risks. Its purpose is to optimise financial result, as well as to shape and allocate capital in a way that maximises return on equity of the mBank Group.
- **Sustainable Development Committee of mBank Group** is a platform for making decisions and issuing recommendations, and dialogue on sustainable development. The Committee shapes, promotes and monitors sustainable development in the mBank Group.
- **Credit Committee of the mBank Group** is responsible, in particular, for the supervision of concentration risk and large exposures at the Group level by taken decisions and made recommendations. The Committee shall also take credit decisions as well as decisions on debt conversion into shares, stocks, and on taking over properties in return for debts.
- **Investment Banking Committee** is responsible, in particular, for the control and management of risks (including market, credit, reputational and operational) of the Brokerage Bureau transactions and making decisions regarding the execution of these transactions.
- **Foreign Branch Supervision Committee of mBank S.A.** is responsible, among others, for issuing recommendations on approval of the operational strategy and the rules for stable and prudent management of a particular foreign branch of the Bank, especially with reference to credit risk.

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the risk management area supervised by the Deputy Chairman of the Management Board, Chief Risk Officer.

3.2.3. Internal capital and liquidity adequacy assessment process (ICAAP/ILAAP)

The mBank Group applies the internal capital adequacy assessment process (ICAAP) aimed at maintaining own funds at the level adequate to the profile and the level of risk in its operations. The ICAAP includes:

- risk inventory in the mBank Group,
- calculation of internal capital and own funds requirements for coverage of risk,
- capital aggregation,
- stress tests,
- setting limits on the utilisation of capital resources,
- capital planning and allocation,
- monitoring consisting in a permanent identification of risk involved in mBank Group operations and analysis of the level of capital for risk coverage,
- annual review of the process.

The liquidity adequacy assessment process (ILAAP) implemented in mBank Group plays a key role in maintaining the Bank’s and the Group's business continuity by ensuring an appropriate liquidity and financial position. ILAAP comprises of:

- Group’s liquidity and funding risk inventory,
- calculation of liquidity measures, including modelling of selected banking products,
- balance sheet planning and setting limits in line with the risk appetite,
- management, taking into account the stress tests, risk measures, contingency plan, early warning indicators (EWI), recovery indicators (RI) and limits monitoring,
- process review and assessment,
- Funds Transfer Pricing (FTP) system,
- model validation.

The ICAAP and ILAAP are reviewed by the Bank’s Management Board on a regular basis. Reviews of these processes are supervised by the Supervisory Board of the Bank.

Material risks in mBank Group's operations

The Management Board is taking activities for ensuring that the Bank manages all material risks arising from the implementation of adopted business strategy of the mBank Group. Therefore, the mBank Group carries out an annual process of identifying and assessing risk materiality. All material types of risk are included in the Risk Management Strategy of mBank Group, in particular in the process of risk bearing capacity management.

The following risks were recognised as material for the Group as of 31 December 2022: credit risk, market risk, operational risk, business risk (including strategic risk), liquidity risk, compliance risk, reputational risk, model risk, capital risk (including risk of excessive leverage), tax risk and FX loans portfolio risk.

3.2.4. Risk appetite

Risk appetite is defined within the mBank Group as the maximum risk, in terms of both amount and structure, which the Bank is willing and able to incur in pursuing its business objectives under going concern scenario.

Capital and liquidity buffers

mBank Group determines the risk appetite to ensure continued compliance with supervisory requirements on capital adequacy and liquidity, set in the European and Polish regulations. Therefore, the Group maintains capital and liquidity buffers above regulatory requirements to ensure that the Group is functioning in an uninterrupted manner in the case of negative changes in the Group or in its environment, thereby providing the ability to assure risk bearing capacity. Funding sources and capital position of the Group, both in the regulatory and economic perspective, are taken into consideration while defining the risk capacity and risk appetite. The Bank maintains capital and liquid assets on the levels ensuring to meet regulatory requirements under normal and realistic stress conditions. To determine the appropriate volume of the liquidity buffer, a minimum level of LCR above the regulatory requirement has been established.

mBank Group's risk appetite covers all significant risks and key risk concentrations embedded in its business strategy by setting appropriate capital buffers necessary in case of materialisation of selected risk factors related to existing portfolios and planned business, and addressing new regulatory requirements and potential negative macroeconomic changes.

As a result of internal discussion on risk appetite, the target capital ratios and internal liquidity buffers for the mBank Group are determined.

Risk Bearing Capacity

Risk bearing capacity is expressed in terms of capital, funding resources and liquidity reserves available for allocation so as to ensure safety in normal scenario and risk scenario. The maximum risk that mBank Group is willing and able to incur, while accepting threats resulting from mBank Group business strategy, is subject to the following conditions:

- adequate risk bearing capacity must be ensured (limits must be ensured in normal conditions) in accordance with ICAAP principles,
- internal targets set for regulatory capital ratios and liquidity must be observed,
- financial liquidity and adequate structural liquidity of the Group must be ensured at all times in accordance with ILAAP principles.

The approach of mBank Group to the assessment and control of mBank Group risk bearing capacity covers internal and regulatory requirements.

Risk limit system

The mBank applies a risk limit system in order to ensure effective allocation of risk appetite. The structure of limits translates the risk appetite into specific constraints on risks occurring in the Bank's activity. In addition to the limits, monitoring action triggers and early warning indicators are also used to ensure the safe operation of the Bank.

3.2.5. Stress tests within ICAAP and ILAAP

Stress tests are used in the management and capital and liquidity planning of the Bank. Stress tests allow an assessment of the Bank's resistance in the context of adverse, yet plausible scenarios of external and internal events.

The stress tests are conducted assuming scenario of unfavourable economic conditions that may adversely affect the Bank's financial and liquidity position.

As part of ICAAP, the Bank carries out stress tests using various scenarios, including historical scenarios, macroeconomic scenarios for economic downturn, scenarios that take into account idiosyncratic events, in the context of specific risk concentrations in the Bank. Such analyses take into account different levels of severity of the scenarios, which are characterised by different probability levels regarding their realisation.

The ILAAP scenarios include negative idiosyncratic events, events concerning the entire market and combined scenarios. These scenarios are supplemented by a reverse scenario that identifies risk factors. In addition, an integrated scenario is carried out, which also takes into account the impact of factors derived from other types of risk.

The analysed macroeconomic scenarios allow for a comprehensive analysis of all significant risk types and scenarios' impact on the capital adequacy and liquidity of the Bank.

Bank carries out so called reverse stress tests, the goal of which is to identify events potentially leading to unviability of the Bank. Reverse stress tests are used for making strategic decisions concerning the acceptable risk profile of the Bank.

3.2.6. Financial results of mBank and mBank Group in the context of regulatory requirements

Bank monitors the recovery plan indicators in the areas of liquidity, capital, profitability and assets quality in accordance with the governance stipulated in the Recovery Plan for mBank Group, as well as in regard to meeting the prerequisites for triggering the recovery plan.

In line with the guidelines of European Banking Authority (EBA/GL/2021/11) on the recovery plan indicators, profitability indicators should capture any institution's income-related aspect that could lead to a rapid deterioration in the institution's financial position through lowered retained earnings (or losses) impacting the own funds of the institution.

The profitability of core business model of the Bank in 2022 remained at a very high level. The results for 2022 were influenced by extraordinary events, independent from the core business of the Bank, mainly external factors, i.e. introduction of the credit holidays, establishment of the protection scheme of the commercial banks and changes to the Borrower's Support Fund as well as additional legal costs related to FX mortgage loans.

It should be emphasised that despite the net loss in 2022 in the amount of PLN 696 724 thousand (PLN 702 527 thousand on the consolidated level), in accordance with the applicable provisions regarding recovery plans, in particular Article 142(2) of the Banking Law, the prerequisite for triggering the recovery plan related to significant deterioration of the financial situation of the Bank and the Group has not been met.

Recovery plan indicators in other areas, i.e. liquidity, capital and assets quality demonstrate the stable and robust situation of the Bank and the Group and in 2022 remained above the warning thresholds set out in the Recovery Plan for mBank Group.

3.3. Credit risk

3.3.1. Organisation of risk management

The mBank Group actively manages credit risk in order to optimise the level of profit in terms of return on risk. Analysis of the risk in the Group operations is continuous. For the purpose of identification and monitoring of credit risk, uniform credit risk management rules are applied across the Bank's structure and its subsidiaries; they are based, among others, on separation of the credit risk assessment function and the sales function at all levels up to the Management Board. A similar approach is applied to administration of credit risk exposures as this function is performed in the risk area and the operating area and is independent from sales functions. The model of Group-wide risk management assumes participation in the process of the Bank's risk management area organisational units as well as the Credit Committee of the mBank Group (KKG).

<u>Decision-making for credit exposures in the corporate area</u>

Credit decisions are consistent with the accepted internal rules. Levels of decision-making competences are determined by a decision-making matrix. The determination of level of decision-making authority for credit decision is based on EL-rating and total exposure on client/group of affiliated entities. The total exposure includes also exposures on the client/group of affiliated entities in the mBank Group subsidiaries.

For clients applying for small exposure, it is the only determinant of the right level of decision-making.

<u>Decision-making for credit exposures in the retail banking area</u>

Due to a profile of retail banking clients, the accepted amount of exposure per client and standardisation of products offered to those clients, the credit decision-making process differs from that applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of scoring techniques and standardised decision-making criteria. The tasks, which are not automated concern mainly the verification of credit documentation and potential derogations when a decision is made with the escalation to the decision-making level in accordance with the applicable rules. In addition, in case of mortgage loans, the value of the collateral is established (standard applications evaluated internally, other with the use of external appraisal report which is additionally evaluated internally).

3.3.2. Credit Policy

Bank manages credit risk based on supervisory requirements, market best practices, bank's own experiences and expertise. Credit policies, established separately for retail banking and corporate banking, play the key role in the credit risk management process. Credit policies include e.g.:

- target customer groups,
- acceptable ratings' levels defined by the expected loss value,
- criteria for acceptance of financed subjects and collaterals,
- rules for mitigating concentration risk,
- rules for selected industries and customers segments.

3.3.3. Collateral accepted

<u>Collateral accepted in the process of granting credit products</u>

The collateral is an important part of the credit policy. The primary role of collateral is to reduce the credit risk of the transaction and provide the Bank with a realistic opportunity to repay receivables. In making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral adequate to the accepted risk. The Bank accepts collateral only upon its assessment and provided it meets the condition of no significant correlation between the credibility of the debtor and the collateral value. Specific types of collateral that are required depend on the risk bearing product, the tenor of the transaction and the risk of the client. The most common collateral accepted are:

- mortgage on real estate,
- registered pledge,
- transfer of receivables (cession of rights),
- monetary deposit,
- guarantees and warranties,
- guarantee deposit or cash blocked,
- transfer of ownership to vehicle.

The value of real estate taken as collateral is determined on the basis of a valuation prepared by a licensed expert. Valuations submitted to the Bank is verified by a team of specialists located in the risk management area, that verifies the correctness of the market value assumptions and assesses the liquidity of the collateral. Carefully selected, most liquid flats securing retail credits can be valuated using automatically based on current transactional data.

The value of other collaterals is determined on the basis of available documents, typical for each type of collateral.

Each collateral is monitored. Frequency of monitoring depends on the type of collateral and is specified in internal regulations.

In the corporate banking area, in the case of collateral on fixed assets or financial assets, the final value of collateral is brought to a most realistic value (MRV) using Empirical Coverage Factor (ECF), which reflects the pessimistic variant of debt recovery from the collateral through forced sale. Personal collateral is assessed taking into account the financial standing of provider. The Bank assigns the risk parameter PCV (which is an equivalent of Most Realistic Value for fixed assets collateral). In cases when PD parameter of the collateral provider is equal or worse than PD parameter of the debtor, then PCV parameter is zero.

The Bank has a dedicated collateral policy in the area of corporate banking. The most important elements of this policy are:

- indication of collateral preferred and unrecommended,
- recommendations regarding the requirements of collateral in specific situations,
- frequency of collateral monitoring,
- Bank's approach to collateral with MRV parameter equal to zero.

<u>Collateral accepted for transactions in derivative instruments</u>

The Bank manages the risk of derivative instruments. Credit exposures arising from concluded derivative transactions are managed as a part of clients' general credit limits, taking into account potential impact of changes in market parameters on the value of the exposure. Existing master agreements with contractors obligate the Bank to monitor the value of exposure to the client on a daily basis and provide for additional collateral against the exposure to be contributed by the client or mBank in accordance with signed agreements. At the same time, the master agreements provide for early settlement of the transaction with the client in the event of breach of contract. mBank applies an Early Warning Process in order to monitor the usage of limits on derivatives and the Bank's ability to respond to the client when the exposure due to open derivative transactions nears the maximum limit. Moreover, taking into consideration credit risk related to a derivative limit granted to a specific client, the Bank may apply additional collaterals from standard catalogue of collaterals of credit risk-bearing products.

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3.3.4. Rating system

The rating system is a key element of the credit risk management process in the corporate banking area. It consists of four main elements:

- customer rating (PD-rating) – describing the probability of default (PD);
- Loss Given Default (LGD) model for non-default portfolio (for default portfolio individual method of estimating recoveries is used). Model consists of components: recoveries from unsecured part of the credit (based on contractual and customer factors, information from financial statement), recoveries from secured part of exposure (based on collateral factors);
- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model and Limit Utilisation (LU) model. The components are based on contract and customer characteristics;
- credit rating (EL-rating) – describing expected loss (EL) and taking into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

The rating produces relative credit risk measures, both as percentages (PD%, EL%) and on a conventional scale from 1.0 to 6.5 (PD-rating, EL-rating) for corporations (sales over PLN 50 million) and SMEs (sales up to and including PLN 50 million). PD rating calculation is a strictly defined process, which comprises seven steps including: financial analysis of annual reports, financial analysis of interim figures, assessment of timeliness of presenting financial statements, analysis of qualitative risks, warning indicators, level of integration of the debtor’s group, and additional discretionary criteria. Credit rating based on expected loss (EL) is created by combining customer risk rating and transaction risk rating, which results from the value of exposure (EAD, Exposure at Default) and the character and coverage with collateral for transactions concluded with the client (LGD). LGD, described as % of EAD, is a function of possibly executed value of tangible and financial collateral and depends on the type and the value of the collateral, the type of transaction and the ratio of recovery from sources other than collateral.

The rating system generates the borrower’s probability of default directly in the form of a PD ratio, expressed as a percentage (continuous scale). Rating classes are calculated on the basis of procedures of dividing percentage PD into groups based on geometric stepladder. In external reporting, the Bank maps the internal PD rating scale onto external ratings. The table below presents the mapping system.

Sub-portfolio	1				2			3		4		5			6	7	8	
PD rating	1.0 – 1.2	1.4	1.6	1.8	2	2.2	2.4 – 2.6	2.8	3	3.2 – 3.4	3.6 – 3.8	4	4.2 – 4.6	4.8	5	5.2 – 5.8	No rating	6.1 – 6.5
S&P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	B-	CCC+ do C	Not applicable	D
	Investment Grade								Sub-investment Grade			Non-investment Grade						Default

The following models, which are part of the rating system are used in the retail banking area:

- Loss Given Default (LGD) model, which covers the entire retail portfolio. The ultimate loss level is determined basing on integration of three components:
  - recovery rate for cured cases (based on mean recoveries achieved for cured defaults),
  - recovery rate for non-cured cases (based on contractual factors, bank-client relations and collateral characteristic),
  - probability of cure (based on socio-demographic factors and full product structure of contract owner).

  Estimation of loss level takes place in homogenous segments, taking into account the type of product and the type of collateral. Separate models are in place for non-default and default portfolio;

- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model, Limit Utilisation (LU) model and Prepayments model. The components are based on contract and customer characteristics,

- PD model with a modular structure, which integrates results of scoring cards dedicated to the retail area:
  - application scoring cards (based on socio-demographic factors, factors describing the characteristics of business activity and factors related to the specificity of applied credit products),
  - behavioural scoring cards (based on information on the history of credit and deposit relation with the Bank),
  - internal scoring card based on Credit Information Bureau data (regarding the data about liabilities held outside the Bank).

3.3.5. Monitoring and validation of models

All models of risk parameters applied in mBank, including, i.a. PD models (with all components), LGD models and CCF models are subject to detailed and annual monitoring by modelling units. Moreover, the models are cyclically validated by mBank's independent Validation Unit.

The monitoring includes tests to check discriminatory power of individual models or their components, stability over time, the materiality of individual deviations of empirical values from theoretical values and the impact on portfolio parameters. The modelling unit recalibrates the respective models, i.a. in case of identification of some mismatches.

Reports on the performed monitoring/back-tests are presented to the model users and the independent Validation Unit.

Validation

Validation is an internal, complex process of independent and objective assessment of model operation, which is consistent with the Recommendation W requirements and - in case of the AIRB method - meets the supervisory guidelines set out in the CRR. The validation rules are set out in general in the Model Management Policy and described in detail in mBank's other internal regulations. The validated models are those that are directly or indirectly used in the assessment of capital adequacy under the AIRB approach, those directly or indirectly used in the process of calculation of provisions under IFRS 9 and others listed in the Bank's List of Models PZM.

In case of AIRB models an independence of Validation Unit is assured in the organisational structures of the Bank or the Group's subsidiary in relation to the units involved in the model's construction/maintenance, i.e. the model owner and users. The Validation Unit is responsible for the validation in mBank. The scope of validation performed by the Validation Unit covers the assessment of models concept and assumptions, correctness of their construction, implementation, their application process and effectiveness, together with the status of the remedial actions taken.

Depending on the materiality and complexity of the model, as well as the type of validation task to be performed, the validation may be complex (covers both quantitative and qualitative elements) or limited (mainly focused on the quantitative analyses and selected qualitative elements). The validation results are documented in the validation report containing, in particular, an assessment used for the purpose of approving the model, and recommendations, if any, in the form of precautionary and remedial actions, about the irregularities found.

Validation tasks are performed in accordance with the annual validation plan. Both validation plan and the results of performed validation tasks are approved by the Model Risk Committee.

IRB Method Change Policy

The Bank implemented the IRB Method Change Policy approved by the Management Board. The Policy contains internal rules for the change management within the IRB approach, based on the supervisory guidelines and taking into account the organisational specifics of the Bank. The Policy specifies the stages of the change management process, defines roles and responsibilities, describes in detail the rules of classification of changes, in particular classification criteria based on the guidelines published by the European Central Bank.

3.3.6. Calculating expected credit losses

The Bank calculates expected credit losses consistently with the International Financial Reporting Standards and in accordance with Polish banking law requirements and requirements of the Polish Financial Supervision Authority.

3.3.6.1 How exposures are classified to stages

The Bank, by implementing International Financial Reporting Standards, classifies credit exposures to stages:

- Stage 1 – exposures for which the risk did not increase significantly since the initial recognition in the loan portfolio,
- Stage 2 – exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition,
- Stage 3 – exposures for which impairment triggers were identified,
- POCI (purchased or originated credit-impaired asset) – assets identified as credit-impaired at initial recognition.

In the Bank the assignment of exposure to Stage 2 takes place according to the Transfer Logic algorithm, which defines the qualitative and quantitative criteria indicating a significant increase of credit risk, while the classification exposure to the Stage 3 is determined by loss-events.

Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. In case of exposures classified as forborne, the additional condition for reclassification to Stage 1 is the 24-month probation period during which the loan has a performing status.

The exposure may also be transferred from Stage 3 to Stage 2 or to Stage 1 if for each loss-events assigned to debtor, probation period has elapsed and, additionally in case of corporate clients, debtor's assessment carried out after probation period, has not shown that the debtor is unlikely to fully repay its obligations without recourse to realising security.

Probation period refers to the period in which debtor properly fulfils its obligations, calculated from the moment event leading to loss-event ceases.

Probation period is calculated separately for each loss-event. Probation period is also maintained when the exposure due to which loss-event has occurred has been repaid, written off or sold. Probation period equals:

- for distressed restructuring – 12 months,
- for other loss-events – 3 months.

During probation period, the Bank assesses debtor's credit behaviour, and the exit from probation period depends on proper service.

3.3.6.1.1. Significant deterioration of credit quality (classification to Stage 2)

A significant deterioration in credit quality is recognised for the asset concerned on the basis of quantitative and qualitative criteria, with the asset being transferred to Stage 2 once at least one of such qualitative or quantitative criteria is met.

Qualitative criteria are:

- the number of days of delay in paying the amount due is greater than or equal to 31 days, taking into account materiality thresholds:
  - the absolute threshold refers to the past due exposure amount and amounts to PLN 400 for retail exposures in Polish branch and exposures of Private Banking debtors, registered in corporate systems, CZK 2 500 for retail exposures in the foreign branch of the Bank in Czech Republic, EUR 100 for retail exposures in the foreign branch of the Bank in Slovakia and PLN 2 000 for exposures in the area of corporate and investment banking,
  - the relative threshold refers to the ratio of the past due exposure amount to the total balance sheet exposure amount and amounts to 1%,
- the number of days of delay in paying the amount due od exposure is greater than or equal to 91 days (without materiality thresholds),
- occurrence of the Forborne performing flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank),
- occurrence of the Watch List flag (the Bank’s internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank),
- deterioration of the risk profile of the entire exposure portfolio, due to the type of product, industry or distribution channel. (for retail customers).

The Bank quantifies the level of credit risk in relation to all exposures or clients for which credit exposures exists. In the absence of available information to assess the credit risk of an exposure at initial recognition, the Bank classifies such an exposure to stage 2 without the possibility to reclassify it to stage 1.

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of relative and absolute long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition. This factor is determined separately for the retail and corporate portfolio within the homogeneous segments in terms of probability of default events and exposure characteristics. Where relative and absolute change in long-term PD exceeds "the transition thresholds", the exposure is moved to Stage 2. An important issue in the process of calculating the credit quality deterioration is initial date recognition consistent in the entire Bank, against which the deterioration of credit quality is examined. Initial date re-recognition is determined for the exposures for which substantial modification of contractual terms took place. Each change of initial recognition date results in recalculation taking into account the new exposure characteristics, initial PD parameter at the new initial recognition date, against which the credit quality deterioration is examined.

3.3.6.1.2. Low credit risk criteria

For exposures whose characteristics are indicative of low credit risks (LCR), expected credit losses are always determined on a 12-month basis. Exposures designated as LCR may not be transferred from Stage 1 to Stage 2, although they can be moved from Stage 1 to Stage 3 upon being recognised as credit-impaired. The Bank applies the LCR criterion to clients from the government and central bank segment with investment grade ratings and to clients from Local Government Units segment. The LCR criteria is not used in the retail banking segment.

3.3.6.1.3. Impairment triggers - corporate portfolio

The list of definite loss events in corporate portfolio:

- the number of days past due of the principal, interest or fees is over 90 days (in the case of exposures to banks over 14 days). Number of days past due is calculated at the debtor level and commences when both absolute and relative materiality thresholds have been exceeded, where:
  - absolute threshold refers to the sum of all overdue amounts related to the debtor's liabilities towards the Bank and amounts to PLN 2 000 for corporate and investment banking debtors and PLN 400 for Private Banking debtors registered in corporate systems;
  - relative threshold refers to the ratio of all overdue amounts related to the debtor's liabilities towards the Bank to the sum of balance sheet exposures related to given debtor and amounts to 1%;
- Bank's sale of the credit obligation with material economic loss related to change in creditworthiness of the debtor;
- the Bank performed distressed restructuring (the materiality threshold from which the Bank considers a diminished financial obligation to be defaulted is 1%);
- information about enforcement proceedings instigated against a debtor in the amount which in the Bank's opinion is likely to result in a loss of creditworthiness;
- information about a petition for bankruptcy, liquidation of a debtor, dissolution or annulment of a company, or about appointment of a guardian;
- declaration of bankruptcy of a debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank;
- information about dismissal of a petition for bankruptcy of a debtor on grounds that the assets of the debtor are insufficient or are only sufficient to cover the costs of bankruptcy proceedings;
- debtor's failure to repay the amount of surety provided by the Government;
- termination of part or whole credit agreement by the Bank or the beginning of restructuring/collection procedures;
- fraud (embezzlement) of the debtor;
- Bank expecting suffering a loss on the client;
- occurrence of cross default;
- information on filing a restructuring petition or instigating a restructuring proceedings with regard to a debtor within the meaning of the Restructuring Law Act;
- information on major financial problems suffered by a debtor.

In addition Bank identifies loss-events specific to individual categories of entities, and so-called 'soft' loss events, introduced in order to signal situations, which may result in the loss of the debtor's ability to repay loan to the Bank. In the event of their occurrence, an in-depth analysis (taking into account the specificity of the entity's operations) is performed and individual decision on the classification of the exposure to one of the stages is made.

3.3.6.1.4. Impairment triggers - retail receivables

The list of definite loss events in retail portfolio:

- the number of days past due of the principal, interest or fees is over 90 days. Number of days past due is calculated at the debtor level and commences when both absolute and relative materiality thresholds have been exceeded, where:
  - absolute threshold refers to the sum of all overdue amounts related to the debtor's liabilities towards the Bank and amounts to PLN 400 for polish branch, CZK 2 500 for the foreign branch of the Bank in Czech Republic and EUR 100 for the foreign branch of the Bank in Slovakia;
  - relative threshold refers to the ratio of all overdue amounts related to the debtor's liabilities towards the Bank to the sum of balance sheet exposures related to given debtor and amounts to 1%;
- the Bank performed distressed restructuring (the materiality threshold from which the Bank considers a diminished financial obligation to be defaulted is 1%);
- termination of the agreement by the Bank in the event of breach of the loan agreement by the debtor;
- obtaining information on the submission of a petition for consumer bankruptcy by the debtor, conducting court proceedings in this matter or a judgment by the court of consumer bankruptcy;
- obtaining information about the submission of an application by the debtor to initiate or to conduct bankruptcy/restructuring proceedings against the debtor, which, in the Bank's opinion, may result in delay or failure to repay the liability;
- recognition of the contract as fraudulent;
- Bank's sale of the credit obligation with material economic loss related to change in creditworthiness of the debtor;
- uncollectable status of debt;
- pay out of low down payment insurance;
- occurrence of cross default.

3.3.6.2. Calculation of expected credit losses

Expected credit losses (ECL) are measured at the level of a single contract or exposure (agreement). In the portfolio approach, expected credit losses are the product of multiplication of value of PD, LGD and EAD estimated individually for each exposure and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. The calculation of expected credit losses does not use a collective approach (assigning one parameter value to selected portfolios).

In order to calculate the Lifetime PD parameter, an estimation was used in which the explanatory variable is the cumulative default-rate. In this procedure, using linear regression calculated by the least squares method, a Weibull distribution curve is fitted to the empirical data. Estimates are made separately for the retail and corporate portfolio within the homogeneous segments in terms of client and exposure characteristics. In order to determine Lifetime PD values that take into account macroeconomic expectations, a scaling factor, known as the z-factor, is additionally determined. Z-factor aims to adjust the average observed Lifetime PD values to values that reflect expectations about the development of future macroeconomic conditions. The scaling factor determines the phase of the business cycle in which the economy will be in the next years of the forecast by comparing the expected values of default rates to long-term averages.

For the purposes of calculating the long-term LGD parameter, the dependent variable in the form of a loss ratio calculated using the discounted cash flow method (workout approach) was determined. To determine the estimates, a set of statistical methods was used, consisting of e.g. fractional regression, linear regression, mean in pools, or regression trees. Estimates are made separately for the retail and corporate portfolios within homogeneous segments with the use of customer and exposure characteristics. During the estimation, macroeconomic expectations were also used, which adjusted the model values based on customer- and contract-level variables.

In order to calculate the long-term EAD parameter, a set of two dependent variables was used in the form of the future utilisation of the limit (Limit Utilisation - LU) and the credit conversion factor (CCF). Model values were determined using regression trees based on client- and contract-level variables. In the segments in which the analyses indicated the statistical significance of macroeconomic expectations, they were included in the EAD models.

If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, expected credit losses are calculated in the minimum horizon of 12-month horizon and horizon to maturity. If the exposure credit risk increased significantly since the initial recognition (exposure is in Stage 2), the Bank calculates expected credit losses in the life-time horizon (Lt ECL). The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

The individual approach concerns all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio and Private Banking loan portfolio, which is registered in corporate systems. The expected credit losses are calculated as a difference between the value of exposure and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, considered scenarios are developed for exposures and assume a significant share of recoveries from the customer's own payments. In case of debt collection strategy, the scenarios are developed for each recovery source (collateral) separately. The Bank identifies scenarios per exposure/recovery source, minimum 2 are considered obligatory, provided one of them reflects a partial loss on exposure/recovery source. Weight of scenario results from an expert assessment of the likelihood of scenarios based on the relevant facts of the case, in particular, on existing security and their type, client's financial situation, client's willingness to cooperate, the risks that may occur in the case and micro- and macroeconomic factors.

For the valuation of expected credit losses the Bank uses data contained in the Bank's transaction systems and implemented in dedicated tools.

3.3.6.2.1. Use of macroeconomics scenarios in ECL estimation

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios. In case of portfolio estimation of ECL, the non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss (calculated every month). The value of NLF is used as scaling factors for individual ECLs. The NLF factor is determined separately for retail and corporate segments at least once a year. NLFs are used as scaling factors for individual ECLs that are determined at the level of individual exposures in each segment. NLFs are calculated based on results from three simulation calculations at the same reporting date, which result from relevant macroeconomic scenarios. In particular, NLF for a given segment is calculated as:

- probability-weighted average of the expected loss from three macroeconomic scenarios ('average estimation') comprising: baseline scenario, optimistic scenario, pessimistic scenario. The weights of scenarios are consistent with probabilities of realisation each scenario – 60% for base, 20% for optimistic and 20% for pessimistic;
- the expected loss determined under baseline scenario (reference estimate).

Simulation calculations, whose results are used to calculate NLF, are carried out on the basis of the same input data on exposure characteristics, but involve different risk parameter vectors, if the macroeconomic expectations defined in the scenarios are such as to affect the value of these parameters.

Additionally, the inclusion of forward-looking information takes place in the models of all three credit risk parameters estimated in the lifetime horizon (Lt PD, Lt EAD, Lt LGD). In the estimates the Bank uses, among others, generally available macroeconomic and financial indicators (GDP, employment in the enterprise sector, unemployment rate, level of export/import, salaries, monetary financial institutions receivables from households), expectations regarding interest rates and exchange rates, as well as changes in property prices, separately for residential and commercial properties.

In the case of individual ECL estimation, each time, based on an expert assessment, the Bank estimates the impact of macroeconomic factors and other general factors (e.g. the Bank's previous cooperation with the borrower, the nature of the product) on the probability of the adopted scenarios in the calculation of the estimated loss and on the assumed amounts and dates of inflow from operating cash flows and from collateral. This is done through a comprehensive expert assessment of above factors (positive assessment, neutral or negative). For example, a positive assessment provides the basis for increasing the probability of a positive scenario against a negative one, or a baseline scenario against a negative one, where the baseline scenario is based on inflow from the borrower's operating activity. Macroeconomic factors used in individual ECL estimation are based on assumptions for budget forecasts and financial plans used for management and reporting at mBank. In addition, in terms of macroeconomic factors, conclusions from industry analyses prepared at the Bank are taken into account, in particular conclusions from expert assessments of industries prepared for the purpose of determining the Bank's industry limits, as well as from the assessment of industry prospects and the assessment of the attractiveness of a specific sector. Future economic conditions may not be taken into account in the process of estimating ECL if the Bank does not identify connection between macroeconomic factors and the level of expected loss.

3.3.6.2.2. Significant model changes

In 2022 the Bank introduced the following significant changes to the models used to calculate expected credit losses:

- In the first half of 2022:
  - For the specialised lending portfolio there was provided a recalibration of long-term default probability and long-term loss models used for the calculation of expected credit losses and there was provided an update of macroeconomic forecasts, preceded in the first quarter of 2022 by the assignment of a weight of 100% for the pessimistic scenario in the expected credit loss model. The total impact on the level of expected credit loss of all changes for the specialised lending portfolio was a release of provisions in the amount of PLN 2.1 million (positive impact on the result);
  - For the remaining loan portfolio there was performed an analysis of an update of macroeconomic forecasts, preceded in the first quarter of 2022 by the assignment of a weight of 100% for the pessimistic scenario in the expected credit loss model. The impact of these changes on the level of expected credit loss, for the loan portfolio not including specialised lending, was recognised as a creation of provisions in the amount of PLN 73.0 million (negative impact on the result). Additionally, the impact on the fair value valuation of the non-mortgage loans portfolio amounted to PLN 1.8 million (negative impact on the result).
- In the second half of 2022:
  - The lifetime LGD model for the corporate segment was rebuilt and the macroeconomic indicators used in the expected credit loss model were updated to take into account the volatility of the current and forecast economic situation in Poland. The total impact of these changes, in the context of the expected credit loss amounted to PLN 0.1 million (negative impact on the result). Additionally, the impact on the fair value valuation of the non-mortgage loans portfolio amounted to PLN 0.7 million (negative impact on the result).

3.3.6.2.3 The most important changes resulting from the implementation of Recommendation R

On 15 April 2021, the Polish Financial Supervision Authority (KNF) issued Recommendation R on the principles of credit exposure classification, estimation and recognition of expected credit losses and credit risk management, which entered into force on 1 January 2022.

The revised Recommendation R is a set of best practices regarding the classification of credit exposures, estimation and recognition of expected credit losses, in accordance with the accounting and credit risk management policies adopted and applicable at banks. The most important adjustments resulting from the content of the Recommendation covered the following areas:

- definition of default - no need to change the definition of default was identified as part of the adaptation to Recommendation R. The rules of the recommendation influenced the specification of some loss events and the modification of the debt collection process;
- classification into Stages - adjusting the catalogue of criteria of the Transfer Logic algorithm:
  - in terms of quality criteria, the following two elements have been added to the previously used criteria:
    - deterioration of the risk profile of the entire exposure portfolio, due to the type of product, industry or distribution channel – applies to retail banking;
    - a delay in repayment for a given exposure exceeding 90 days from the maturity of a loan/loan instalment - principal or interest or fees, in a situation where the materiality criteria of an overdue credit obligation are not met for a given exposure - applies to retail and corporate banking;
  - in terms of the quantitative criterion, the following changes were made:
    - adjusting the definition of the relative and absolute change of the long-term PD to the requirements of Recommendation R;
    - updating the thresholds of the Transfer Logic, taking into account the long-term perspective (departure from cyclical recalibration of the thresholds based on the current portfolio data; ensuring the constancy of the thresholds expected by the supervisor throughout the life of the contract by determining the threshold based on a long – term sample of data);
    - taking into account the model segmentation compliant with the cross-sections suggested in the R recommendation;

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- process changes:
  - extending the approval process of expected credit losses to include the Vice President of the Management Board for Risk Management (CRO);
  - increasing the frequency of back tests of expected credit losses and risk parameters up to quarterly.

increasing the frequency of back tests of expected credit losses and risk parameters up to quarterly.

3.3.6.3. Credit risk costs coverage of individual sub-portfolios

The tables below show the percentage of the Bank's balance sheet and off-balance sheet items relating to loans and advances, guarantees and letters of credit to individuals, corporate entities and public sector and the coverage of the exposure with credit risk costs for each of the Bank's internal rating categories (the description of rating model is included in Note 3.3.4).

Portfolio measured at amortised cost

Sub - portfolio	31.12.2022		31.12.2021	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	8.68	0.01	13.28	0.00
2	35.30	0.05	29.19	0.05
3	17.89	0.18	24.14	0.24
4	20.93	0.56	17.82	0.66
5	11.09	1.78	10.28	2.16
6	0.30	6.70	0.41	5.68
7	1.54	12.94	1.67	10.42
8	1.50	0.05	0.48	0.11
default	2.77	57.46	2.73	62.65
Total	**100.00**	**2.18**	**100.00**	**2.32**

As at 31 December 2022, 43.98% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorised in the top two grades of the internal rating system (31 December 2021: 42.47%).

Portfolio measured at fair value through other comprehensive income

Sub - portfolio	31.12.2022		31.12.2021	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	6.57	0.01	58.32	0.01
2	82.36	0.04	36.15	0.02
3	6.64	0.34	3.35	0.07
4	2.82	0.85	1.30	0.21
5	0.82	2.08	0.35	0.83
6	0.08	4.30	0.06	2.02
7	0.24	7.48	0.29	4.95
default	0.47	21.19	0.18	28.05
Total	**100.00**	**0.22**	**100.00**	**0.08**

As at 31 December 2022, 88.93% of the loans and advances is categorised in the top two grades of the internal rating system (31 December 2021: 94.47%).

3.3.7. Fair value for credit assets

If the conditions for the measurement of a credit asset at amortised cost (IFRS 9, par. 4.1.2) are not met, then it is measured at fair value through profit or loss or at fair value through other comprehensive income.

3.3.7.1. Fair value valuation of non-impaired credit assets

The valuation for non-impaired exposure is based on its discounted estimated future cash flows.

Future cash flows are determined taking into account:

- repayment schedule, and in the absence of a schedule (revolving products) - based on a statistical estimation of the annual credit limit utilisation in expected behavioural exposure period;
- time value of money, based on risk-free interest rates set in the process of forecasting interest flows;
- cash flows amount and their schedule fluctuations stemming from the option of prepayment (early partial or full repayment of the principal) included in the loan agreement by application of prepayment factors;
- uncertainty of cash flows resulting from credit risk throughout the forecasted lifetime of the exposure by modification of contract flows using multi-year credit risk parameters Lt PD and Lt LGD;
- other factors that would be taken into consideration by the potential exposure buyer (overhead costs and the profit margin expected by market participants) during the process of calibration of the discount rate used in the valuation process.

Due to requirements of IFRS 13 for the exposures for which there are no quotes on an active market, the Bank calibrates the discount rate based on fair value at the date of the initial recognition (i.e. the cost price of exposure). Calibration margin reflects market valuation of costs related to maintaining exposures in the portfolio and market expectations about profit margin realised on similar exposures.

3.3.7.2. Fair value valuation of impaired credit assets

Impaired credit assets are valuated based on expected recoveries. In case of retail exposures the valuation is reflected by LGD parameters, and in case of corporate exposures it refers to individual recovery scenarios.

3.3.8. Repossessed collateral

The Bank classifies repossessed collaterals as assets repossessed for debts and measures them in accordance with the adopted accounting policies described in Note 2.20. Assets repossessed for debts classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified for individual types of repossessed collaterals. In 2022 and 2021, the Bank did not have any repossessed collaterals that were difficult to sell.

3.3.9. Bank Forbearance Policy

<u>Definition</u>

The Bank's forbearance policy is a set of activities relating to renegotiation and restructuring of terms of loan agreements which is defined by internal regulations.

The Bank offers forbearance to assist customers, who are temporarily or permanently in financial distress and are unable to meet their original contractual repayment terms, through agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract. These actions may be initiated by the customer or the Bank.

The type of concession offered should be appropriate to the nature and the expected duration of the customer’s financial distress. The Bank’s belief in the customer’s willingness and ability to repay the loan is necessary to conclude an agreement. Prior to granting a concession, an assessment of its impact on improving customer’s ability to repay the loan is carried out.

The Bank renegotiates loan agreements with customers in financial difficulties to maximise possibility of receivables repayment and minimise the risk of default (situation when client fails to fulfil his contractual obligation).

Exposures with modified terms and conditions under forbearance policy (hereinafter - forborne exposures) are subject to regulatory and internal reporting.

<u>Instruments used</u>

The Bank maintains open communication with borrowers in order to detect any financial difficulties as early as possible and to know the reasons of such difficulties. In case of retail borrowers with temporary financial difficulties forbearance solutions focus on temporary reductions of contractual payments among others in form of capital repayments suspension with only interest repayments kept.

For borrowers under long term financial distress extension of contractual repayment schedule may be offered which can include instalments reduction.

For the corporate borrowers in financial distress, as part of the business support process, mBank offers concessions, starting from participating in debt standstills and concluding on debt restructuring agreements. Debt restructuring agreements may improve the Bank's collateral position by replacing open financing (overdraft) with factoring or invoice discount. Restructuring agreements can waive or ease covenants included in the primary agreement (additional conditions included in the primary agreement) if it represents optimal strategy for borrower's business continuity.

The following list does not exhaust all possible concessions (forbearance measures) that are subject to forbearance, but it includes the most common:

- maturity extension/extension of loan duration;
- restructuring (medium or long term refinancing);
- capitalisation of interest;
- interest deferrals;
- full instalment deferrals;
- principal deferrals;
- covenant waiver;
- standstills.

Risk management

Forbearance measures have been an integral part of mBank's risk management area for many years. Forborne portfolios are subject to regular review and reporting to the area management. The effectiveness of undertaken actions, regularity of restructured transactions' service in respect of types of product and borrower's segment are subject to assessment. The risk analysis of retail forborne portfolio is based on portfolio approach and corporate portfolio analysis is based on individual approach.

In corporate banking, every exposure to borrowers with recognised loss event is classified as default and impairment test is required to be carried out. Every exposure classified as default is being taken over by the specialised unit dedicated to restructuring and debt collection, which defines and implements the Bank's optimal strategy towards the client from the point of view of minimising losses, i.e. restructuring or debt collection. All exposures to borrowers in financial difficulties with granted concessions (incl. classified as default) have the forborne status. Non-default debtors in financial difficulties, i.e. without recognised loss event, who received the concession (forbearance measures), are subject to close monitoring (Watch List – WL) by all units involved in the loan granting process. Their financial situation is subject to close monitoring and they are under constant review to establish whether any of impairment indicators had materialised.

Bank does not use dedicated models to determine level of portfolio provision and special-purpose provision for forborne portfolio.

Forborne exit conditions – corporate banking area

The Bank ceases to recognise the exposure as forborne if all of the following conditions are met:

- debtor financial situation's analysis showed improvement and the exposure has been recognised as performing and it was reclassified from the nonperforming category,
- at least two years after exposure had been recognised as performing have passed (probation period),
- for the last 12 months of probation period, significant and regular capital or interest payments have been made by the borrower (overdue not exceeding 30 days),
- none of the debtor exposures is overdue more than 30 days at the end of probation period.

Forborne exit conditions – retail banking area

The Bank ceases to recognise the contract as forborne when all of the following conditions are met:

- the contract is recognised as performing,
- at least two years (probation period) have passed since the exposure was recognised as performing,
- at least from the middle of the abovementioned probation period regular capital or interest payments were made (lack of significant delays in repayment longer than 30 days),
- none of the debtor's exposures are overdue more than 30 days and at the same time the due amount does not exceed material threshold defined in internal regulations of the Bank at the end of the 2-year probation period.

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Portfolio characteristic

	31.12.2022			31.12.2021		
	Gross carrying amount	Accumulated impairment	Net value / Fair value	Gross carrying amount	Accumulated impairment	Net value / Fair value
Loans and advances to customers measured at amortised cost	**90 332 309**	**(2 526 862)**	**87 805 447**	**88 722 733**	**(2 600 966)**	**86 121 767**
of which: forborne exposures	2 075 516	(510 110)	1 565 406	1 551 367	(347 027)	1 204 340
of which: defaulted	*1 045 896*	*(477 683)*	*568 213*	*750 383*	*(315 400)*	*434 983*
Loans and advances to customers measured at fair value through other comprehensive income	**19 465 324**	**(43 251)**	**19 422 073**	**18 206 495**	**(15 241)**	**18 191 254**
of which: forborne exposures	297 212	(11 967)	285 245	79 618	(2 099)	77 519
of which: defaulted	*60 214*	*(10 373)*	*49 841*	*6 986*	*(1 533)*	*5 453*
Loans and advances to customers measured at fair value through profit and loss			**712 570**			**991 469**
of which: forborne exposures			2 233			4 905
of which: defaulted			*920*			*1 703*
Forborne exposures, total			**1 852 884**			**1 286 764**
of which: defaulted			*618 974*			*442 139*

Change of carrying value of forborne exposures	31.12.2022	31.12.2021
As at the beginning of the period	**1 286 764**	**1 674 844**
Outflow from forborne exposures	(430 457)	(830 013)
Inflow to forborne exposures	1 082 185	538 772
Changes in existing forborne exposures	(85 608)	(96 839)
As at the end of the period	**1 852 884**	**1 286 764**

The analysis carried out for the above reporting periods showed a negligible share of exposures that leave the forbearance status within one year and then return to it.

Forborne exposures by client segment	31.12.2022	31.12.2021
Loans and advances to customers, including:		
Individual customers:	1 052 503	828 659
of which: housing and mortgage loans to natural persons	*759 314*	*529 098*
Corporate customers	800 381	458 105
Total	**1 852 884**	**1 286 764**

Forborne exposures by the type of concession	31.12.2022	31.12.2021
Refinancing	170 783	121 464
Modification of terms and conditions	1 682 101	1 165 300
Total	**1 852 884**	**1 286 764**

Forborne exposures by geographical breakdown	31.12.2022	31.12.2021
Poland	1 679 100	1 228 754
Other countries	173 784	58 010
Total	**1 852 884**	**1 286 764**

Forborne exposures by days past due	31.12.2022	31.12.2021
Not past due	-	-
Past due less than 30 days	1 509 189	966 112
Past due 31 – 90 days	88 712	106 106
Past due over 90 days	254 983	214 546
Total	**1 852 884**	**1 286 764**

Forborne exposures by industry	31.12.2022	31.12.2021
Individual customers	1 052 503	828 659
Construction	224 274	29 091
Real estate	111 954	26 983
Food sector	100 959	79 374
Construction materials	76 298	23 468
Metals	66 188	9 075
Wood, furniture and paper products	57 602	55 699
Wholesale trade	42 980	6 872
Motorisation	20 420	28 013
Transport and logistics	19 845	17 625
Other	79 861	181 905
Total	**1 852 884**	**1 286 764**

3.3.10. Counterparty risk that arises from derivatives transactions

The credit exposure on mBank portfolio to derivative transactions is calculated as the sum of the replacement cost of each transaction (which is its current net present value - NPV) and its estimated future potential exposure (Add-on). Moreover the Bank uses credit mitigation techniques such as netting and collateralisation. The former is implemented if close-out netting agreement is signed, whereas the latter requires prior Credit Supported Annex (CSA) or suitable clauses in the framework agreement concluded in order to collateralise the exposure. CSA states that the variation margin may be called if current valuation of the portfolio exceeds the predefined level (threshold). Moreover as far as existing agreements are concerned, additional collateral (initial margin, etc.) may also be exchanged. Credit exposure to the derivatives portfolio is adjusted appropriately depending on the collateral being paid or received in accordance with the binding agreements. For the purpose of the counterparty risk calculation only positive NPV at the derivative portfolio level is taken into account.

Credit exposure control is performed through an integrated system in real time. In particular the level of the allocated credit exposure limit usage is monitored on a daily basis. In addition, compliance with restrictions resulting from credit decisions, supervisory regulations and business decisions is controlled. Credit exposure limits are subject to limit decomposition into different products and maturities.

The decomposition of mBank credit exposure of the derivatives portfolio based on the counterparty type is as follows:

- 41.0% banks,
- 11.6% central counterparties (CCP),
- 6.2% financial institutions,
- 41.2% corporates, private banking and others.

The decomposition of mBank credit exposure of the derivatives portfolio based on client type is as follows:

Client type	Credit exposure 2022 (PLN m)	Credit exposure 2021 (PLN m)
Banks CSA	1 556	1 444
CCP	442	491
Corporations with limit	1 568	1 712
Non-Bank Financial Institution	234	332
Corporations collateralised and other*	(5)	1

** negative exposure means overcollateralisation*

Positive NPV (netting included) and inflows and outflows of the collateral for mBank of the derivatives portfolio is depicted below:

(PLN m)	Banks*		CCP*		Corporates and others			
					CSA	w/o CSA**	CSA	w/o CSA**
	2022	2021	2022	2021	2022		2021	
NPV***	34.77	22.46	14.11	2.07	14.25	150.11	11.62	332.08
Collateral received (including collateral posted to custodian)	638.32	528.85	-	-	-	37.02	-	100.52
Collateral posed (including collateral posted to custodian)	495.07	463.80	493.86	583.31	-	-	-	-

** collateral excluding variation margin and default fund (collateral posted to the CCP lest one of its participants defaults)*
*** collateral based on NPV and its estimated future potential exposure,*
**** NPV with variation margin adjustment for banks, CCPs and corporates with CSA*

3.4. Concentration of assets, liabilities and off-balance sheet items

In order to actively manage the risk of concentration by country, the Bank:

- complies with the formal procedures aimed at identifying, measurement and monitoring this risk,
- complies with the formal limits mitigating the risk by country and the procedures to be followed when the limits are exceeded,
- uses a management reporting system, which enables monitoring the risk level by country and supports the decision-making process related to management,
- maintains contacts with a selected group of the largest banks with good ratings, which are active in handling foreign transactions. On some markets, where the risk is difficult to estimate, the Bank uses the services of its foreign correspondent banks, e.g. Commerzbank, and insurance of the Export Credit Insurance Corporation ("KUKE"), which covers the economic and political risk.

As at 31 December 2022 and as at 31 December 2021 there was no substantial level of geographical concentration in the credit portfolio of mBank. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

Sector concentration risk

The Bank analyses the sector concentration risk in order to build its corporate portfolio in a safe and effective way and manages industrial concentration risk determining industrial limits.

Limiting covers the sectors in which the Bank's exposure is at least 5% of the total amount of exposures in corporate portfolio at the end of a given reporting period, and sectors indicated by the Corporate and Investment Banking Risk Committee (KRK).

The Bank set industrial limits on a level not higher than:

- 12% of the gross loan corporate portfolio for low risk sectors but not higher than 60% of Tier I;
- 10% of the gross loan corporate portfolio for medium risk sectors but not higher than 50% of Tier I;
- 7% of the gross loan corporate portfolio for high risk sectors but not higher than 35% of Tier I.

In the case when the utilisation of the limit exceeds 90%, activities preventing the exceeding of the limit are implemented; decision in this regard shall be taken by the KRK.

The table below presents the concentration structure of mBank S.A. balance sheet exposure into individual industries. The industry division is built on the basis of the value chain concept, in which entities operating in a given market (suppliers, manufacturers, sellers) are concentrated within one industry.

The table below presents loans and advances measured at amortised cost, loans measured at fair value through profit or loss, or at fair value through other comprehensive income are not included.

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The structure of concentration of carrying amounts of exposure of mBank S.A.

31.12.2022

No	Sectors	Carrying value	Gross value				%	Accumulated impairment			
			Stage 1	Stage 2	Stage 3	POCI		Stage 1	Stage 2	Stage 3	POCI
1.	Individual customers	40 129 801	37 009 696	2 682 953	2 058 035	150 554	46.39%	(209 481)	(270 118)	(1 262 306)	(29 532)
2.	Rental and leasing activities	12 881 035	12 881 619	2 727	17 943	-	14.28%	(9 319)	(17)	(11 918)	-
3.	Financial activities	4 794 658	4 796 444	4 184	3 872	-	5.32%	(5 978)	(40)	(3 824)	-
4.	Real estate	4 033 573	3 482 836	466 612	156 258	20 415	4.57%	(21 440)	(10 723)	(64 261)	3 876
5.	Construction	3 339 202	2 909 919	251 788	326 306	13 866	3.88%	(17 684)	(8 524)	(141 051)	4 582
6.	Food sector	2 599 670	2 334 248	209 467	105 767	7 762	2.94%	(5 581)	(10 153)	(52 786)	10 946
7.	Power and heating distribution	1 909 350	1 907 318	10 281	74 771	-	2.21%	(25 947)	(14)	(57 059)	-
8.	Metals	1 698 974	1 582 280	104 311	24 599	1 718	1.90%	(4 730)	(541)	(8 368)	(295)
9.	Motorisation	1 608 733	1 468 770	126 971	27 469	198	1.80%	(2 368)	(549)	(11 679)	(79)
10.	Chemicals and plastic products	1 571 072	1 509 829	51 426	24 354	(4)	1.76%	(3 666)	(318)	(12 813)	2 264
11.	Construction materials	1 534 733	1 180 280	342 868	47 622	1 694	1.74%	(3 246)	(1 499)	(32 502)	(484)
12.	Wholesale trade	1 183 811	1 089 558	75 045	73 188	-	1.37%	(2 575)	(2 234)	(49 171)	-
13.	Transport and logistics	1 175 606	1 105 626	58 354	6 819	772	1.30%	(4 125)	(260)	(4 899)	13 319
14.	Retail trade	1 115 735	1 080 232	36 588	7 091	-	1.24%	(2 837)	(298)	(5 041)	-
15.	Wood, furniture and paper products	916 441	811 217	58 227	52 893	189	1.02%	(760)	(245)	(52 005)	46 925
16.	Fuel	796 607	773 187	26 680	172	940	0.89%	(3 558)	(255)	(44)	(515)
17.	Professional, scientific and technical activities	715 511	714 247	6 232	27 842	8 162	0.84%	(7 381)	(32)	(25 387)	(8 172)
18.	IT	608 203	610 405	1 268	1 652	-	0.68%	(4 385)	(14)	(723)	-
19.	Pharmacy	595 064	597 537	96	1 530	-	0.66%	(2 569)	-	(1 530)	-
20.	Other	4 597 668	3 857 422	717 420	151 974	(282)	5.21%	(18 090)	(9 732)	(103 812)	2 768
Total		**87 805 447**	**81 702 670**	**5 233 498**	**3 190 157**	**205 984**	**100.00%**	**(355 720)**	**(315 566)**	**(1 901 179)**	**45 603**

31.12.2021

No	Sectors	Carrying value	Gross value				%	Accumulated impairment			
			Stage 1	Stage 2	Stage 3	POCI		Koszyk 1	Stage 1	Stage 2	Stage 3
1.	Individual customers	42 946 052	40 677 063	1 844 583	2 158 936	139 266	50.52%	(244 702)	(198 576)	(1 439 126)	8 608
2.	Rental and leasing activities	12 660 763	12 663 124	17 368	28 624	-	14.32%	(34 110)	(56)	(14 187)	-
3.	Financial activities	4 184 153	4 191 710	3 037	3 871	-	4.73%	(10 478)	(164)	(3 823)	-
4.	Real estate	3 825 099	3 294 450	495 322	95 773	6 228	4.39%	(10 925)	(23 501)	(32 178)	(70)
5.	Construction	2 725 729	2 582 370	109 949	130 396	13 644	3.20%	(8 438)	(8 054)	(91 988)	(2 150)
6.	Food sector	2 314 941	2 128 340	154 647	47 871	40 321	2.67%	(11 232)	(2 061)	(25 622)	(17 323)
7.	Power and heating distribution	1 500 181	1 523 105	1 620	50 054	-	1.77%	(28 950)	(2)	(45 646)	-
8.	Construction materials	1 459 773	1 307 782	138 911	65 987	1 580	1.71%	(6 464)	(1 553)	(46 287)	(183)
9.	Metals	1 477 573	1 407 946	59 982	21 554	3 643	1.68%	(6 086)	(253)	(5 570)	(3 643)
10.	Chemicals and plastic products	1 468 267	1 464 457	6 819	4 765	-	1.66%	(5 472)	(92)	(2 210)	-
11.	Motorisation	1 426 856	1 362 808	46 218	31 517	2 171	1.63%	(3 260)	(487)	(10 627)	(1 484)
12.	Wholesale trade	1 124 275	1 078 389	26 306	81 001	-	1.34%	(3 550)	(525)	(57 346)	-
13.	Transport and logistics	1 168 854	1 112 688	49 493	2 911	13 690	1.33%	(6 660)	(811)	(2 277)	(180)
14.	Retail trade	976 766	968 571	10 771	2 363	-	1.11%	(3 063)	(21)	(1 855)	-
15.	Wood, furniture and paper products	722 203	606 103	71 784	21 082	189	0.79%	(1 239)	(6 979)	(14 756)	46 019
16.	Professional, scientific and technical activities	569 521	577 033	1 083	27 751	8 845	0.69%	(8 933)	(9)	(27 639)	(8 610)
17.	Fuel	574 229	556 885	17 348	3 148	-	0.65%	(1 911)	(130)	(1 111)	-
18.	Pharmacy	561 602	562 008	485	3 967	-	0.64%	(3 797)	(1)	(1 060)	-
19.	Agriculture, forestry and fishing	479 441	453 449	13 455	46 026	672	0.58%	(2 147)	(248)	(32 334)	568
20.	Other	3 955 489	3 212 390	753 069	111 444	522	4.59%	(27 368)	(14 953)	(80 147)	532
Total		**86 121 767**	**81 730 671**	**3 822 250**	**2 939 041**	**230 771**	**100.00%**	**(428 785)**	**(258 476)**	**(1 935 789)**	**22 084**

The table below presents the risk of limited sectors (i.e. sectors for which, as at the balance sheet date, the Bank had maximum exposure limits in relation to the corporate exposure portfolio) at the end of 2022 and at the end of 2021.

No.	Sectors	31.12.2022	31.12.2021
1.	Financial sector	low	low
2.	Food sector	medium	medium
3.	Construction	high	high
4.	Metals	medium	medium
5.	Power	medium	medium

Large exposures concentration risk

The purpose of management of the large exposures' concentration risk is an ongoing monitoring of the level of limits set by the CRR Regulation. In order to ensure safety against the risk of exceeding the regulatory limits in the Bank:

- internal limits, lower than those specified in the CRR Regulation, are set,
- daily monitoring of large exposures is carried out and the participants of the lending and investment processes are immediately informed in the case of internal limits exceeding.

These activities have a direct impact on the Bank's decisions concerning new exposures and the increase of existing exposures.

mBank pays particular attention to the correct identification of the scale of risk of significant credit exposures defined in the Bank's internal regulations. In the case of exceeding specified amount of exposure/limit to a customer/group of affiliated customers identified as bulk risk, the financing requires additional decision of the Bank's Management Board irrespective of the PD-rating and the decision-making level.

The Bank monitors large exposures that are subject to exposure limit i.e. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 of CRR Regulation) and exemptions (art. 390 paragraph 6, Art. 400, Art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of Tier 1. At the end of 2022, the Bank recorded one large exposure (after exemptions) for the Commerzbank Group in the amount of PLN 1 379 million, which accounted for 11.0% of mBank's Tier 1.

3.5. Market risk

In its operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the Bank's portfolios due to changes of the market risk factors, in particular:

- interest rates;
- foreign exchange rates;
- stock share prices and indices;
- implied volatilities of relevant options;
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield curve and swap curve – for government bonds).
- in terms of the banking book, the Bank distinguishes the interest rate risk, which is defined as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

3.5.1. Organisation of risk management

In the process of organisation of the market risk management, the Bank follows requirements resulting from the law and supervisory recommendations, in particular the KNF Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

The fundamental principle applied in the organisation of the market risk management in mBank is the separation of the market risk control and monitoring functions from the functions related to opening and keeping open market risk positions.

3.5.2. Tools and measures

For the purpose of internal management, the Bank quantifies exposure to market risk, both for banking and trading book, by measuring:

- the Value at Risk (VaR);
- expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall);
- the Value at Risk in stressed conditions (Stressed VaR);
- economic capital to cover market risk;
- stress tests scenario values;
- portfolio sensitivities to changes of market prices or market parameters (IR BPV – Interest Rate Basis Point Value, CS BPV – Credit Spread Basis Point Value).

The Bank allocates market risk to positions in the banking book, irrespective of the method of presentation of the financial result on those positions used for financial accounting purposes. Market risk measures for interest rate positions in the banking books are determined on the basis of Net Present Value (NPV).

The Bank monitors market risk on a daily basis. For selected risk measures, the measurement is conducted on a weekly basis (Stressed VaR, CS BPV by rating classes) or monthly (economic capital).

For the banking book, the Bank also uses the following measures (described in more detail in the chapter on interest rate risk):

- sensitivity of the economic value of equity (delta EVE);
- sensitivity of net interest income (delta NII);
- repricing gap.

The Value at Risk (VaR) is calculated for each risk factor using the historical method for a 1-day and a 10-day holding period and a 95%, 97.5% and 99% confidence level, assuming a static portfolio. In this method, historical data concerning risk factors for last 254 business days are taken into consideration.

The expected loss under condition that it exceeds Value at Risk (ES) is calculated on the basis of VaR calculation as the average of six worst losses.

The Value at Risk in stressed conditions is a measure of the potential portfolio loss under adverse market conditions that deviate from typical market behaviour. The calculation is analogous to the Value at Risk calculation, the only difference being the period of occurrence of stressed conditions, which is determined on the basis of series of Value at Risk based on 12-month window of risk factors changes since half of 2008.

The economic capital for market risk is a capital to cover losses in the course of one year coming from changes in valuation of financial instruments which built the Bank's portfolios and resulting from changes of prices and values of market parameters.

Stress tests are additional measures of market risk, supplementing the measurement of the Value at Risk. They show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios, i.e. market situations at which the risk factors would reach specified extreme values, assuming a static portfolio.

Stress tests consist of two parts: standard stress tests designated for standard risk factors (foreign exchange rates, interest rates, stock prices and their volatility), as well as stress tests, which involve changes in credit spreads. In this way, there was addressed among others, the need for covering in stress tests analysis the independent effect of basis risk (the spread between government yield curve and swap curve), which the Bank is exposed to, due to maintaining the portfolio of Treasury bonds.

IR BPV is a sensitivity measure of the current valuation of the portfolios to an increase in interest rates by 1 basis point, and CS BPV to an increase in credit spread by 1 basis point.

In order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by mBank, the Bank uses the so-called replicating portfolio models. The approach to current accounts takes into account the division of the stable part into the parts sensitive and insensitive to changes in interest rates. The tenor structure adopted for stable parts of the capital and current accounts, insensitive to changes in interest rates, reflects the approved Bank's strategy to stabilise the net interest income. The tenor structure for the stable part of savings accounts is modelled.

The VaR and IR BPV measurement results presented later in the report show the perspective including modelling of stable parts of capital and non-maturity products (NMD – non-maturity deposits).

The measurement methodology is subject to initial and periodic validation carried out by the Validation Unit and control by the Internal Audit Department.

In order to mitigate market risk exposure the limits are established on:

- VaR at 975% confidence level for a 1-day holding period;
- stress tests results;
- sensitivity measures IR BPV and CS BPV.

Decisions regarding the values of market risk limits are taken by:

- the Supervisory Board (with respect to mBank Group's portfolio);
- the Management Board (with respect to mBank's portfolio);
- the Financial Markets Risk Committee (with respect to the business units' portfolios).

3.5.3. Market risk profile

Value at Risk

In 2022, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level.

The table below presents VaR and Stressed VaR for the mBank's portfolio:

PLN thousand	2022		2021	
	31.12.2022	Mean	31.12.2021	Mean
VaR IR	16 102	15 913	15 825	11 024
VaR FX	1 104	1 485	2 095	3 276
VaR CS	88 835	87 931	85 154	61 846
VaR	**89 048**	**90 313**	**79 934**	**59 744**
Stressed VaR	**88 261**	**108 174**	**136 733**	**153 259**

VaR IR – interest rate risk (without separate credit spread)
VaR FX – currency risk
VaR CS – credit spread risk

The measurement results are presented taking into the account the estimation of stable parts of capital and current accounts.

The Value at Risk (VaR) was largely influenced by the portfolios of instruments sensitive to the interest rates and the separate credit spread – mainly the portfolios of the treasury bonds (in the banking and trading books) and positions resulting from interest rate swap transactions. The increase of VaR value was caused by increased volatility on the financial markets, while the decrease in Stressed VaR resulted mainly from the reduction of the bond portfolio.

Sensitivity measures

The table presents the values of IR BPV and CS BPV (+1 b.p.) for the mBank's portfolio, broken down into the banking and trading books.

PLN thousand	IR BPV		CS BPV	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Banking book	230	1 302	(7 136)	(11 499)
Trading book	(118)	112	(242)	(209)
Total	**112**	**1 414**	**(7 378)**	**(11 708)**

The credit spread sensitivity (CS BPV) for mBank's banking book decreased significantly in 2022 due to reduction of the bond portfolio and results in ca. 70% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

Economic capital for market risk

The Bank calculates economic capital to cover market risk with taking into account the modelling of stable parts of capital and current accounts. As of the end of 2022 economic capital for market risk for mBank amounted to PLN 1 539.0 million (at the end of 2021: PLN 1 238.7 million).

The amount of economic capital for market risk in 2022 was determined mainly by the change in the interest rate position. It grew despite reduction of the treasury bonds portfolio due to the increase of the volatility on the financial markets.

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3.6. Currency risk

The Bank is exposed to changes in currency exchange rates due to its financial assets and liabilities in currencies other than PLN. The following tables present the exposure of the Bank to currency risk as at 31 December 2022 and 31 December 2021.

The tables below present assets and liabilities of the Bank at balance sheet carrying amount for each currency.

31.12.2022	PLN	EUR	USD	CHF	CZK	OTHER	TOTAL
ASSETS							
Cash and cash balances with central banks	3 229 662	12 150 242	231 016	1 341	292 326	1 905	15 906 492
Financial assets held for trading and hedging derivatives	2 185 732	369 653	26 720	5 182	1 878	516	2 589 681
Non-trading financial assets mandatorily at fair value through profit or loss, including:	809 989	1 821	66 696	-	489	-	878 995
Equity instruments	*119 106*	*1 821*	-	-	*489*	-	*121 416*
Debt securities	-	-	*45 009*	-	-	-	*45 009*
Loans and advances to customers	*690 883*	-	*21 687*	-	-	-	*712 570*
Financial assets at fair value through other comprehensive income	53 590 169	18 511	213 774	-	20 272	-	53 842 726
Financial assets at amortised cost	81 099 074	19 759 556	1 315 437	6 440 058	14 587 128	204 040	123 405 293
Debt securities	*20 206 976*	-	-	-	-	-	*20 206 976*
Loans and advances to banks	*5 901 503*	*1 719 521*	*204 493*	*2 011*	*7 528 232*	*37 110*	*15 392 870*
Loans and advances to customers	*54 990 595*	*18 040 035*	*1 110 944*	*6 438 047*	*7 058 896*	*166 930*	*87 805 447*
Investments in associates	2 057 455	-	-	-	-	-	2 057 455
Non-current assets and disposal groups classified as held for sale	26 747	-	-	-	-	-	26 747
Intangible assets	1 207 774	12	-	-	1 936	-	1 209 722
Tangible assets	1 121 206	7 711	-	-	43 797	-	1 172 714
Investment properties	136 909	-	-	-	-	-	136 909
Current income tax assets	-	457	-	-	27 845	-	28 302
Deferred income tax assets	1 140 409	3 020	-	-	2 487	-	1 145 916
Other assets	1 178 444	148 296	13 005	142	234 829	110	1 574 826
TOTAL ASSETS	**147 783 570**	**32 459 279**	**1 866 648**	**6 446 723**	**15 212 987**	**206 571**	**203 975 778**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	1 433 563	556 970	27 149	56 783	-	548	2 075 013
Financial liabilities measured at amortised cost, including:	128 009 171	30 755 514	7 794 021	5 569 521	12 112 841	1 310 449	185 551 517
Amounts due to banks	*648 408*	*710 618*	*35 683*	*1 910 877*	-	*165*	*3 305 751*
Amounts due to customers	*125 050 308*	*26 867 429*	*7 758 338*	*933 303*	*12 081 249*	*1 310 284*	*174 000 911*
Lease liabilities	*112 494*	*811 350*	-	-	*31 592*	-	*955 436*
Debt securities issued	*650 261*	*2 366 117*	-	*1 532 320*	-	-	*4 548 698*
Subordinated liabilities	*1 547 700*	-	-	*1 193 021*	-	-	*2 740 721*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1 528 582)	-	-	-	-	-	(1 528 582)
Liabilities classified as held for sale	7 375	-	-	-	-	-	7 375
Provisions	645 426	39 556	654	595 312	6 629	1	1 287 578
Current income tax liabilities	534 594	8 160	-	-	51 449	-	594 203
Other liabilities	2 969 372	248 219	159 580	4 580	85 433	24 294	3 491 478
TOTAL LIABILITIES	**132 070 919**	**31 608 419**	**7 981 404**	**6 226 196**	**12 256 352**	**1 335 292**	**191 478 582**
Net on-balance sheet position	**15 712 651**	**850 860**	**(6 114 756)**	**220 527**	**2 956 635**	**(1 128 721)**	**12 497 196**
Loan commitments and other commitments	28 654 365	3 205 978	213 290	3	576 929	1 519	**32 652 084**
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 957 483	2 073 963	512 950	238	176	36 137	**8 580 947**

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31.12.2021	PLN	EUR	USD	CHF	CZK	OTHER	TOTAL
ASSETS							
Cash and cash balances with central banks	8 357 978	3 356 377	75 411	1 029	285 356	11 457	12 087 608
Financial assets held for trading and hedging derivatives	1 362 403	1 200 628	16 052	2	1 719	370	2 581 174
Non-trading financial assets mandatorily at fair value through profit or loss, including:	1 118 195	1 786	100 782	-	300	-	1 221 063
Equity instruments	*146 380*	*1 786*	-	-	*300*	-	*148 466*
Debt securities	-	-	*81 128*	-	-	-	*81 128*
Loans and advances to customers	*971 815*	-	*19 654*	-	-	-	*991 469*
Financial assets at fair value through other comprehensive income	53 565 145	289 926	288 845	-	18 741	-	54 162 657
Financial assets at amortised cost	73 532 257	17 099 173	1 307 198	9 386 383	12 497 646	126 941	113 949 598
Debt securities	*16 632 915*	-	-	-	-	-	*16 632 915*
Loans and advances to banks	*3 778 784*	*1 413 867*	*209 785*	*1 727*	*5 758 863*	*31 890*	*11 194 916*
Loans and advances to customers	*53 120 558*	*15 685 306*	*1 097 413*	*9 384 656*	*6 738 783*	*95 051*	*86 121 767*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	(110 033)	-	(110 033)
Investments in associates	2 357 068	-	-	-	-	-	2 357 068
Non-current assets and disposal groups classified as held for sale	31 247	-	-	-	-	-	31 247
Intangible assets	1 110 175	12	-	-	1 292	-	1 111 479
Tangible assets	1 169 804	9 090	-	-	25 786	-	1 204 680
Investment properties	127 510	-	-	-	-	-	127 510
Current income tax assets	-	-	-	-	28 077	-	28 077
Deferred income tax assets	719 446	-	-	-	1 878	-	721 324
Other assets	1 010 400	143 702	2 307	3 716	74 731	-	1 234 856
TOTAL ASSETS	**144 461 628**	**22 100 694**	**1 790 595**	**9 391 130**	**12 825 493**	**138 768**	**190 708 308**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	821 951	1 208 277	14 055	-	-	318	2 044 601
Financial liabilities measured at amortised cost, including:	123 444 184	25 869 036	4 928 451	6 472 682	11 062 474	857 244	172 634 071
Amounts due to banks	*2 296 390*	*426 371*	*30 132*	*2 573 695*	-	*34*	*5 326 622*
Amounts due to customers	*119 492 629*	*20 215 532*	*4 898 319*	*531 068*	*11 050 616*	*857 210*	*157 045 374*
Lease liabilities	*118 371*	*823 767*	-	-	*11 858*	-	*953 996*
Debt securities issued	*25 047*	*4 403 366*	-	*2 255 210*	-	-	*6 683 623*
Subordinated liabilities	*1 511 747*	-	-	*1 112 709*	-	-	*2 624 456*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1 055 478)	-	-	-	-	-	(1 055 478)
Liabilities classified as held for sale	7 425	-	-	-	-	-	7 425
Provisions	725 222	31 627	880	105 110	985	5	863 829
Current income tax liabilities	25 845	1 840	-	-	26 782	-	54 467
Deferred income tax liabilities	-	89	-	-	-	-	89
Other liabilities	2 291 079	164 635	200 073	7 621	75 885	38 188	2 777 481
TOTAL LIABILITIES	**126 260 228**	**27 275 504**	**5 143 459**	**6 585 413**	**11 166 126**	**895 755**	**177 326 485**
Net on-balance sheet position	**18 201 400**	**(5 174 810)**	**(3 352 864)**	**2 805 717**	**1 659 367**	**(756 987)**	**13 381 823**
Loan commitments and other commitments	27 996 744	2 145 537	284 189	3	638 255	2 538	**31 067 266**
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 050 743	1 977 365	493 112	146	1 839	33 201	**7 556 406**

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3.7. Interest rate risk

In the process of management of interest rate risk in the banking book Bank ensures independence of risk identification, measurement, monitoring and control functions from activity related to risk-taking functions.

Interest rate risk of the banking book is the risk resulting from the exposure of the Bank's interest income and capital to the adverse impact of interest rates movements. Following recommendations of the Polish Financial Supervisory Authority (KNF), in particular Recommendation G, and EBA guidelines (EBA/GL/2018/02) the Bank monitors the banking book structure in terms of repricing risk, basis risk, yield curve risk and customer option risk.

The basic measures of interest rate risk in the banking book are:

- the repricing gap (the difference between assets, liabilities and off-balance sheet banking book positions, measured in defined repricing buckets, based on repricing date of the interest rate sensitive products);
- sensitivity of net interest income (delta NII), i.e. the difference of net interest income between the base and alternative scenarios, assuming different shifts in the yield curve and changes in the balance sheet structure;
- sensitivity of the economic value of equity (delta EVE), i.e. the difference in the present value of cash flows between the base scenario and the alternative scenario, assuming various shifts in the yield curve, including those in line with the EBA guidelines on the regulatory outlier test (SOT).

The interest rate risk in the banking portfolio is hedged and managed based on the repricing gap limits, SOT, dNII limit, limits for market risk – imposed on Value at Risk (VaR), stress tests as well as IR BPV and CS BPV.

The Bank calculates and monitors on monthly and quarterly basis the level of sensitivity of net interest income calculated for more than 22 scenarios of interest rate changes, including parallel yield curve shifts, its steepening and flattening, and the basis risk, both in constant, dynamic and run-off balance. The main assumptions used to calculate the measure are:

- the use of customer rates, decomposed into a commercial margins and market rates;
- for products without a specific maturity date, assigning repricing dates based on the replicating portfolio model;
- limits applied to the level of lower and upper clients interest rate, resulting from legal provisions;
- behavioural options including deposit termination and loan prepayments are calculated on the basis of the historical average.

In addition, the Bank calculates on a monthly basis and reports quarterly the sensitivity of the economic value of capital for 14 scenarios taking into account changes in the level and slope of the yield curve as well as currency and credit spreads, broken down into values in currencies together and separately for material currencies based on the following assumptions:

- taking into account cash flows from interest rate sensitive assets and liabilities, including commercial margins;
- use of risk-free curves, except for debt securities, in case of which the curve includes credit spread;
- exclusion of capital from liabilities;
- run-off balance sheet.

In the case of calculated sensitivity measures of net interest income the Bank takes into account the risk of partial or total early repayment of the loan before its maturity/ withdrawal of funds from term deposits before their maturity. The prepayment/withdrawal algorithm used is based on the historical average and its result is the annual prepayment rate/deposits withdrawal rate by major currencies (PLN, CHF, EUR, CZK) and the portfolio of retail and corporate clients. The Bank aims at stabilisation of the net interest income (NII), optimisation of income statement and EVE changes within the accepted risk appetite.

As at 31 December 2022 and 31 December 2021, the sensitivity of net interest income in the Bank (based on a static balance sheet over a 12-month horizon) is presented in the table below:

	Δ NII	
	31.12.2022	31.12.2021
Sudden parallel up by 100 pb	117 442	351 795
Sudden parallel down by 100 pb	(768 800)	(715 290)

The sensitivity of the economic value of equity (for the run-off balance) in shock scenarios of interest rate changes is presented in the table below:

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	Δ EVE	
	31.12.2022	31.12.2021
Sudden parallel up by 200 bp	(478 227)	(378 318)
Sudden parallel down by 200 bp	528 354	404 786
Parallel shock up	(563 248)	(487 238)
Parallel shock down	627 139	524 708
Steepened shock	23 270	80 861
Flattener shock	(128 471)	(175 404)
Short rates shock up	(311 293)	(328 980)
Short rates shock down	324 250	343 495
Maximum	(563 248)	(487 238)
Tier I Capital	12 519 047	13 529 356

A similar level of delta NII year to year in decreasing interest rates scenario results from the adjustment of the Bank's position to the market situation and investing funds in short-term assets sensitive to changes in interest rates. Taking into account the expected further growth of the inflation and a possible increase on the market interest rates, the Bank kept large part of its assets in instruments with a floating interest rate. Moreover, the sensitivity of delta NII in increasing interest rates scenario was influenced by the updated assumptions concerning the higher pricing of deposit accounts. This measure is calculated taking into account specific methodological assumptions, including constant balance sheet, historical margins for rolled products, price elasticity of deposit base, adequate in a given market situation, which means that measure should not be treated as a forecast of the net interest income, but a sensitivity measure for a given moment in certain conditions.

Current and saving accounts balances as well as the Bank's capital decreased in 2022. As a result, the Bank adjusted its investment strategy - it reduced the portfolio of treasury bonds and the portfolio of interest rate swaps. At the same time, there was an increase in the balance of loans with a fixed 5-year interest rate in PLN. As a result of these actions, the delta EVE measure in scenarios of parallel changes in interest rates increased in absolute values. In the remaining scenarios, the delta EVE decreased due to holding funds in assets with a floating short-term interest rate.

Changes of delta NII and delta EVE were caused also by increase of balance sheet total which was observed between 2021 and 2022.

mBank S.A. interest rate risk

The following tables present the Bank's exposure to interest rate risk. The tables present the Bank's financial instruments at carrying amounts, categorised by the earlier of: contractual repricing or maturity dates.

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	13 813 807	-	-	-	-	2 092 685	**15 906 492**
Loans and advances to banks	12 586 870	2 465 480	54 809	50 889	-	234 822	**15 392 870**
Debt and equity securities and investments in subsidiaries	21 526 878	2 867 785	13 065 949	14 455 672	3 828 446	2 185 000	**57 929 730**
Loans and advances to customers	62 244 065	31 048 557	2 329 433	11 243 803	1 077 004	36 948	**107 979 810**
Other assets and derivative financial instruments	226 592	86 688	116 687	3 783	5 433	2 607 383	**3 046 566**
Total assets	**110 398 212**	**36 468 510**	**15 566 878**	**25 754 147**	**4 910 883**	**7 156 838**	**200 255 468**
Liabilities							
Amounts due to banks	1 158 260	32 605	202 035	1 910 721	-	2 130	**3 305 751**
Amounts due to customers	155 515 984	13 597 144	4 698 919	40 514	302	148 048	**174 000 911**
Lease liabilities	-	-	-	-	-	955 436	**955 436**
Debt securities issued	625 076	981 938	297 333	2 644 351	-	-	**4 548 698**
Subordinated liabilities	1 975 193	-	765 528	-	-	-	**2 740 721**
Other liabilities and derivative financial instruments	19 210	56 554	37 527	421 998	237 442	4 533 222	**5 305 953**
Total liabilities	**159 293 723**	**14 668 241**	**6 001 342**	**5 017 584**	**237 744**	**5 638 836**	**190 857 470**
Total interest repricing gap	**(48 895 511)**	**21 800 269**	**9 565 536**	**20 736 563**	**4 673 139**		

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31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	3 244 327	-	-	-	-	8 843 281	**12 087 608**
Loans and advances to banks	8 667 895	2 412 519	114 497	-	-	5	**11 194 916**
Debt and equity securities and investments in subsidiaries	10 573 823	1 911 593	12 848 084	22 503 610	5 522 422	2 505 533	**55 865 065**
Loans and advances to customers	62 158 195	32 672 177	2 444 642	7 588 013	459 283	22 606	**105 344 916**
Other assets and derivative financial instruments	107 871	58 547	63 589	78 458	9 360	2 783 694	**3 101 519**
Total assets	**84 752 111**	**37 054 836**	**15 470 812**	**30 170 081**	**5 991 065**	**14 155 119**	**187 594 024**
Liabilities							
Amounts due to banks	2 686 368	559 921	170 353	1 906 621	-	3 359	**5 326 622**
Amounts due to customers	151 181 421	3 320 520	1 710 124	748 326	1 627	83 356	**157 045 374**
Lease liabilities	-	-	-	-	-	953 996	**953 996**
Debt securities issued	25 047	-	2 936 007	1 450 742	2 271 827	-	**6 683 623**
Subordinated liabilities	758 076	1 112 710	753 670	-	-	-	**2 624 456**
Other liabilities and derivative financial instruments	81 384	146 529	127 133	135 706	19 190	4 227 366	**4 737 308**
Total liabilities	**154 732 296**	**5 139 680**	**5 697 287**	**4 241 395**	**2 292 644**	**5 268 077**	**177 371 379**
Total interest repricing gap	**(69 980 185)**	**31 915 156**	**9 773 525**	**25 928 686**	**3 698 421**		

3.8. Liquidity risk

Sources of liquidity risk

The liquidity risk is understood as the risk of failure to fund assets and meet payment obligations arising from balance sheet and off-balance sheet items owed by the Bank in a timely manner and at a market price.

The reasons for liquidity risk may appear with respect to assets, liabilities and can also arise from off-balance sheet commitments.

As regards assets, their main sources of liquidity risk are market liquidity risk and untimely repayments of loans. Market liquidity risk is a threat of complete or partial impossibility of liquidating the assets held, or the possibility of selling these assets only at an unfavourable price.

As regards liabilities, the risks posed by funding and withdrawal of funds by the clients are the most common source of the liquidity risk. The former is a type of risk in terms of which, should the crisis occur, funding can be acquired only at a higher price, and in an extreme situation, it is not possible to acquire funding or renew existing. The latter is a type of threat associated with uncertainty as to the behaviour of clients whose decisions (for instance, about withdrawal of deposited funds) may weaken the Bank's ability to service its current financial obligations.

A source of risk for off-balance sheet liabilities is a risk posed by clients' behaviour and unexpected drawdown of granted lines. It also concerns the use of intraday and overdraft lines by custody and corporate clients. Materialisation of such a risk may be experienced as severe especially in the case of high concentration of commitments. In respect of derivative transactions concluded with CSA agreements (Credit Support Annex) or settled by CCP, liquidity risk can materialise in consequence of adverse and severe changes in market conditions resulting in sudden decrease in valuation of derivative instruments and related to necessity of pledging the collateral.

Daily operations of the Bank require settlements of various payment operations. Such activity generates high level of liquidity needs during a business day.

Taking into account the mBank Group the liquidity risk is also identified as a possibility of unexpected growth in significant liquidity needs of subsidiaries of mBank. A centralised approach to the management of the Group’s financing was introduced in order to increase the effectiveness of the used liquidity resources and to ensure better tenor match of financing with assets.

Liquidity risk may also appear as a result of usage of inappropriate models in liquidity analysis (e.g. deposit base stable part model), which may lead to underestimation of liquidity risk. It is monitored by verification and back-testing models pursuant to the Model Management Policy.

Organisation of risk management

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organisational structure and delegates powers to dedicated units and Committees. Liquidity risk management is conducted based on three lines of defence.

Liquidity risk management aims at ensuring and maintaining the Bank's and the Group's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of exposure to risks. This process can be divided into two main elements in the operational sense: the part involving all forms of liquidity management and the part of controlling and monitoring liquidity risk.

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client's groups (from whom it acquires deposits), products and currencies, and at the same time, maintains liquidity buffer and optimises its balance sheet in terms of profitability. Long-term activities of mBank in this scope are carried out taking into account conditions on funding capacity and business profitability.

The liquidity position of mBank in 2022 was significantly affected by tense geopolitical conditions related to the outbreak of war in Ukraine. The increase in inflationary pressure forced the NBP to tighten the monetary policy by restoring the required reserve rate to level before the COVID-19 pandemic and a series of interest rate increases that took place in Poland from October 2021 to September 2022. As a result of interest rate increases, the bank adjusted the prices offered to customers for their deposits. At the same time, high-interest government retail bonds represented competition for bank deposits. Interest rate increases and the weakening of Polish currency necessitated increasing collaterals placed in derivative transactions. In addition, decline in valuation of securities that qualified as liquid assets of the bank resulted in a decrease in value of available liquidity buffers. The described events led to a temporary decrease in mBank's liquidity position in mid-2022, which was rebuilt in the second half of 2022. Despite such unfavourable market conditions, liquidity measures were well above regulatory minimum levels throughout the reporting period.

The internal liquidity adequacy assessment process (ILAAP)

In order to review the liquidity risk management system in the Bank and the Group, the ILAAP process was developed. As part of this process all elements of the liquidity risk management system are subject to review, including:

- liquidity risk management strategy;
- stress tests;
- liquidity contingency plan;
- liquidity buffer;
- intraday liquidity risk management;
- early warning system;
- identification and measurement of liquidity risk;
- reporting system.

The review is performed annually. The conclusions of the conducted review serve for further improvement and development of the liquidity risk management.

Tools and measures used in measuring liquidity risk

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure is mismatch gap. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. In 2022, the Bank held liquidity surplus, adequate to the Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value.

In accordance with Commission Delegated Regulation (EU) No 2015/61 of 10 October 2014 amended by the Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018, effective since 30 April 2020 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 the Bank calculates the supervisory liquidity measures. As in 2021, in 2022 the supervisory limits were not exceeded. Moreover the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the volatility of balance sheet and off-balance sheet items, in particular open credit line facilities and current accounts and overdrafts limits utilisation.

The ongoing analysis covers liquidity under normal and stress conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and/or behavioural events relative to the Bank's clients. For this purpose stress test scenarios are regularly calculated in the short- and long-term, in the bank stress, market stress and combined scenarios.

In addition a reverse stress test for liquidity risk is performed in the Bank on annual basis and an intraday liquidity crisis scenario on a monthly basis. Liquidity stress tests are used in the Bank for operational management of liquidity risk.

The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss. Base on severity of risk factors and the degree of the threat of financial loss relevant actions are defined either in the Contingency Plan in case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan mBank Group (Recovery Plan). Scenarios used in both plans are consistent with the above stress tests.

Execution of the strategy of ensuring liquidity of the Bank consists in active management of balance sheet structure of future cash flows and keeping liquidity reserves adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of the Bank, obligations to subsidiaries and the current market situation as well as the demand for liquid assets, resulting from the conducted stress tests. For this purpose the Bank keeps a surplus of liquid and unencumbered assets constituting the liquidity reserves, for which there is a possibility of pledging, transaction on repo market or selling at any time without significant loss in value. Liquidity reserves were composed mainly of the Polish government debt securities in PLN and EUR, bills issued by National Bank of Poland in PLN, government debt securities in CZK and USD and other debt securities meeting the criteria of collateral for a refinancing loan with National Bank of Poland. Values of these reserves amounted to:

Value of liquidity reserves (in PLN million)	
31.12.2022	**31.12.2021**
60 147	54 097

In addition, mBank also maintains cash surpluses placed on accounts with central banks in Poland, the Czech Republic and Slovakia. In order to support the process of liquidity risk management, a system of early warnings indicators and recovery indicators was developed in the Bank. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet structure. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan.

Due to the use by the Bank of FX swap and CIRS instruments to convert surpluses in local currencies into foreign currencies, internal limits are in place on the use of these instruments. Moreover, in order to limit the concentration in FX swaps, the amounts obtained in such transactions are monitored in monthly time bands up to 1 year.

Other measures of liquidity risk are calculated and reported in the Bank as follows:

- concentration of funding sources;
- stability of deposit base;
- early withdrawals of deposits;
- ratio of long-term funding for the real estate market;
- liquidity risk concentration within off-balance sheet positions related to financial and guarantee liabilities.

The Bank includes product's liquidity in its liquidity risk management framework. It is reflected in terms of measuring market liquidity of Treasury bonds, which make up liquidity reserves. The analysis is performed on daily basis and takes account of market liquidity determinants such as: market turnover, order book depth, purchase/sale transaction spread and issue volume. The measurement of market liquidity is reflected in internal liquidity measures, where the scenario's structure provides for liquidating Treasury bonds held by the Bank in line with market trading in particular series of bonds. A similar check is carried out in the context of the market potential of pledging particular bond series.

The measurement, limiting and reporting the liquidity risk

At the Bank, there is a reporting process of liquidity risk. It covers both daily information delivery to entities engaged in operational management of liquidity risk and entities controlling liquidity risk management on operational level, as well as regular reporting to higher management levels for the purpose of making strategic decisions on liquidity risk.

Daily reporting covers:

- regulatory measures;
- liquidity gaps for mBank, the mBank Group and the material subsidiaries from liquidity risk perspective with the utilisation of limits imposed on these measures;
- intraday liquidity;
- other internal liquidity risk measures.

The following measures are reported weekly:

- early warnings indicators (EWI),
- recovery indicators.

Monthly reporting covers:

- regulatory measures and internal liquidity measures to the Management Board members and Financial Markets Risk Committee (KRF);
- regulatory measures, internal liquidity measures and forecasts of liquidity measures based on business development forecasts to the Capital, Assets and Liabilities Committee of the mBank Group (CALCO).

Regulatory measures and internal liquidity measures are reported on a quarterly basis to the Bank's Supervisory Board.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows according to internally adopted LAB methodology. In accordance with this methodology, the Bank calculates the realistic liquidity gap in base scenario (LAB Base Case) and stress scenarios, assuming a conservative approach in method of presenting the liquidity of assets and the amount of outflows resulting from fulfilment of Bank's obligations. The realistic gap is calculated on the basis of contractual cash flows (Note 3.8.1). Mainly cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are amended. In the calculation of the liquidity measures the Bank takes into account the possibilities of raising the funds by selling or pledging the debt securities from the Bank's liquidity reserves.

In the LAB methodology, the LAB Base Case measure is the primary management measure and it is also used for limiting the liquidity gap in particular foreign currencies.

Value of realistic cumulative gap of cash flows mismatch (in PLN million)				
Time bucket	LAB Base Case - 31.12.2022		LAB Base Case - 31.12.2021	
	bucket	cumulative	bucket	cumulative
up to 1 working day	40 223	40 223	33 864	33 864
up to 3 working days	1 441	41 664	2 267	36 131
up to 7 calendar days	8	41 672	515	36 646
up to 15 calendar days	(2 092)	39 580	(1 476)	35 170
up to 1 month	(2 619)	36 961	(1 795)	33 375
up to 2 months	786	37 747	(775)	32 600
up to 3 months	(3 163)	34 584	(502)	32 098
up to 4 months	(507)	34 077	(158)	31 940
up to 5 months	(1 572)	32 505	(531)	31 409
up to 6 months	(874)	31 631	(264)	31 145
up to 7 months	(1 101)	30 530	(260)	30 885
up to 8 months	(1 225)	29 305	(475)	30 410
up to 9 months	65	29 370	(2 462)	27 948
up to 10 months	33	29 403	(850)	27 098
up to 11 months	(1 434)	27 969	(987)	26 111
up to 12 months	(1 399)	26 570	(1 148)	24 963

The above values should be interpreted as liquidity surplus/deficit in relevant time buckets. The dynamics of development of non-bank term deposits and current accounts had a positive impact on change in liquidity gap in the amount of PLN 15.4 billion, calculated with the exchange rate of 31 December 2022 as well as a simultaneous decrease in development of lending activities in the amount of PLN 2.2 billion calculated with the exchange rate of 31 December 2022 (in 2021, respectively: PLN 22.1 billion and PLN 7 billion, calculated with the exchange rate of 31 December 2021).

The Bank has a limited number of transactions with rating downgrade trigger clauses, which require the Bank to provide additional security or prepay outstanding obligations if Banks's credit rating deteriorates. The amount of the maximum liability resulting therefrom, in the event that the Bank's rating is downgraded to BB+ or lower by two rating agencies, as at the 31 of December 2022, amounts to CHF 314 million (CHF 314 million as of 31 December 2021). However, this potential liability is not unconditional. Contract clauses do not preclude the parties from agreeing the amount, form and timing of additional security on a case-by-case basis.

In 2022 the Bank's liquidity remained at a high and safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

LAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2022 and values of regulatory measures LCR and NSFR at the end of 2022 and 2021 are presented in the following table.

	31.12.2022	31.12.2021
LAB Base Case 1M	36 961	33 375
LAB Base Case 1Y	26 570	24 963
LCR	186%	203%
NSFR	150%	152%

** LAB measures are shown in PLN million; LCR and NSFR are relative measures presented as a decimal.*

The LCR and NSFR measures remained on safe level, significantly exceeding 100%.

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of mBank defined by selected measures, e.g. L/D ratio (Loans to Deposits). It measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2022, L/D ratio slightly declined from 66.3% at the end of 2021 to 62.1% at the end of 2022. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks (with maturities over 1 year) and issuance of debt securities (Note 29). The loans and issuances together with subordinated loans (Note 29) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF and an increase in level of provisions for legal risk related to loans denominated in this currency, the Bank's receivables and obligations in this currency have been decreasing successively.

In order to acquire funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities on the international markets, unsecured issuances, bilateral loans as well as FX swap and CIRS transactions.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets optimally, the Bank takes into consideration the supervisory liquidity measures and limits, as well as the internal liquidity risk limits.

The Financing Strategy is based on the following assumptions:

- diversifying sources and timing of financing,
- maintaining safe regulatory levels and internal liquidity measures,
- stable increase in transaction deposits,
- incurring liabilities eligible for the MREL indicator or ensuring the implementation of the ESG strategy e.g. by issuing green bonds,
- maintaining the issuing capacity of mBank Hipoteczny, but with the Bank's greater involvement in financing the subsidiary by purchasing its covered bonds,
- increasing financial independence from the majority shareholder.

3.8.1. Cash flows from transactions in non-derivative financial instruments

The table below shows cash flows the Bank is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	1 041 103	32 891	215 200	2 047 115	-	**3 336 309**
Amounts due to customers	153 859 745	14 934 853	5 920 674	39 966	804	**174 756 042**
Lease liabilities	16 039	26 862	118 728	496 192	339 279	**997 100**
Debt securities issued	37 375	949 485	10 000	3 620 220	126 317	**4 743 397**
Subordinated liabilities	84 976	9 389	133 588	1 288 631	2 059 395	**3 575 979**
Other liabilities	2 568 353	65	122	270	2	**2 568 812**
Total liabilities	**157 607 591**	**15 953 545**	**6 398 312**	**7 492 394**	**2 525 797**	**189 977 639**
Total assets	**45 828 885**	**8 924 524**	**34 292 440**	**82 234 170**	**85 062 269**	**256 342 288**
Net liquidity gap	**(111 778 706)**	**(7 029 021)**	**27 894 128**	**74 741 776**	**82 536 472**	**66 364 649**

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31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	2 698 018	561 539	171 634	1 284 125	615 591	**5 330 907**
Amounts due to customers	151 370 017	3 566 669	1 843 809	296 803	3 662	**157 080 960**
Lease liabilities	9 937	15 160	88 839	477 047	396 929	**987 912**
Debt securities issued	5 962	123	2 931 994	3 848 604	-	**6 786 683**
Subordinated liabilities	21 385	5 479	41 832	948 576	1 931 767	**2 949 039**
Other liabilities	2 049 814	154	136	224	-	**2 050 328**
Total liabilities	**156 155 133**	**4 149 124**	**5 078 244**	**6 855 379**	**2 947 949**	**175 185 829**
Total assets	**34 197 948**	**8 985 458**	**29 467 950**	**79 793 582**	**66 902 535**	**219 347 473**
Net liquidity gap	**(121 957 185)**	**4 836 334**	**24 389 706**	**72 938 203**	**63 954 586**	**44 161 644**

The assets which ensure the payment of all the liabilities and lending commitments comprise cash in hand, cash at the Central Bank, cash in transit and treasury bonds and other eligible bonds, amounts due from banks, loans and advances to customers.

In the normal course of business, some of the loans granted to customers with the contractual repayment date falling due within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Bank could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets.

Remaining contractual maturities for guarantees issued are presented in the note 35.

3.8.2. Cash flows from derivatives

Derivatives settled in a net basis

Derivative financial instruments settled in net amounts by the Bank comprise:

- forward Rate Agreements (FRA),
- options,
- warrants,
- overnight index swap (OIS),
- interest rate swaps (IRS),
- cross currency interest rate swaps (CIRS),
- commodity swaps
- bonds forwards,
- commodity forwards,
- CO_2 emission forwards.

The table below shows derivative financial liabilities of the Bank, which valuation as of end of 2022 and 2021 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	8 778	396	13 015	-	-	**22 189**
Overnight Index Swap (OIS)	3 189	9 736	26 804	104 290	-	**144 019**
Interest Rate Swaps (IRS)	487 512	1 254 039	4 877 722	7 539 364	719 649	**14 878 286**
Cross Currency Interest Rate Swaps (CIRS)	(704)	(9 014)	(40 774)	(47 126)	-	**(97 618)**
Options	4 645	6 167	21 398	20 454	313	**52 977**
Other	8 013	14 715	22 520	13 477	-	**58 725**
Total derivatives settled on a net basis	**511 433**	**1 276 039**	**4 920 685**	**7 630 459**	**719 962**	**15 058 578**

31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	10 523	9 284	23 322	687	-	**43 816**
Overnight Index Swap (OIS)	944	5 243	(14 568)	(7 110)	4 004	**(11 487)**
Interest Rate Swaps (IRS)	33 614	200 403	1 852 398	6 001 212	350 887	**8 438 514**
Cross Currency Interest Rate Swaps (CIRS)	(3 532)	(1 612)	26 245	5 116	1 087	**27 304**
Options	32	336	(14 192)	(10 391)	(448)	**(24 663)**
Other	2 495	26 753	25 247	2 446	-	**56 941**
Total derivatives settled on a net basis	**44 076**	**240 407**	**1 898 452**	**5 991 960**	**355 530**	**8 530 425**

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Derivative financial instruments settled in gross amounts

Derivative financial instruments settled in gross amounts by the Bank comprise foreign exchange derivatives: currency forwards and currency swaps.

The table below presents derivative financial liabilities/assets of the Bank, which will be settled on a gross basis, grouped by appropriate remaining maturities as at the balance sheet date. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives						
- outflows	26 105 075	10 820 400	7 205 648	2 185 033	-	**46 316 156**
- inflows	26 033 382	10 814 899	7 317 715	2 205 454	-	**46 371 450**

31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives						
- outflows	21 386 922	10 415 286	9 102 203	3 040 668	-	**43 945 079**
- inflows	21 364 429	10 400 405	9 151 753	3 030 248	-	**43 946 835**

The amounts disclosed in the table are undiscounted contractual outflows/inflows.

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while Note 19 shows nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 35.

3.9. Operational risk

Operational risk is understood as the possibility of a loss resulting from inadequate or failed internal processes, people and systems or from external events, including also legal risk.

It is comprehensive in nature, which may have a significant impact on the Bank's operations and standing. Apart from the environment and external events, its source may be the organisation itself. Due to their dynamic nature, external and internal factors influencing operational risk are subject to constant analysis and assessment.

According to the Risk Catalogue of the mBank Group, operational risk includes in particular:

- legal risk,
- conduct risk,
- IT risk,
- risk of cyber threats,
- risk of external fraud,
- risk of internal fraud,
- outsourcing risk,
- personnel and organisational risk,
- physical security risk,
- the risk of errors in implementation, delivery and process management.

Operational risk does not include reputational risk; however materialisation of operational risk may increase reputational risk.

Operational risk management is performed in mBank and, at the consolidated level, in the mBank Group. While organising the operational risk management process, the Bank takes into account regulatory requirements, which are the starting point for preparation of framework for the operational risk control and management system in the Bank and the Group.

The aim of operational risk management in the Group is to reduce the causes of operational events, the probability of their occurrence and the severity of potential consequences. When deciding on the acceptable level of operational risk, the following analysis is considered: costs vs. benefits. Activities undertaken by the Group are also focused on increasing operational risk awareness and building a risk culture that allows us to develop appropriate risk management mechanisms and thus increase the security of the Group's activities.

Due to the dynamics of changes in factors affecting operational risk, the key elements of the risk management process are: identification, assessment, control and monitoring, counteracting the materialisation of operational risk and risk reporting.

The basic tools used in the operational risk management process include:

- Self-Assessment of Operational Risk Management Effectiveness, which is performed by organisational units of the Bank and the Group companies. The purpose of this process is to ensure the risk identification and assessment and take appropriate risk mitigation activities. In addition, Self-Assessment supports the process of introducing changes and improving control processes. The final result of the Self-Assessment is the assessment of processes, sub-processes and key operational risks and the creation of corrective action plans.
- The Register of Operating Losses is a database of losses resulting from operational events that arise. mBank also uses access to external databases on operational losses and uses them to analyse operational risk and potential threats to which institutions operating in the financial sector are exposed.
- The key risk indicators KRI and risk indicators RI support the ongoing monitoring of risk. The process makes it possible to predict in advance the occurrence of an increased level of operational risk and to react appropriately by organisational units in order to avoid the occurrence of operational events and losses. Thanks to the system of warning and alarm thresholds, KRI and RI allow to determine the level of risk tolerance.
- Operational risk scenarios that analyse the risks associated with the occurrence of rare but potentially very severe operational risk events.
- Providing opinions on products before the implementation of a new or modified product offer and the impact analysis of the outsourcing agreement on the operational risk profile.

Bank identifies and assesses operational risks for all significant areas of operations as well as new and modified products, processes and systems. Risk identification takes into account both internal and external factors.

Bank has a system of regular monitoring of operational risks and events, which enables the monitoring of the operational risk profile and ensures regular remedial actions.

Regular monitoring allows to quickly detect weaknesses in the risk management system. Thanks to the identification and analysis of the circumstances related to the recorded event and the operational loss, the Bank can better understand the reasons for the occurrence of an operational event and adequately prevent their repetition also in other areas of the organisation.

The Bank has a management information system covering information on the level and profile of risk as part of management reports and reports dedicated to operational risk, including reports submitted to the Management Board and the Supervisory Board.

Operational losses

In 2022, as part of operational risk management, Bank faced in particular losses related to legal risk related to the foreign currency loan portfolio and credit vacation.

The vast majority of the Bank’s operational losses refers to the following business lines: commercial banking and retail banking (separated in accordance with the CRR Regulation).

The level of operational risk losses is monitored on an ongoing basis and regularly reported to the Bank's Management Board, the Bank's Supervisory Board and to the committees of the Business and Risk Forum. There are monitoring and escalation mechanisms in the mBank Group when the operational loss thresholds are exceeded. They ensure an appropriate analysis of operational events and trigger corrective actions.

Detailed information on the amount of operational losses incurred in 2022 and 2021 is presented in the Management Board Report on the Performance of mBank S.A. Group in 2022, in Chapter 3.2. Main risks of mBank Group’s business (section on operational risk).

3.10. Compliance risk

Compliance risk management is realised in mBank in accordance with the provisions of the Compliance Policy at mBank S.A. The Policy sets forth general rules for ensuring compliance of operations pursued by the Bank with provisions of law, internal regulations and market standards. It establishes a framework for the compliance assurance process, including the model adopted at the bank, its components as well as the division of roles and responsibility.

Compliance risk is the risk posed by consequences of failure to observe the law, internal regulations and market standards in processes executed in the bank. The objective of compliance risk management is the minimisation of this risk.

Regulatory non-compliance of the Bank is understood as specific situations in which:

- the Bank's internal regulations do not conform with the domestic and international law and market standards,
- the Bank fails to implement recommendations issued by the Polish Financial Supervision Authority ("KNF"), other supervision authorities and the external auditor,
- the Bank fails to implement the recommendations issued following internal investigations, audits and inspections covering compliance risk,
- the Bank employees operate in breach of the law and internal regulations.

Compliance assurance uses the three-lines-of-defence model:

- First line of defence comprises units which manage compliance risk when implementing business goals and exercise the control function in operational processes.
- Second line of defence comprises:
  - the Compliance Department, which coordinates, oversees and supervises the performance of compliance risk management obligations at the Bank and exercises the control function in compliance assurance,
  - other second-line-of-defence units entrusted with certain tasks from the compliance assurance process.
- Third line of defence comprises the Internal Audit Department, which carries out independent and objective assessment of the adequacy and effectiveness of the internal control system and the risk management system at the Bank.

In all three lines of defence, the Group's employees duly apply control mechanisms or independently monitor the observance of control mechanisms.

Compliance of the Bank's internal regulations with the law (both local and international) and market standards as well as their observance by the employees guarantees the achievement of the internal control system objectives in this scope. In particular, it mitigates or eliminates the following risks:

- legal risk,
- reputation risk,
- risk of administrative sanctions and penalties,
- risk of financial losses resulting from materialisation of compliance risk.

All the Bank employees are responsible for the implementation of compliance risk management process in line with the scope of their duties as well as granted authorisations. The Compliance Department is responsible for the coordination and supervision of the compliance risk management process.

The supervision over the implementation of common compliance standards by the mBank Group subsidiaries is exercised in a manner that does not violate applicable law, prudential regulations and independence of employees performing the compliance function in the subsidiaries, in particular under agreements concluded with the subsidiaries.

3.11. Business risk

Business risk means the risk of losses resulting from deviations between actual net operating result of the mBank Group and the planned level. The calculation of deviations between actual and planned values is done separately for revenues and costs. In particular, the business risk includes strategic risk connected with the possibility of occurrence of negative financial consequences as a result of wrong or disadvantageous decisions or their wrong implementation. It is assumed, that the results of the strategic decisions are reflected in deviations between actual operating result and the planned level in one-year horizon.

Business risk is included in the calculation of economic capital of mBank and mBank Group.

In order to manage effectively and reduce business risk, the following actions are taken:

- assurance of the high quality of data within planning process,
- regular analysis of reasons behind deviations of the actual financial results from plan reported by the organisational units and informing the Management Board about results of the above analyses,
- periodic verification of the adopted strategy,
- regular analysis of the competitors' activities.

3.12. Model risk

Model risk is understood as the risk of negative consequences connected with the decisions made on the basis of the output data of models which have been improperly constructed or are improperly administered. Model risk may result in financial losses, improper business or strategic decisions or negatively influence the Bank's reputation.

The following specific subcategories can be distinguished, in particular, in model risk: risk inextricably linked with the restrictions connected with modelling a given phenomenon, assumption/methodology risk, data risk, models administration risk, and risk of interdependence.

Model risk is managed in the Bank on a systemic basis by proper internal regulations concerning model and their risk management process, in particular monitoring and validation of models.

An important role in the model and their risk management process is played by the Model Risk Committee. It recommends, among others, model risk tolerance level, which is finally approved by the Management Board and the Supervisory Board.

3.13. Reputational risk

The aim of management of reputational risk, defined as a risk resulting from a negative perception of the image of the bank or other member of the group among their stakeholders, is to identify, assess and reduce reputational risk in specific processes in order to protect and strengthen the good name of mBank and mBank Group.

All Bank's organisational units, foreign branches, and subsidiaries are directly responsible for any reputational risk arising from their own business activities.

Reputation risk can be secondary to other types of risk, such as credit, market, liquidity and operational risks. Reputation risk is also a primary risk when it arises directly from an ethically, environmentally or socially controversial activity. This risk is identified, measured and monitored.

To monitor and manage reputation risk, mBank uses various tools and methods:

- implementation of policies and regulations in the area of compliance, security, human and employee rights as well as services for industries and areas sensitive to the reputation risk,
- reputation risk assessment based on negative publications,
- customer satisfaction analysis,
- employee satisfaction research,
- employer brand research,
- crisis management,
- reputation risk analysis when implementing new and modifying existing products,
- analysis of customer complaints,
- building awareness in the area of compliance,
- analysis of violations of employee rights and other rules of the bank's operation.

3.14. Capital risk

In mBank there is a capital management process in order to prevent materialisation of capital risk, understood as risk resulting from the lack of capital as well as lack of the possibility to achieve sufficient capital adequate to the business activity's risk undertaken by the Bank, required to absorb unexpected losses and meet regulatory requirements enabling further independent functioning of the Bank. The capital risk encompasses the risk of excessive leverage.

Capital risk management is performed, at an individual level, in mBank and, at a consolidated level, in mBank Group.

The capital management in mBank is organised as a process including planning, steering and controlling regulatory and internal capital. Within the framework of capital management process, regular monitoring of capital adequacy and effectiveness is conducted, aimed at assurance that adequate and optimum level of capital is maintained in mBank. This is supported by stress test analyses, which – among others – are based on scenarios of macro environment change, aiming to provide in depth view on current capital position, as well as its possible future developments resulting from the stress scenarios adopted for the analysis.

More information on capital adequacy of mBank is provided in Note 46.

3.15. FX loans portfolio risk

The FX loan portfolio risk is related to housing and mortgage loans in foreign currencies, granted to unsecured borrowers until 2011. This risk may result in particular from the materialisation of operational (legal), as well as credit and reputational risk in relation to the above-mentioned borrowers.

The legal risk of the portfolio of loans in foreign currencies (loans indexed with a foreign exchange rate) relates to the portfolio of mortgage-secured loans granted to natural persons in the years 2004-2011.

This risk relates to the possibility of realising losses resulting from court decisions unfavourable for the bank in cases brought by borrowers.

In managing this risk, the Bank takes action to protect its interests in court proceedings, aimed at obtaining decisions favourable to the Bank and runs the settlement program addressed to clients with loans indexed to the CHF exchange rate.

For effective management of legal risk of the FX loans portfolio, mBank has established the Disputed Loans Department, whose tasks include in particular:

- preparation of materials used in court proceedings,
- coordinating the activities of legal representatives,
- calculation of cost of legal risk related to housing and mortgage loans,
- cooperation and communication with external institutions on indexed loans,
- organising and coordinating the settlement program.

Detailed information on the impact of legal risk related to CHF housing and mortgage loans is provided in Note 34.

Credit risk and reputational risk related to the FX loans portfolio are managed in line with the principles of managing these risks.

3.16. Tax risk

The purpose of the tax risk management (process) is effective and safe performance of all obligations provided for by the tax law. Therefore, the Bank identifies tax risks and eliminates or limits them in connection with the role of:

- taxpayer,
- an entity providing tax information to the Bank's clients, the Bank's contractors or tax authorities.

The Bank manages tax risk by ensuring:

- integrity of tax law with accounting law and financial reporting in the Bank's internal regulations,
- correct tax processes in accordance with the applicable tax law,
- cooperation of organisational units preparing, giving opinions and offering products to the Bank's clients,
- correct identification and monitoring of tax risks,
- rules for concluding transactions with customers,
- monitoring changes in the tax law and jurisprudence.

3.17. Fair value of assets and liabilities

Fair value is the price that would be received from the sale of asset or paid to transfer a liability in an ordinary 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:

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

In line with IFRS 9, for accounting purposes, the 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, fair value is calculated, 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 point 3.3.7.

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 market models 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.

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For disclosure purposes, the Bank estimated 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 assumed 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.

Assets and liabilities measured at amortised cost

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

	31.12.2022		31.12.2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**20 206 976**	**17 923 102**	**16 632 915**	**15 358 098**
Loans and advances to banks	**15 392 870**	**15 395 201**	**11 194 916**	**11 192 768**
Loans and advances to customers, including:	**87 805 447**	**87 273 053**	**86 121 767**	**86 038 070**
Loans and advances to individuals	**40 129 801**	**40 077 630**	**42 946 052**	**43 836 391**
Current receivables	7 334 567	7 776 122	7 252 733	7 488 236
Term loans	32 773 857	32 280 131	35 680 027	36 334 863
Other	21 377	21 377	13 292	13 292
Loans and advances to corporate entities	**47 622 759**	**47 143 353**	**43 094 995**	**42 124 835**
Current receivables	6 908 655	6 754 825	5 613 678	5 475 185
Term loans	38 531 877	38 206 301	36 876 632	36 044 965
Reverse repo or buy/sell back transactions	1 611 154	1 611 154	187 630	187 630
Other loans and advances	555 475	555 475	407 704	407 704
Other	15 598	15 598	9 351	9 351
Loans and advances to public sector	**52 887**	**52 070**	**80 720**	**76 844**
Financial liabilities at amortised cost				
Amounts due to banks	**3 305 751**	**3 305 751**	**5 326 622**	**5 326 622**
Amounts due to customers	**174 000 911**	**173 996 881**	**157 045 374**	**157 028 315**
Debt securities issued	**4 548 698**	**4 545 899**	**6 683 623**	**6 698 899**
Subordinated liabilities	**2 740 721**	**2 631 352**	**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:

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

The fair value for loans and advances to banks and loans and advances to customers is calculated as the estimated value of future cash flows (adjusted by prepayments) using current interest rates, including credit spread, cost of liquidity and cost of capital margin. 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 Bank's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments. Moreover, valuation of mortgage loans in PLN is calculated with the benchmark of fair value of mortgage loans classified as valuated through fair value in accordance with IFRS 9, with an adjustment relating to credit quality of the portfolio.

<u>Financial liabilities</u>

Financial instruments representing liabilities include the following:

- Contracted borrowings;
- Current accounts and deposits;
- Issues of debt securities;
- Subordinated liabilities.

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The fair value for these financial liabilities with more than 1 year to maturity is based on cash flows discounted from capital and interest rates using discounted factor. For the loans received from European Investment Bank in EUR the Bank used the EBI yield curve. With regard to the own issue as part of the EMTN programme the market price of the relevant financial services has been used.

In the case of deposits, the Bank has applied the curve constructed on the basis of quotations of interbank market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of measurement 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.

In the case of the valuation of bonds related to credit risk (Credit Link Note) the Group 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. 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.

The 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.

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2022 and as at 31 December 2021.

31.12.2022	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	17 923 102	14 185 080	-	3 738 022
Loans and advances to banks	15 395 201	-	-	15 395 201
Loans and advances to customers	87 273 053	-	-	87 273 053
Total financial assets	**120 591 356**	**14 185 080**	**-**	**106 406 276**
FINANCIAL LIABILITIES				
Amounts due to banks	3 305 751	-	1 910 721	1 395 030
Amounts due to customers	173 996 881	-	222 295	173 774 586
Debt securities issued	4 545 899	4 521 025	-	24 874
Subordinated liabilities	2 631 352	-	2 631 352	-
Total financial liabilities	**184 479 883**	**4 521 025**	**4 764 368**	**175 194 490**

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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
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
FINANCIAL ASSETS				
Debt securities	15 358 098	12 100 420	-	3 257 678
Loans and advances to banks	11 192 768	-	-	11 192 768
Loans and advances to customers	86 038 070	-	-	86 038 070
Total financial assets	**112 588 936**	**12 100 420**	**-**	**100 488 516**
FINANCIAL LIABILITIES				
Amounts due to banks	5 326 622	-	1 906 621	3 420 001
Amounts due to customers	157 028 315	-	906 078	156 122 237
Debt securities issued	6 698 899	6 673 840	-	25 059
Subordinated liabilities	2 616 703	-	2 616 703	-
Total financial liabilities	**171 670 539**	**6 673 840**	**5 429 402**	**159 567 297**

Level 1

Level 1 of financial assets includes the value of treasury securities and EIB bonds whose valuation consists in the direct use of market current prices of these instruments originating from active and liquid financial markets.

Level 1 of financial liabilities includes the fair value of bonds issued by the Bank (Note 29). For the purpose of disclosures the Bank applied market price of the issued debt securities.

Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loans received from the EIB (Note 29). In addition, at level 2, the Bank has presented subordinated liabilities.

The fair value of financial liabilities included at Level 2 with more than 1 year to maturity is based on cash flows discounted using interest rates. In case of the loans received from European Investment Bank in EUR, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract. Based on that assumption, the spread of Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on overnight rates, term cash rates, as well as FRA contracts for appropriate currencies and maturities. For the purpose of measurement of subordinated liabilities the Bank used obtained primary market spreads of subordinated bonds issued by the Bank and if required corresponding cross-currency basis swap levels for the respective maturities.

Level 3

Level 3 includes:

- the fair value of loans and advances to banks and loans and advances to customers, which is disclosed, as described earlier, based on quotation of median credit spreads for Moody's ratings;
- liabilities due to banks and to customers with maturity up to one year, for which the Bank assumed that their fair value is equal to the carrying value;
- the fair value of liabilities due to banks, liabilities to customers and liabilities due to debt securities issued with maturity exceeding one year, for which were used valuation methods using at least one significant input data not based on observable market data.

Financial assets and liabilities measured at fair value and investment properties

The following tables present fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values.

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31.12.2022	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and hedging derivatives	**2 589 681**	**676 356**	**1 471 740**	**441 585**
Loans and advances to customers	39 720	-	-	39 720
Debt securities	1 072 092	670 227	-	401 865
Equity instruments	6 129	6 129	-	-
Derivative financial instruments, including:	1 471 740	-	1 471 740	-
Derivative financial instruments held for trading	1 796 484	-	1 796 484	-
Hedging derivative financial instruments	116 735	-	116 735	-
Offsetting effect	(441 479)	-	(441 479)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**878 995**	**746**	**-**	**878 249**
Loans and advances to customers	712 570	-	-	712 570
Debt securities	45 009	-	-	45 009
Equity securities	121 416	746	-	120 670
Financial assets at fair value through other comprehensive income	**53 842 726**	**15 617 616**	**17 083 666**	**21 141 444**
Loans and advances to customers	19 422 073	-	-	19 422 073
Debt securities	34 420 653	15 617 616	17 083 666	1 719 371
TOTAL FINANCIAL ASSETS	**57 311 402**	**16 294 718**	**18 555 406**	**22 461 278**
Investment properties	**136 909**	**-**	**-**	**136 909**
FINANCIAL LIABILITIES				
Financial liabilities held for trading and derivatives held for hedges	**2 075 013**	**260 538**	**1 814 475**	**-**
Derivative financial instruments, including:	1 814 475	-	1 814 475	-
Derivative financial instruments held for trading	2 175 779	-	2 175 779	-
Hedging derivative financial instruments	2 663 928	-	2 663 928	-
Offsetting effect	(3 025 232)	-	(3 025 232)	-
Liabilities from short sale of securities	260 538	260 538	-	-
TOTAL FINANCIAL LIABILITIES	**2 075 013**	**260 538**	**1 814 475**	**-**

Financial assets measured at fair value and investment properties at Level 3 - changes from 1 January to 31 December 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	Debt securities	Loans and advances	Debt securities	Equity securities	Loans and advances	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:	**1 419**	**21 633**	**(26 406)**	**6 095**	**(27 238)**	**136 247**	**(14 623)**	**9 399**
Recognised in profit or loss:	1 419	21 633	(26 406)	6 095	(27 238)	(6 440)	-	9 399
Net trading income	*1 419*	*21 633*	-	*9 299*	*34*	-	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*(26 406)*	*(3 204)*	*(27 272)*	-	-	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	-	-	*(6 440)*	-	-
Other operating income/ other operating expenses	-	-	-	-	-	-	-	*9 399*
Recognised in other comprehensive income:	-	-	-	-	-	142 687	(14 623)	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*142 687*	*(14 623)*	-
Purchases / origination	-	1 132 349	42 873	-	312	4 125 086	1 994 737	-
Redemptions / total repayments	(3 813)	(117 316)	(251 960)	-	-	(810 450)	(545 447)	-
Sales	-	(2 726 211)	-	-	-	(2 075 137)	(1 654 666)	-
Issues	-	1 666 231	-	-	-	-	434 770	-
Other changes	1 688	-	(43 406)	(42 214)	-	(144 927)	-	-
As at the end of the period	**39 720**	**401 865**	**712 570**	**45 009**	**120 670**	**19 422 073**	**1 719 371**	**136 909**

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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				
Financial liabilities held for trading and derivatives held for hedges	**2 044 601**	**84 774**	**1 959 827**	**-**
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**	**-**

Financial assets measured at fair value and investment properties at Level 3 - changes from 1 January to 31 December 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	Debt securities	Loans and advances	Debt securities	Equity securities	Loans and advances	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)	-	-
Net trading income	(2 658)	*11 032*	-	*6 196*	-	-	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*(6 211)*	*(1 136)*	*11 182*	-	-	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	-	-	*(17 250)*	-	-
Other operating income/ other operating expenses	-	-	-	-	-	(75 891)	(65 509)	14 118
Recognised in other comprehensive income:	-	-	-	-	-	*(75 891)*	*(65 509)*	*14 118*
Financial assets at fair value through other comprehensive income	3 813	2 368 719	18 627	-	894	7 463 990	1 364 162	-
Purchases / origination	(145 222)	(204 372)	(331 906)	-	-	(268 674)	(394 816)	-
Redemptions / total repayments	-	(8 098 131)	-	-	-	(1 787 442)	(2 510 472)	-
Sales	-	6 014 780	-	-	-	-	1 601 283	-
Issues	(3 409)	-	(61 522)	-	-	361 508	-	-
Other changes	-	-	-	-	-	-	-	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**

In 2022 and 2021 there were no transfers of financial instruments between the levels of fair value hierarchy.

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by the Bank on the basis of internal rules. In case 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 December 2022, at level 1 of the fair value hierarchy, Bank has presented the fair value of held for trading government bonds in the amount of PLN 670 227 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 14 300 990 thousand (31 December 2021 respectively: PLN 248 906 thousand and PLN 24 468 564 thousand. Level 1 includes the fair values of corporate bonds in the amount of PLN 1 316 626 thousand (31 December 2021: PLN 1 502 996 thousand).

In addition, as at 31 December 2022, level 1 includes the value of the registered preferred shares of Giełda Papierów Wartościowych in the amount of PLN 746 thousand (31 December 2021: PLN 870 thousand) and equity instruments of non-financial corporations in amount of PLN 6 129 thousand.

As at 31 December 2022, level 1 includes liabilities from short sale of securities in the amount of PLN 260 538 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 17 083 666 thousand (31 December 2021: PLN 8 495 243 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

Level 3

Level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 2 166 245 thousand (31 December 2021: PLN 1 977 236 thousand) and includes i.a. the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

As at 31 December 2021 Level 3 includes also the fair value of local government bonds in the amount of 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 analyses. 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 December 2022 includes the value of loans and advances to customers in the amount of PLN 20 174 363 thousand (31 December 2021: PLN 19 223 149 thousand). The principles for Fair Value calculation for loans and advances to customers is described in Note 3.3.7.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 120 670 thousand (31 December 2021: PLN 147 596 thousand). Equity securities presented at level 3 are valuated using the market multiples method. The market multiples method consists of valuating the equity of a company by using a relation between market values of equity or total capital invested in comparable companies and selected economic and financial figures. At the end of 2022, the cost of equity was estimated at the level in the range from 13.9% to 14.4% (as at the end of 2021: 7.9%).

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As at 31 December 2022, level 3 includes also fair value measurement of investment property in the amount of PLN 136 909 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 capitalisation rate of 6.75% used to discount cash flows (31 December 2021: 9.28%).

The table below presents the sensitivity of the fair value measurement to the change of unobservable parameters used in the models for financial instruments measured at fair value at level 3.

Portfolio	Fair value 31.12.2022	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Equity instruments	120 670	(13 346)	16 364	The valuation model uses the cost of own capital as the unobservable discount parameter. Sensitivity was calculated assuming a change in the own capital by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Corporate debt securities measured at fair value through other comprehensive income	1 719 371	(30 479)	30 479	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Corporate debt securities measured at fair value through profit or loss	401 865	(5 807)	5 807	
Loans and advances to customers held for trading	39 720	(460)	443	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Loans and advances to customers mandatorily at fair value through profit or loss	712 570	(10 007)	9 966	
Loans and advances to customers measured at fair value through other comprehensive income	19 422 073	(12 802)	11 973	

Portfolio	Fair value 31.12.2021	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Equity instruments	147 596	(8 054)	10 327	The valuation model uses the cost of own capital as the unobservable discount parameter. Sensitivity was calculated assuming a change in the own capital by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Corporate debt securities measured at fair value through other comprehensive income	1 504 600	(29 729)	29 729	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Corporate debt securities measured at fair value through profit or loss	425 179	(8 569)	8 569	
Loans and advances to customers held for trading	40 426	(761)	743	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Loans and advances to customers mandatorily at fair value through profit or loss	991 469	(15 630)	16 159	
Loans and advances to customers measured at fair value through other comprehensive income	18 191 254	(3 205)	2 978	

4. 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 34.

Impact of credit holidays on the financial result of the Bank

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business ventures and aid to borrowers ("Act"), which introduced the possibility of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays"). Credit holidays may apply to a single contract concluded in Polish zlotys for the financing of real estate intended to meet one's own housing needs. Borrowers are entitled to suspend 8 monthly instalments: 2 monthly instalments in each of the third and fourth quarter of 2022 and 1 monthly instalment in each of the four quarters of 2023. Credit holidays apply to both the principal and interest portions of the loan. Deadlines for repayment of instalments are extended without any additional interest for the suspension periods. The Group believes that the amendment to the contractual terms of the mortgage loans implemented by the Act constituted an insignificant modification of these financial assets in accordance with IFRS 9.5.4.3.

In 2022, the Bank recognised the impact of credit holidays in the total amount of PLN 1 334.4 million, out of which PLN 955.4 million related to mBank loan portfolio and decreased the interest income of the Bank, PLN 367.0 million related to mBank Hipoteczny loan portfolio and decreased the share in profits (losses) of entities under the equity method and PLN 12.0 million related to the effect on hedge accounting and decreased the net trading income. The negative impact of credit holidays on the valuation of the loan portfolio is settled by the appropriate recognition of interest income calculated using the effective interest rate in periods in which customers taking advantage of credit holidays do not pay the interest according to the original schedules of the loan agreements.

To calculate the impact of credit holidays, the Bank estimated that customers owning 82.9% and 81.7% of the value of the assumed eligible mortgage loan portfolio of mBank and mBank Hipoteczny respectively applied or will apply for the credit holidays and they will request on average 7.7 months of credit holidays. If the value of assumed eligible mortgage loan portfolio increased by 1 percentage point in 2023, the amount of the credit holidays impact would increase by PLN 8.2 million.

By 31 December 2022, customers owning 82.2% and 80.8% of the value of the assumed eligible mortgage loan portfolio of mBank and mBank Hipoteczny respectively had submitted applications applying for an average of 6.8 months of credit holidays. As of 31 December 2022 the gross carrying value of loans being subject to the credit holidays amounted to PLN 17 351.8 million at mBank and PLN 7 097.4 million at mBank Hipoteczny.

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. 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 for portfolio of loans and advances as well as contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances as well as contingent liabilities impairment would either decrease by PLN 49.7 million or increase by PLN 51.1 million as at 31 December 2022, respectively (as at 31 December 2021: PLN 31.4 million and PLN 32.8 million, respectively). This estimation was performed for portfolio of loans and advances and contingent 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.

Actions taken in relation to the current situation in Ukraine

In 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. As a result of the review, as of 31 December 2022, credit exposure and expected credit losses were determined in the mentioned countries, as shown in the table below.

Country	Direct exposure as at 31 December 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	-	-	150	-	-	-	-	-	-	-	(150)	46 925
Belarus	-	2 238	-	-	-	-	-	-	-	(939)	-	-
Total	**-**	**2 238**	**150**	**-**	**-**	**-**	**-**	**-**	**-**	**(939)**	**(150)**	**46 925**

There was also identified an indirect exposure: a balance sheet exposure of PLN 357.3 million and an off-balance sheet exposure of PLN 289.5 million towards corporate clients whose business is indirectly exposed to the risk of Russia's aggression towards Ukraine.

Indirect risk concerns companies where at least 30% of exports or imports is connected to countries affected by the war crisis or whose main shareholder is a resident of the risk country or the collateral of transaction is located in the country of risk.

Country	Indirect exposure as at 31 December 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	63 255	248	96	-	110 857	250	-	-	(218)	(1)	(96)	-
Russia	242 633	-	49 386	-	176 745	-	-	-	(616)	-	(49 386)	-
Belarus	1 652	-	-	-	1 677	-	-	-	(1)	-	-	-
Total	**307 540**	**248**	**49 482**	**-**	**289 279**	**250**	**-**	**-**	**(835)**	**(1)**	**(49 482)**	**-**

Additional cost of risk due to the current situation in Ukraine

Due to the changes in the economic situation in the country resulting from the Russia's invasion of Ukraine, the Bank in the first half of 2022 worked on an update of the forecasts of future macroeconomic conditions that are incorporated into the risk parameter models used to calculate the expected credit loss. The update was preceded in the first quarter of 2022 by the assignment of a weight of 100% for the pessimistic scenario in the expected credit loss model. Additionally, in the fourth quarter of 2022, the macroeconomic indicators used in the expected credit loss model were updated to take into account the volatility of the current and forecast economic situation in Poland. The detailed description of the significant model changes can be found is section 3.3.6.2.2.

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

In the fourth quarter of 2022, the Bank worked on updating the forecasts of future macroeconomic conditions that are incorporated into the risk parameter models used to calculate the expected credit loss. The forecasts take into account the current development of the economic situation in Poland.

In order to assess expected credit loss (ECL) sensitivity to the future macroeconomic conditions, mBank determined the ECL value separately for each of the scenarios used for the purposes of calculating the expected credit risk losses. The impact of each of the scenarios is presented below.

The table below presents forecasts of the main macroeconomic indicators included in the risk parameter models which are used to calculate the expected credit loss.

Scenario as of 31.12.2022		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		The first year of the forecast	The second year of the forecast	The first year of the forecast	The second year of the forecast	The first year of the forecast	The second year of the forecast
GDP	y/y	0.2%	2.6%	1.9%	4.0%	-3.5%	3.3%
Unemployment rate	end of the year	5.7%	5.5%	4.3%	3.5%	5.5%	5.9%
Real estate price index	y/y	102.7	106.0	105.8	105.8	101.8	102.1
WIBOR 3M	end of the year	7.20%	6.20%	9.00%	7.00%	5.77%	4.77%

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Scenario as of 31.12.2021		base		optimistic		pessimistic	
Probability		60%		20%		20%	
		The first year of the forecast	The second year of the forecast	The first year of the forecast	The second year of the forecast	The first year of the forecast	The second year of the forecast
GDP	y/y	5.1%	4.8%	7.1%	6.3%	3.5%	3.7%
Unemployment rate	end of the year	3.0%	2.6%	2.5%	2.1%	3.6%	3.3%
Real estate price index	y/y	107.9	107.1	109.6	108.1	104.1	104.6
WIBOR 3M	end of the year	0.46%	0.96%	1.86%	2.61%	0.00%	0.00%

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

Scenario	Change in value of credit risk costs				
	31.12.2022*				31.12.2021
	Stage 1	Stage 2	Stage 3	Total	Total
optimistic	41 283	15 277	44	**56 604**	**49 078**
base	(2 861)	69	-	**(2 792)**	**(6 448)**
pessimistic	(55 812)	(18 227)	(204)	**(74 243)**	**(73 774)**

** Due to the requirements of Recommendation R, starting in the second quarter of 2022, the scope of the analysis was expanded to include a breakdown of performance by stage.*

The above results were estimated taking into account the equal allocation to the stage 2 based on the weighted average of all 3 macroeconomic scenarios, without an assumption of additional potential migrations between stages. The ECL sensitivity analysis was performed for 89% of the assets of the portfolio of loans and advances to customers (excluding the impaired exposures and the exposures not valued with the use of models).

Prepayments of retail loans

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

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

As of 31 December 2022 the provision recorded within other provisions (Note 31) related to potential reimbursements of commissions in relation to early repayments of loans before the date of the verdict amounted to PLN 9.7 million (PLN 4.8 million as of 31 December 2021).

The total negative impact of early repayments of retail loans on the Group's gross profit for 2022 amounted to PLN 110.5 million (2021: PLN 91.8 million).

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

Fair value of derivatives and other financial instruments

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

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.

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.

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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.

Liabilities due to post-employment benefits

The costs of post-employment 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

The Bank 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.

5. Net interest income

	Year ended 31 December	
	2022	**2021**
Interest income		
Interest income accounted for using the effective interest method	**8 667 715**	**3 431 357**
Interest income of financial assets at amortised cost, including:	7 327 896	2 802 260
- Loans and advances	*6 349 484*	*2 491 966*
- Debt securities	*503 180*	*290 070*
- Cash and short-term placements	*376 985*	*18 789*
- Gains (losses) on non-substantial modification (net)	*(80 840)*	*(8 693)*
- Other	*179 087*	*10 128*
Interest income on financial assets at fair value through other comprehensive income	1 339 819	629 097
- Debt securities	*845 101*	*192 614*
- Loans and advances	*1 377 323*	*436 327*
- Gains (losses) on non-substantial modification (net)	*(882 605)*	*156*
Income similar to interest on financial assets at fair value through profit or loss, including:	**170 000**	**470 156**
Financial assets held for trading	51 529	20 863
- Loans and advances	*3 968*	*2 849*
- Debt securities	*47 561*	*18 014*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	118 471	48 660
- Loans and advances	*118 471*	*48 660*
Interest income on derivatives classified into banking book	-	103 776
Interest income on derivatives concluded under the fair value hedge	-	80 103
Interest income on derivatives concluded under the cash flow hedge	-	216 754
Total interest income	**8 837 715**	**3 901 513**

The item Gains or losses on non-substantial modification (net) includes a loss of PLN 955.4 million resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays"). More information on this subject is presented in Note 4.

The amount of interest income, presented under Cash and short-term placements, includes mainly interest income on the mandatory reserve. The item Other includes mainly interest income on cash-collateral.

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	Year ended 31 December	
	2022	**2021**
Interest expenses		
Financial liabilities held for trading	(13 686)	(9 371)
Financial liabilities measured at amortised cost, including:	(2 038 630)	(216 712)
- Deposits	*(1 746 579)*	*(65 954)*
- Loans received	*(4 515)*	*(4 276)*
- Issue of debt securities	*(124 325)*	*(84 949)*
- Subordinated liabilities	*(126 325)*	*(54 733)*
- Other financial liabilities	*(34 396)*	*(4 277)*
- Leasing agreements	*(2 490)*	*(2 523)*
Interest expenses on derivatives classified into banking book	(30 949)	-
Interest expenses on derivatives concluded under the fair value hedge	(526 940)	-
Interest expenses on derivatives concluded under the cash flow hedge	(461 701)	-
Other	(22 956)	(30 983)
Total interest expense	**(3 094 862)**	**(257 066)**

Net interest income per client groups is as follows:

	Year ended 31 December	
	2022	**2021**
Interest income		
From banking sector	1 549 901	324 815
From other customers, including:	7 287 814	3 576 698
- individual clients	*3 418 773*	*2 091 725*
- corporate clients	*3 117 536*	*1 140 272*
- public sector	*751 505*	*344 701*
Total interest income	**8 837 715**	**3 901 513**
Interest expenses		
From banking sector	32 312	(11 308)
From other customers, including:	(2 876 524)	(106 076)
- individual clients	*(954 490)*	*(74 762)*
- corporate clients	*(1 857 474)*	*(18 758)*
- public sector	*(64 560)*	*(12 556)*
Debt securities issued	(124 325)	(84 949)
Subordinated liabilities	(126 325)	(54 733)
Total interest expense	**(3 094 862)**	**(257 066)**

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6. Net fee and commission income

	Year ended 31 December	
	2022	**2021**
Fee and commission income		
Payment cards-related fees	629 823	485 768
Commissions for foreign currencies exchange	516 540	408 107
Credit-related fees and commissions	507 438	451 338
Commissions from bank accounts	383 770	361 824
Commissions from money transfers	223 487	191 099
Fees from brokerage activity and debt securities issue	173 837	242 102
Commissions due to guarantees granted and trade finance commissions	98 144	91 119
Commissions for agency service regarding sale of insurance products of external financial entities	80 159	65 304
Fees from cash services	53 963	45 195
Commissions for agency service regarding sale of other products of external financial entities	44 628	59 629
Commissions on trust and fiduciary activities	32 919	33 214
Fees from portfolio management services and other management-related fees	25 127	27 769
Other	53 884	47 577
Total fee and commission income	**2 823 719**	**2 510 045**

	Year ended 31 December	
	2022	**2021**
Fee and commission expenses		
Payment cards-related fees	(292 815)	(263 552)
Commissions paid to external entities for sale of the Bank's products	(169 952)	(136 297)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(16 524)	(19 943)
Discharged brokerage fees	(36 823)	(39 046)
Cash services	(56 655)	(47 096)
Fees to NBP and KIR and GPW Benchmark	(21 785)	(18 948)
Other discharged fees	(188 879)	(187 782)
Total fee and commission expense	**(783 433)**	**(712 664)**

7. Dividend income

	Year ended 31 December	
	2022	**2021**
Non-trading financial assets mandatorily at fair value through profit or loss	4 336	3 982
Investments in subsidiaries accounted for using equity method	43 500	25 049
Investments in non-consolidated subsidiaries accounted for using other method than equity method	900	1 064
Total dividend income	**48 736**	**30 095**

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8. Net trading income

	Year ended 31 December	
	2022	**2021**
Foreign exchange result	**(106 781)**	**188 448**
Net exchange differences on translation	(246 318)	123 207
Net transaction gains/(losses)	139 537	65 241
Gains or losses on financial assets and liabilities held for trading	**210 867**	**(78 478)**
Derivatives, including:	197 455	(79 962)
- Interest-bearing instruments	*170 013*	*(101 934)*
- Market risk instruments	*27 442*	*21 972*
Equity instruments	(100)	-
Debt securities	12 093	4 142
Loans and advances	1 419	(2 658)
Gains or losses from hedge accounting	**(32 191)**	**(31 653)**
Net profit on hedged items	865 902	1 091 899
Net profit on fair value hedging instruments	(875 494)	(1 110 689)
Ineffective portion of cash flow hedge	(22 599)	(12 863)
Total net trading income	**71 895**	**78 317**

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

The Bank applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting is included in Note 19.

The item Ineffective portion of cash flow hedge includes a loss of PLN 12.0 million resulting from the recognition of the impact of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays") on the hedge accounting. More information on this subject is presented in Note 4.

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

	Year ended 31 December	
	2022	**2021**
Equity instruments	(16 424)	11 091
Debt securities	(3 204)	(1 136)
Loans and advances	(26 406)	(6 211)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(46 034)**	**3 744**

In 2022, in the item Equity instruments, the Bank recognised mainly a loss resulting from revaluation to fair value of shares of Krajowa Izba Rozliczeniowa S.A. in the amount of PLN -7 988 thousand and shares in Polski Standard Płatności sp. z o.o. in the amount of PLN -11 694 thousand, as well as a profit resulting from revaluation to fair value of shares of VISA Inc. in the amount of PLN 10 972 thousand.

In 2021, in the item Equity instruments, the Bank recognised mainly a profit resulting from revaluation to fair value of shares of Krajowa Izba Rozliczeniowa S.A. in the amount of PLN 3 122 thousand and shares in Polski Standard Płatności sp. z o.o. in the amount of PLN 6 121 thousand.

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

	Year ended 31 December	
	2022	2021
Gains less losses from derecognition, including:	(96 603)	76 544
- Financial assets at fair value through other comprehensive income	*(92 211)*	*76 490*
- Financial assets at amortised cost	*(4 392)*	*(19)*
- Financial liabilities at amortised cost	*-*	*73*
Gains less losses related to sale or revaluation of investments in subsidiaries and associates	-	78
Total gains less losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**(96 603)**	**76 622**

The result from the derecognition includes the result from the sale of government bonds as well as the result from the sale of retail mortgage loans that were transferred from mBank to mBank Hipoteczny in pooling transactions in the amount of PLN -6 440 thousand (in 2021: PLN -17 250 thousand).

The result from derecognition of financial assets at amortised cost arises mainly from the sale of individual credit exposures.

Gains less losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss by type of instrument

	Year ended 31.12.2022		Year ended 31.12.2021	
	Gains	Losses	Gains	Losses
Debt securities	1 886	(87 658)	98 120	(1 923)
Loans and advances	14 321	(25 152)	12 144	(31 870)
Liabilities due to issue of debt securities	-	-	7 655	(7 582)
Gains less losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**16 207**	**(112 810)**	**117 919**	**(41 375)**

11. Other operating income

	Year ended 31 December	
	2022	2021
Gains from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	5 838	2 272
Income from services provided	1 810	2 569
Net income from operating lease and sublease of right-of-use assets	-	-
Rental income from investment properties	223	5
Income from revaluation of investment properties to fair value	12 862	-
Income due to release of provisions for future commitments	12 440	11 615
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	1 825	1 404
Income from compensations, penalties and fines received	160	269
Gains from sale and valuation of investment in subsidiaries and associates	6 419	-
Other	28 742	26 180
Total other operating income	**70 319**	**44 314**

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

The table below presents net operating income due to operating lease and subleasing right-of-use assets for 2022 and 2021.

	Year ended 31 December	
	2022	2021
Net operating income due to operating lease and subleasing right-of-use assets		
- Income from operating lease	3 771	3 275
- Income from subleasing right-of-use assets	10 442	9 102
- Amortisation cost of assets in operating lease and right-of-use assets	(14 213)	(12 377)
Total net operating income due to operating lease and subleasing right-of-use assets	**-**	**-**

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12. Overhead costs

	Year ended 31 December	
	2022	2021
Staff-related expenses	(1 109 611)	(960 382)
Material costs, including:	(639 310)	(597 415)
- costs of administration and real estate services	*(234 729)*	*(210 047)*
- IT costs	*(174 378)*	*(179 161)*
- marketing costs	*(143 997)*	*(127 516)*
- consulting costs	*(71 725)*	*(67 876)*
- other material costs	*(14 481)*	*(12 815)*
Taxes and fees	(33 030)	(30 104)
Contributions and transfers to the Bank Guarantee Fund	(236 207)	(218 239)
Contributions to the Borrowers Support Fund	(162 527)	-
Contributions to the Social Benefits Fund	(12 935)	(11 745)
Institutional Protection Scheme	(428 071)	-
Total overhead costs	**(2 621 691)**	**(1 817 885)**

In 2022, the Bank, together with other commercial banks, became a participant in the protection scheme referred to in Article 4.1.9a of the Banking Law Act of 29 August 1997 (Banking Law). Accordingly, the Bank credited the aid fund with a total contribution of PLN 428 071 thousand, which was charged to overheads costs.

In 2022, the Bank also recognised the cost of contributions to the Borrowers Support Fund in the amount of PLN 162 527 thousand. The obligation to pay a contribution to the Borrowers Support Fund in 2022 was introduced by the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers.

In 2022, the item Material costs includes costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 380 thousand (2021: PLN 452 thousand), and costs related to variable elements of leasing liabilities not included in the leasing liability (included in general administrative costs) in the amount of PLN 1 949 thousand (2021: PLN 2 030 thousand).

Staff-related expenses in 2022 and 2021 are presented below.

	Year ended 31 December	
	2022	2021
Wages and salaries	(891 954)	(780 992)
Social security expenses	(155 210)	(127 724)
Remuneration concerning share-based payments, including:	(12 673)	(10 487)
- share-based payments settled in mBank S.A. shares	*(12 673)*	*(10 487)*
Other staff expenses	(49 774)	(41 179)
Staff-related expenses, total	**(1 109 611)**	**(960 382)**

Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 43.

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13. Other operating expenses

	Year ended 31 December	
	2022	2021
Losses from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(1 298)	(11 323)
Provisions for future commitments	(124 894)	(100 508)
Costs arising from provisions created for other receivables (excluding loans and advances)	(4 653)	(3 313)
Donations made	(6 196)	(4 858)
Compensation, penalties and fines paid	(3 246)	(7 736)
Losses form investment properties valuation	(3 463)	-
Direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period	(7 282)	(2 475)
Direct operating expenses (including repairs and maintenance) arising from investment properties that did not generate rental income during the period	-	(51)
Impairment provisions created for tangible assets and intangible assets	(4 500)	(5 932)
Debt collection expenses	(29 432)	(36 578)
Losses on sale and revaluation of investments in subsidiaries and associates	(22 961)	-
Other operating costs	(57 850)	(39 865)
Total other operating expenses	**(265 775)**	**(212 639)**

The item Provisions for future commitments in 2022 includes the costs of court cases, other than cases related to foreign currency loans.

Moreover in 2022, the item Provisions for future commitments includes, among other things, the cost of the provision in the amount of PLN 84 000 thousand for the reimbursement of additional bridge insurance costs charged to customers who were granted mortgage loans for the period before the mortgage was registered in the land register. The obligation to reimburse such costs stems from the amendment to the Law on Mortgage Loan and Supervision of Mortgage Loan Brokers and Agents, which came into effect on 17 September 2022.

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

	Year ended 31 December	
	2022	2021
Financial assets at amortised cost, including:	**(647 630)**	**(646 347)**
Debt securities	(942)	(1 953)
Stage 1	*(942)*	*(1 953)*
Loans and advances	(646 688)	(644 394)
Stage 1	*74 831*	*(142 442)*
Stage 2	*(54 305)*	*101 764*
Stage 3	*(670 184)*	*(590 398)*
POCI	*2 970*	*(13 318)*
Financial assets at fair value through other comprehensive income, including:	**(30 384)**	**(2 627)**
Debt securities	319	(3 154)
Stage 1	*(269)*	*(4 433)*
Stage 2	*588*	*1 279*
Loans and advances	(30 703)	527
Stage 1	*(5 144)*	*202*
Stage 2	*(12 900)*	*6 542*
Stage 3	*(12 600)*	*(6 330)*
POCI	*(59)*	*113*
Commitments and guarantees given	**17 127**	**(133 887)**
Stage 1	*4 471*	*(19 819)*
Stage 2	*657*	*25 728*
Stage 3	*6 881*	*(140 122)*
POCI	*5 118*	*326*
Liabilities from the issue of credit linked notes (CLN)	**14 755**	**-**
Net impairment losses on financial assets not measured at fair value through profit or loss	**(646 132)**	**(782 861)**

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In case when exposures are reclassified between stages, impairment on financial assets not measured at fair value through profit or loss is presented without netting, with the entire amount of the existing allowance released in the stage before the reclassification and the entire amount of the created allowance recognised in the stage after the exposure is reclassified.

15. Income tax expense

	Year ended 31 December	
	2022	**2021**
Current tax	(1 021 748)	(640 858)
Deferred income tax (Note 32)	384 553	105 732
Total income tax	**(637 195)**	**(535 126)**
Profit (loss) before tax	**(59 529)**	**(680 227)**
Tax calculated at Polish current tax rate (19%)	11 311	129 243
Income not subject to tax	14 594	67 556
Costs other than tax deductible costs, thereof	(663 100)	(731 925)
Costs of legal risk related to foreign currency loans	*(582 405)*	*(507 734)*
Deferred tax assets related to the settlement program for customers with foreign currency loans in CHF	*198 899*	-
Tax on Certain Financial Institutions	*(123 871)*	*(109 737)*
Contributions and other mandatory payments that are not deductible (including the Bank Guarantee Fund)	*(75 760)*	*(41 465)*
Other	*(79 963)*	*(72 989)*
Total tax liability	**(637 195)**	**(535 126)**
Effective tax rate calculation		
Profit (loss) before income tax	(59 529)	(680 227)
Income tax	(637 195)	(535 126)
Effective tax rate %	**n/a**	**n/a**

Item "Income not subject to tax" includes i.a. dividends excluded from taxation under Article 20 item 3 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws 2020, item 865).

Since 1 January 2020 mBank S.A., mBank Hipoteczny S.A., mFinanse S.A. and mLeasing Sp. z o.o. established, Tax Capital Group of mBank ("TCG") based on Corporate Income Tax Act. According to the Corporate Income Tax Act, mBank – as a dominant entity – represents TCG with respect described by tax law. In a year preceding establishing the TCG, there was no tax losses in either of the entity that is a member of TCG. The TCG agreement has been concluded for 4 years.

The current tax breakdown by country is presented below.

	Year ended 31 December	
	2022	**2021**
Poland	(962 488)	(613 929)
Czech Republic	(52 061)	(25 089)
Slovakia	(7 199)	(1 840)
Total current tax	**(1 021 748)**	**(640 858)**

Information about deferred income tax is presented in Note 32. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

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16. Earnings (losses) per share

Earnings (losses) per share for 12 months

	Year ended 31 December	
	2022	**2021**
Basic:		
Net profit (loss)	(696 724)	(1 215 353)
Weighted average number of ordinary shares	42 403 048	42 369 790
Net basic profit (loss) per share (in PLN per share)	**(16.43)**	**(28.68)**
Diluted:		
Net profit (loss), applied for calculation of diluted earnings per share	(696 724)	(1 215 353)
Weighted average number of ordinary shares	42 403 048	42 369 790
Adjustments for:		
- share options and subscription warrants	67 047	80 719
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 470 095	42 450 509
Diluted earnings (losses) per share (in PLN per share)	**(16.41)**	**(28.63)**

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes is described in the Note 43. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods, but which could potentially dilute basic earnings per share in the future. The basic earnings per share are computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share are calculated by as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all potential ordinary shares causing the dilution were converted to shares. The Bank has two categories of potential ordinary shares causing the dilution: share options and subscription warrants. The number of diluting shares is computed as the number of shares that would be issued if all rights to shares were executed at the market price, determined as the average annual closing price of the Bank's shares.

17. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2022			Year ended 31 December 2021		
	Before tax amount	**Tax (expense) benefit**	**Net amount**	**Before tax amount**	**Tax (expense) benefit**	**Net amount**
Items that may be reclassified subsequently to the income statement	**(245 101)**	**40 852**	**(204 249)**	**(2 312 002)**	**412 782**	**(1 899 220)**
Exchange differences on translation of foreign operations	6 129	-	6 129	4 803	-	4 803
Cash flow hedges	(246 476)	46 830	(199 646)	(1 113 142)	211 497	(901 645)
Share of other comprehensive income of entities under the equity method	(92 514)	-	(92 514)	(28 110)	-	(28 110)
Change in valuation of debt instruments at fair value through other comprehensive income	87 760	(5 978)	81 782	(1 175 553)	201 285	(974 268)
Items that will not be reclassified to the income statement	**4 295**	**(816)**	**3 479**	**22 400**	**(4 255)**	**18 145**
Actuarial gains and losses relating to post-employment benefits	4 295	(816)	3 479	8 282	(1 573)	6 709
Reclassification to investment properties	-	-	-	14 118	(2 682)	11 436
Total comprehensive income (net)	**(240 806)**	**40 036**	**(200 770)**	**(2 289 602)**	**408 527**	**(1 881 075)**

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The table below presents detailed information concerning other comprehensive income for the years 2022 and 2021.

	Year ended 31 December	
	2022	**2021**
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT	**(204 249)**	**(1 899 220)**
Exchange differences on translating foreign operations	**6 129**	**4 803**
Unrealised gains or losses on exchange differences on translation of foreign operations included in other comprehensive income	6 129	4 803
Unrealised gains (positive differences) arising during the year (net)	*10 328*	*4 803*
Unrealised losses (negative differences) arising during the year (net)	*(4 199)*	-
Cash flows hedges (effective part)	**(199 646)**	**(901 645)**
Unrealised gains or losses included in other comprehensive income	(573 624)	(726 074)
Unrealised gains arising during the year (net)	*13 475*	-
Unrealised losses arising during the year (net)	*(587 099)*	*(726 074)*
Reclassification to the income statement (net)	373 978	(175 571)
Valuation of debt instruments at fair value through other comprehensive income (net)	**81 782**	**(974 268)**
Unrealised gains or losses on valuation of debt instruments included in other comprehensive income	3 347	(917 751)
Unrealised gains on debt instruments arising during the year (net)	*124 360*	*125 396*
Unrealised losses on debt instruments arising during the year (net)	*(121 013)*	*(1 043 147)*
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	78 435	(56 517)
Share of other comprehensive income of entities under the equity method	**(92 514)**	**(28 110)**
Share of other comprehensive income of associates arising during the year (net)	(92 514)	(28 110)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**3 479**	**18 145**
Actuarial gains and losses relating to post-employment benefits	**3 479**	**6 709**
Actuarial gains	*3 479*	*6 709*
Reclassification to investment properties	**-**	**11 436**
Unrealised gains or losses included in other comprehensive income	-	11 436
Unrealised gains on reclassification to investment properties arising during the year (net)	-	*11 436*
Total comprehensive income (net)	**(200 770)**	**(1 881 075)**

18. Cash and balances with central bank

	31.12.2022	**31.12.2021**
Cash on hand	1 645 857	1 347 887
Cash balances at central banks	14 260 635	10 739 721
Total cash and cash balances with central banks	**15 906 492**	**12 087 608**

On the basis of the Act on the National Bank of Poland of 29 August 1997, mBank holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that mBank is obliged to maintain during a given period in the current account with NBP amounted to:

- PLN 5 342 096 thousand for the period from 30 November 2022 to 1 January 2023,
- PLN 2 967 925 thousand for the period from 31 December 2021 to 30 January 2022.

As at 31 December 2022, the mandatory reserve in Central Bank bore 6.75% interest (31 December 2021: 1.75%).

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19. Financial assets and liabilities held for trading and hedging derivatives

Financial assets held for trading and hedging derivatives

	31.12.2022	31.12.2021
Derivatives	**1 471 740**	**1 866 663**
- Derivatives held for trading classified into banking book	596 736	117 278
- Derivatives held for trading classified into trading book	1 199 748	1 987 541
- Derivatives designated as fair value hedges	111 811	135 169
- Derivatives designated as cash flow hedges	4 924	28 546
- Offsetting effect	(441 479)	(401 871)
Equity instruments	**6 129**	**-**
- Non-financial corporations	6 129	-
Debt securities	**1 072 092**	**674 085**
- General governments	670 227	248 906
pledged securities	*278 219*	*72 888*
- Credit institutions	84 447	104 922
- Other financial corporations	135 636	141 329
- Non-financial corporations	181 782	178 928
Loans and advances to customers	**39 720**	**40 426**
- Corporate customers	39 720	40 426
Total financial assets held for trading and hedging derivatives	**2 589 681**	**2 581 174**

Trading securities include securities used to secure sell/buy back transactions with customers, the market value of which as at 31 December 2022 amounted to PLN 278 219 thousand (31 December 2021: PLN 72 888 thousand).

Financial liabilities held for trading and hedging derivatives

	31.12.2022	31.12.2021
Derivatives, including:	**1 814 475**	**1 959 827**
- Derivatives held for trading classified into banking book	395 977	352 518
- Derivatives held for trading classified into trading book	1 779 802	1 919 649
- Derivatives designated as fair value hedges	1 984 675	1 057 232
- Derivatives designated as cash flow hedges	679 253	541 315
- Offsetting effect	(3 025 232)	(1 910 887)
Liabilities from short sale of securities	**260 538**	**84 774**
Total financial liabilities held for trading and hedging derivatives	**2 075 013**	**2 044 601**

Derivative financial instruments

The Bank 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 cash or fair-valued securities and the changes of the face value of such contracts are accounted for daily in reference to stock exchange quotations, the credit risk is marginal.

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

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Bank 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 Bank evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

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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 Bank and a customer (private transaction). The Bank 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, equity 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 Bank'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.

The Bank applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting is presented below in this Note.

The fair values of derivatives held by the Bank is presented in the table below:

31.12.2022	Contract amount		Fair value	
	Buy	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	16 392 618	16 774 537	126 093	323 682
- Currency swaps	30 915 143	30 477 871	546 950	259 594
- Cross-currency interest rate swaps	5 966 841	6 002 521	65 070	49 730
- OTC currency options bought and sold	9 264 440	9 640 383	115 946	137 310
Total OTC derivatives	**62 539 042**	**62 895 312**	**854 059**	**770 316**
- Currency futures	916 806	921 064	-	-
Total foreign exchange derivatives	**63 455 848**	**63 816 376**	**854 059**	**770 316**
Interest rate derivatives				
- Interest rate swap, OIS	253 989 749	253 991 283	580 542	1 056 612
- Forward rate agreements	9 520 000	10 660 000	524	2 894
- OTC interest rate options	203 733	769 903	12 965	24 334
Total interest rate derivatives	**263 713 482**	**265 421 186**	**594 031**	**1 083 840**
Market risk transactions	2 866 762	2 995 905	348 394	321 623
Total derivative assets / liabilities held for trading	**330 036 092**	**332 233 467**	**1 796 484**	**2 175 779**
Hedging derivatives				
Derivatives designated as fair value hedges	20 249 502	20 249 502	111 811	1 984 675
- Interest rate swaps, OIS	20 249 502	20 249 502	111 811	1 984 675
Derivatives designated as cash flow hedges	9 445 000	9 445 000	4 924	679 253
- Interest rate swaps	9 445 000	9 445 000	4 924	679 253
Total hedging derivatives	**29 694 502**	**29 694 502**	**116 735**	**2 663 928**
Offsetting effect			**(441 479)**	**(3 025 232)**
Total recognised derivative assets/ liabilities	**359 730 594**	**361 927 969**	**1 471 740**	**1 814 475**
Short-term (up to 1 year)	137 170 526	138 618 244	830 500	919 136
Long-term (over 1 year)	222 560 068	223 309 725	641 240	895 339

31.12.2021	Contract amount		Fair value	
	Buy	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	20 993 648	21 099 960	246 761	121 050
- Currency swaps	24 134 231	24 026 137	108 846	199 181
- Cross-currency interest rate swaps	9 208 434	9 340 334	10 994	102 644
- OTC currency options bought and sold	8 750 804	10 037 217	126 824	75 953
Total OTC derivatives	**63 087 117**	**64 503 648**	**493 425**	**498 828**
- Currency futures	1 225 607	1 241 309	3 263	8
Total foreign exchange derivatives	**64 312 724**	**65 744 957**	**496 688**	**498 836**
Interest rate derivatives				
- Interest rate swap, OIS	278 635 256	278 635 256	466 331	711 012
- Forward rate agreements	13 225 000	12 908 000	4 560	4 265
- OTC interest rate options	292 705	709 607	951	3 804
Total interest rate derivatives	**292 152 961**	**292 252 863**	**471 842**	**719 081**
Market risk transactions	**3 502 701**	**3 534 806**	**1 136 289**	**1 054 250**
Total derivative assets / liabilities held for trading	**359 968 386**	**361 532 626**	**2 104 819**	**2 272 167**
Hedging derivatives				
Derivatives designated as fair value hedges	30 215 660	30 215 660	135 169	1 057 232
- Interest rate swaps	30 215 660	30 215 660	135 169	1 057 232
Derivatives designated as cash flow hedges	16 685 000	16 685 000	28 546	541 315
- Interest rate swaps	16 685 000	16 685 000	28 546	541 315
Total hedging derivatives	**46 900 660**	**46 900 660**	**163 715**	**1 598 547**
Offsetting effect			**(401 871)**	**(1 910 887)**
Total recognised derivative assets/ liabilities	**406 869 046**	**408 433 286**	**1 866 663**	**1 959 827**
Short-term (up to 1 year)	156 380 579	157 048 383	1 596 891	75 330
Long-term (over 1 year)	250 488 467	251 384 903	269 772	1 884 497

Except of valuation of derivatives, the offsetting effect includes PLN 2 697 133 thousand of placed collaterals and PLN 113 380 thousand of collaterals received in connection with the derivative transactions subject to compensation (2021 PLN 1 616 925 thousand and PLN 107 908 thousand respectively).

In both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

Credit quality of financial assets held for trading and derivatives according to internal rating system

Sub-portfolio	31.12.2022		31.12.2021	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	1 283 932	-	609 481	-
2	387 342	-	1 166 008	-
3	60 366	-	186 448	3 813
4	97 222	-	85 300	-
5	3 947	39 720	14 995	36 613
6	107	-	30	-
7	302	-	3 039	-
8	79 969	-	203 177	-
default	32	-	56	-
offsetting effect	(441 479)		(401 871)	
Total	**1 471 740**	**39 720**	**1 866 663**	**40 426**

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Rating	31.12.2022	31.12.2021
	Debt securities	Debt securities
1.0 - 1.2	-	248 906
1.4 - 1.6	-	77 463
1.8 - 2.0	700 410	27 626
2.2 - 2.8	334 796	154 751
3.0 - 3.8	36 886	165 339
Total	**1 072 092**	**674 085**

Rating system is described in Note 3.3.4.

As at 31 December 2022 and 31 December 2021, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

Hedge accounting

The Group applies fair value hedge accounting and cash flow hedge accounting.

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 Bank decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39. These requirements were consistently applied until 30 June 2022. Starting 1 July 2022 the Group applies the IFRS 9 hedge accounting requirements with the exception described below.

The fair value portfolio hedges of interest rate risk, where the hedged item is designated as portion that is a currency amount, continue to be accounted for in line with IAS 39 requirements.

The Bank determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 (except for 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), 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 Bank applies fair value hedge accounting, where the only type of hedged risk is interest rate risk.

At the end of each month, the Bank 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 2.11.

Description of the hedging relation

The Bank 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,
- fixed interest rate loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates,
- fixed rate bonds issued by mBank S.A. 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 housing and consumer loans portfolio granted by mBank’s foreign branch in the Czech Republic. The hedged risk results from changes in interest rates,
- part of portfolio of deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits. The hedged risk results from changes in interest rates.

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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 loans received by mBank from European Investment Bank with a nominal value of 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 125 000 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 thousand,
- part of the fixed interest rate housing and consumer loans portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of portfolio of modelled deposits by mBank in PLN with economic characteristics of fixed-rate deposits.

Hedging instruments

Interest Rate Swap 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 is recognised in the income statement as the income from trading operation except for interest income and interest cost of interest part of valuation of hedging instruments, presented in item "Interest income/cost on derivatives concluded under the fair value hedge accounting".

Hedged items – fair value hedges

31.12.2022	Carrying amount of the hedged items in the statement of financial position	Accumulated amount of fair value hedge adjustment of hedged item included in carrying amount of hedged item recognised in the statement of financial position	The item in the statement of financial position that includes hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Micro hedges				
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(3 601 103)	302 268	Financial liabilities measured at amortised cost – Debt securities issued	283 963
Fixed interest rate loans received by mBank from European Investment Bank	(1 910 721)	127 340	Financial liabilities measured at amortised cost – Amounts due to banks – Loans and advances received	132 471
Fixed interest rate housing and consumer loans in CZK	971 816	(134 278)	Financial assets at amortised cost – Loans and advances to customers	(23 636)
Hedging the fair value of a portfolio of financial assets and liabilities against interest rate risk				
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(13 375 000)	1 528 582	Financial liabilities measured at amortised cost – Amounts due to customers - deposits	473 104
TOTAL				**865 902**

31.12.2021	Carrying amount of the hedged items in the statement of financial position	Accumulated amount of fair value hedge adjustment of hedged item included in carrying amount of hedged item recognised in the statement of financial position	The item in the statement of financial position that includes hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Micro hedges				
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(6 658 576)	18 305	Financial liabilities measured at amortised cost – Debt securities issued	52 872
Fixed interest rate loans received by mBank from European Investment Bank	(1 906 621)	(5 131)	Financial liabilities measured at amortised cost – Amounts due to banks – Loans and advances received	33 782
Hedging the fair value of a portfolio of financial assets and liabilities against interest rate risk				
Fixed interest rate housing and consumer loans in CZK	1 203 178	(110 033)	Financial assets at amortised cost – Loans and advances to customers	(98 871)
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(12 315 000)	1 055 478	Financial liabilities measured at amortised cost – Amounts due to customers - deposits	1 104 116
TOTAL				**1 091 899**

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The change in value of the hedging item used as the basis for recognising hedge ineffectiveness for the period – fair value hedging

	31.12.2022	31.12.2021
Instruments hedging bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(283 192)	(73 415)
Instruments hedging fixed interest rate loans received by mBank from European Investment Bank	(131 274)	(33 362)
Instruments hedging fixed interest rate housing and consumer portfolio denominated in CZK	10 922	79 233
Instruments hedging deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(471 950)	(1 083 145)
Total	**(875 494)**	**(1 110 689)**

Nominal values of hedging derivatives - fair value hedges

	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31.12.2022	-	1 203 580	600 000	18 445 922	-	**20 249 502**
31.12.2021	1 561 922	5 618 307	4 028 766	18 391 062	615 603	**30 215 660**

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

for period	Year ended 31 December	
	2022	2021
Interest income on derivatives concluded under the fair value hedge accounting (Note 5)	(526 940)	80 103
Net profit on hedged items (Note 8)	865 902	1 091 899
Net profit on fair value hedging instruments (Note 8)	(875 494)	(1 110 689)
The total result of fair value hedge accounting recognised in the income statement	**(536 532)**	**61 313**

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 Bank 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 Bank 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)".

Hedged items – cash flow hedges

	Nominal value of hedged items		The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period		The balances in the cash flow hedge reserve for continuing hedges	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Loans and advances to customers - loans in variable interest rate indexed to the market rate	9 445 000	16 685 000	656 893	613 321	(695 611)	(495 965)

The change in value of the hedging item used as the basis for recognising hedge ineffectiveness for the period – cash flow hedges

	31.12.2022	31.12.2021
Instruments hedging loans and advances to customers - loans in variable interest rate indexed to the market rate	(658 277)	(624 867)

Nominal values of hedging derivatives - cash flow hedges

31.12.2022	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN thousand)	440 000	380 000	2 670 000	5 955 000	-	**9 445 000**
The average rate of fixed leg	2.364%	2.468%	1.546%	1.421%	-	

31.12.2021	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN thousand)	530 000	350 000	3 595 000	12 010 000	200 000	**16 685 000**
The average rate of fixed leg	2.074%	1.952%	2.121%	1.595%	1.928%	

Below is given the timetable prepared as at 31 December 2022 and 31 December 2021, presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting are expected and their impact on the income statement.

	up to 3 months	period from 3 months to 1 year	period from 1 to 5 years	over 5 years
31.12.2022	229 818	518 859	519 099	17 811
31.12.2021	99 851	423 499	619 887	15 754

The following note presents other comprehensive income due to cash flow hedges in the period between 1 January and 31 December 2022 and 1 January and 31 December 2021.

for period	Year ended 31 December	
	2022	2021
Other gross comprehensive income from cash flow hedge at the beginning of the period	**(612 303)**	**500 839**
Unrealised gains/losses included in other gross comprehensive income during the reporting period	(708 177)	(896 388)
The amount transferred in the period from comprehensive income to income statement	461 701	(216 754)
- net interest income	*461 701*	*(216 754)*
Accumulated other gross comprehensive income at the end of the reporting period	**(858 779)**	**(612 303)**
Deferred income tax on accumulated other comprehensive income at the end of the reporting period	163 168	116 338
Accumulated other net comprehensive income at the end of the reporting period	**(695 611)**	**(495 965)**
Impact on other comprehensive income in the reporting period (gross)	(246 476)	(1 113 142)
Deferred tax on cash flow hedges	46 830	211 497
Impact on other comprehensive income in the reporting period (net)	**(199 646)**	**(901 645)**

for period	Year ended 31 December	
	2022	2021
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	(246 476)	(1 113 142)
Results of cash flow hedge accounting recognised in the income statement	(484 300)	203 891
- amount included as interest income in income statement during the reporting period (Note 5)	*(461 701)*	*216 754*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)	*(22 599)*	*(12 863)*
Impact on other comprehensive income in the reporting period (gross)	**(730 776)**	**(909 251)**

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Impact of the IBOR reform

In preparing the 2019 financial statements, the Bank opted for early application of the amendments under Phase 1 of the interest rate benchmark reform: the amendments to IFRS 9/IAS 39 and IFRS 7. The amendments in question modified certain requirements for hedge accounting, allowing it to continue to be applied to hedging relationships covered by the amendments during the period of uncertainty before the hedged items or hedging instruments change as a result of the interest rate benchmark reform.

In 2021, the Bank has applied for the first time the amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases under Interest Rate Benchmark Reform - Phase 2, published in August 2020.

Application of the abovementioned Phase 1 measures allowed to maintain the hedge relationships despite uncertainty related to the value and timing of the hedged cashflows resulting from interest rate benchmark reform and lack of ability to separate reference rate interest rate component in case of IBOR related fair value hedges.

The Bank retained cumulative gains or losses in the cash flow hedge reserve for designated cash flow hedges related to IBORs subject to the interest rate benchmark reform despite the uncertainty caused by the interest rate benchmark reform related to the timing and amount of cash flows from the hedged items. In cases where the hedged future cash flows are no longer expected for reasons other than the interest rate benchmark reform, the cumulative gain or loss would be immediately reclassified to profit or loss.

The Bank will be taking advantage of the measures resulting from changes to IAS 39/IFRS 9 introduced within Phase 1 until uncertainty related to timing and amount of cashflows resulting from the interest benchmark reform ceases to impact the Bank. The above-mentioned uncertainty will be impacting the Bank until IBOR related contracts are amended to include clauses regulating replacement of reference benchmark and establishing alternative reference rate including fixed spread as basis for contractual cashflows

As a result of the Phase 2 amendments, in cases where the contractual terms of non-derivative financial instruments have been changed as a direct result of the interest rate benchmark reform and the new basis for determining contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately before the change), the Bank has changed the basis for determining contractual cash flows prospectively by changing the effective interest rate. Where additional changes were made that are not directly related to the reform, the relevant requirements under IFRS 9 were applied to such changes.

In cases were the interest rate benchmark reform resulted in conversion of the hedging instrument, the Bank updated the hedging documentation without terminating the hedge relationship.

Additionally for cashflow hedge relationships, if the hedged item was modified as a result of the interest rate benchmark reform, the cumulated profits or losses recognised in the cashflow hedge reserve related to IBOR hedge relations are treated as if they were calculated based on alternative reference rate.

As of December 2022 derivative instruments designated in hedge relations are based on WIBOR, PRIBOR or EURIBOR rates.

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

	31.12.2022	31.12.2021
Equity instruments	**121 416**	**148 466**
- Other financial corporations	120 927	148 166
- Non-financial corporations	489	300
Debt securities	**45 009**	**81 128**
- Other financial corporations	45 009	81 128
Loans and advances to customers	**712 570**	**991 469**
- Individual customers	690 795	948 636
- Corporate customers	21 687	42 693
- Public sector customers	88	140
Total non-trading financial assets mandatorily at fair value through profit or loss	**878 995**	**1 221 063**
Short-term (up to 1 year) gross	654 641	886 275
Long-term (over 1 year) gross	224 354	334 788

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Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Rating	Debt securities	
	31.12.2022	31.12.2021
1.4 - 1.6	45 009	81 128
Total	**45 009**	**81 128**

Sub-portfolio	Loans and advances to customers	
	31.12.2022	31.12.2021
1	312	2 113
2	52 550	99 363
3	105 017	155 765
4	278 109	307 060
5	180 554	290 856
6	11 404	28 681
7	47 612	69 635
default	37 012	37 996
Total	**712 570**	**991 469**

Rating system is described in Note 3.3.4.

21. Financial assets at fair value through other comprehensive income

31.12.2022	Carrying amount	Gross carrying amount including valuation to fair value				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**34 420 653**	**34 429 073**	**-**	**-**	**-**	**(8 420)**	**-**	**-**	**-**
- Central banks	17 083 666	17 086 509	-	-	-	(2 843)	-	-	-
- General governments, including:	14 300 990	14 303 430	-	-	-	(2 440)	-	-	-
pledged assets	*677 551*	*677 551*	-	-	-	-	-	-	-
- Credit institutions	881 908	882 322	-	-	-	(414)	-	-	-
- Other financial corporations, including:	1 442 692	1 443 103	-	-	-	(411)	-	-	-
pledged assets	*415 618*	*415 618*	-	-	-	-	-	-	-
- Non-financial corporations	711 397	713 709	-	-	-	(2 312)	-	-	-
Loans and advances to customers	**19 422 073**	**18 310 725**	**1 063 200**	**90 925**	**474**	**(8 350)**	**(15 537)**	**(19 350)**	**(14)**
- Individual customers	19 422 073	18 310 725	1 063 200	90 925	474	(8 350)	(15 537)	(19 350)	(14)
Total financial assets at fair value through other comprehensive income	**53 842 726**	**52 739 798**	**1 063 200**	**90 925**	**474**	**(16 770)**	**(15 537)**	**(19 350)**	**(14)**

Short-term (up to 1 year) gross	24 908 405
Long-term (over 1 year) gross	28 985 992

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31.12.2021	Carrying amount	Gross carrying amount including valuation to fair value				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**35 971 403**	**35 936 194**	**43 948**	**-**	**-**	**(8 151)**	**(588)**	**-**	**-**
- Central banks	8 495 243	8 496 392	-	-	-	(1 149)	-	-	-
- General governments, including:	24 502 235	24 505 730	-	-	-	(3 495)	-	-	-
pledged assets	*644 292*	*644 292*	-	-	-	-	-	-	-
- Credit institutions	754 251	754 468	-	-	-	(217)	-	-	-
- Other financial corporations	1 639 729	1 597 246	43 948	-	-	(877)	(588)	-	-
pledged assets	*107 957*	*107 957*	-	-	-	-	-	-	-
- Non-financial corporations	579 945	582 358	-	-	-	(2 413)	-	-	-
Loans and advances to customers	**18 191 254**	**18 059 705**	**114 831**	**31 557**	**402**	**(3 520)**	**(2 758)**	**(9 003)**	**40**
- Individual customers	18 191 254	18 059 705	114 831	31 557	402	(3 520)	(2 758)	(9 003)	40
Total financial assets at fair value through other comprehensive income	**54 162 657**	**53 995 899**	**158 779**	**31 557**	**402**	**(11 671)**	**(3 346)**	**(9 003)**	**40**

Short-term (up to 1 year) gross	16 757 963
Long-term (over 1 year) gross	37 428 674

As at 31 December 2022, the carrying amounts of debt securities with fixed interest rates amounted to PLN 28 232 249 thousand and debt securities with variable interest rates PLN 6 196 824 thousand (31 December 2021: PLN 24 309 495 thousand and PLN 11 670 647 thousand respectively).

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

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2022 the Bank held government bonds and bills included in the statement of financial position in the amount of PLN 579 990 thousand with a nominal value of PLN 645 000 thousand, which were pledged as collateral for the BFG and were deposited in a separate account at the National Depository of Securities (31 December 2021: PLN 603 504 thousand and PLN 645 000 thousand, respectively).

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

Changes between 1 January and 31 December 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	Net changes in credit risk	Other changes	As at the end of the period
Debt securities	**(8 739)**	**-**	**-**	**-**	**(11 296)**	**10 565**	**1 050**	**-**	**(8 420)**
Stage 1	(8 151)	-	-	-	(11 296)	9 977	1 050	-	(8 420)
Stage 2	(588)	-	-	-	-	588	-	-	-
Loans and advances to customers	**(15 241)**	**-**	**-**	**-**	**(452)**	**6 544**	**(36 795)**	**2 693**	**(43 251)**
Stage 1	(3 520)	(7 593)	2 155	128	(452)	550	68	314	(8 350)
Stage 2	(2 758)	6 803	(2 440)	5 331	-	486	(23 080)	121	(15 537)
Stage 3	(9 003)	790	285	(5 459)	-	5 508	(13 724)	2 253	(19 350)
POCI	40	-	-	-	-	-	(59)	5	(14)
Expected credit loss allowance, total	**(23 980)**	**-**	**-**	**-**	**(11 748)**	**17 109**	**(35 745)**	**2 693**	**(51 671)**

Changes between 1 January and 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	Net changes in credit risk	Changes due to new default definition	As at the end of the period
Debt securities	**(5 627)**	**-**	**-**	**-**	**(11 980)**	**9 206**	**(338)**	**-**	**(8 739)**
Stage 1	(3 716)	(125)	327	-	(11 980)	6 894	449	-	(8 151)
Stage 2	(1 911)	125	(327)	-	-	2 312	(787)	-	(588)
Loans and advances to customers	**(16 154)**	**-**	**-**	**-**	**(613)**	**1 875**	**(4 588)**	**4 239**	**(15 241)**
Stage 1	(3 394)	(11 896)	913	192	(613)	289	9 816	1 173	(3 520)
Stage 2	(8 266)	11 099	(1 118)	1 288	-	376	(7 298)	1 161	(2 758)
Stage 3	(4 426)	797	205	(1 480)	-	1 210	(7 190)	1 881	(9 003)
POCI	(68)	-	-	-	-	-	84	24	40
Expected credit loss allowance, total	**(21 781)**	**-**	**-**	**-**	**(12 593)**	**11 081**	**(4 926)**	**4 239**	**(23 980)**

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

Changes between 1 January and 31 December 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 changes	As at the end of the period
Debt securities	**35 980 142**	**-**	**-**	**-**	**17 897 626**	**(19 267 923)**	**(180 772)**	**34 429 073**
Stage 1	35 936 194	-	-	-	17 897 626	(19 223 975)	(180 772)	34 429 073
Stage 2	43 948	-	-	-	-	(43 948)	-	-
Loans and advances to customers	**18 206 495**	**-**	**-**	**-**	**4 019 283**	**(2 878 728)**	**118 274**	**19 465 324**
Stage 1	18 059 705	24 421	(769 491)	(49 098)	3 846 888	(2 856 483)	54 783	18 310 725
Stage 2	114 831	(21 842)	769 753	(22 589)	170 779	(11 176)	63 444	1 063 200
Stage 3	31 557	(2 579)	(262)	71 687	1 616	(11 069)	(25)	90 925
POCI	402	-	-	-	-	-	72	474
Financial assets at fair value through other comprehensive income, gross	**54 186 637**	**-**	**-**	**-**	**21 916 909**	**(22 146 651)**	**(62 498)**	**53 894 397**

Changes between 1 January and 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 changes	As at the end of the period
Debt securities	**35 222 226**	**-**	**-**	**-**	**16 190 155**	**(15 664 156)**	**231 917**	**35 980 142**
Stage 1	35 110 658	-	(43 749)	-	16 190 155	(15 552 588)	231 718	35 936 194
Stage 2	111 568	-	43 749	-	-	(111 568)	199	43 948
Loans and advances to customers	**12 531 167**	**-**	**-**	**-**	**7 465 867**	**(2 057 978)**	**267 439**	**18 206 495**
Stage 1	10 897 552	1 305 452	(44 633)	(9 918)	7 455 114	(1 811 567)	267 705	18 059 705
Stage 2	1 616 606	(1 300 163)	46 292	(11 756)	8 288	(244 385)	(51)	114 831
Stage 3	16 461	(5 289)	(1 659)	21 674	2 465	(2 026)	(69)	31 557
POCI	548	-	-	-	-	-	(146)	402
Financial assets at fair value through other comprehensive income, gross	**47 753 393**	**-**	**-**	**-**	**23 656 022**	**(17 722 134)**	**499 356**	**54 186 637**

The item Other changes includes losses on non-substantial modification resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays" – Note 5).

Credit quality of financial assets at fair value through other comprehensive income according to internal rating system

As at 31 December 2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	213 774	-	-	-	213 774
1.4 - 1.6	1 316 742	-	-	-	1 316 742
1.8 - 2.0	31 176 165	-	-	-	31 176 165
2.2 - 2.8	1 329 204	-	-	-	1 329 204
3.0 - 3.8	393 188	-	-	-	393 188
Gross carrying amount	**34 429 073**	**-**	**-**	**-**	**34 429 073**
Accumulated impairment	(8 420)	-	-	-	(8 420)
Total carrying amount	**34 420 653**	**-**	**-**	**-**	**34 420 653**

As at 31 December 2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at fair value through other comprehensive income					
1	1 276 674	1 960	-	-	1 278 634
2	15 648 924	383 490	-	-	16 032 414
3	969 844	323 259	-	-	1 293 103
4	338 901	210 310	-	-	549 211
5	71 672	87 788	-	-	159 460
6	2 924	12 433	-	-	15 357
7	1 786	43 960	-	-	45 746
default	-	-	90 925	474	91 399
Gross carrying amount	**18 310 725**	**1 063 200**	**90 925**	**474**	**19 465 324**
Accumulated impairment	(8 350)	(15 537)	(19 350)	(14)	(43 251)
Total carrying amount	**18 302 375**	**1 047 663**	**71 575**	**460**	**19 422 073**

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As at 31 December 2021	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	34 452 644	-	-	-	34 452 644
1.4 - 1.6	523 627	-	-	-	523 627
1.8 - 2.0	66 102	-	-	-	66 102
2.2 - 2.8	528 600	-	-	-	528 600
3.0 - 3.8	332 443	-	-	-	332 443
unrated	32 778	43 948	-	-	76 726
Gross carrying amount	**35 936 194**	**43 948**	**-**	**-**	**35 980 142**
Accumulated impairment	(8 151)	(588)	-	-	(8 739)
Total carrying amount	**35 928 043**	**43 360**	**-**	**-**	**35 971 403**

As at 31 December 2021	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at fair value through other comprehensive income					
1	10 605 457	12 135	-	-	10 617 592
2	6 552 069	28 926	-	-	6 580 995
3	597 085	13 488	-	-	610 573
4	226 746	9 648	-	-	236 394
5	53 839	10 758	-	-	64 597
6	6 177	4 766	-	-	10 943
7	18 332	35 110	-	-	53 442
default	-	-	31 557	402	31 959
Gross carrying amount	**18 059 705**	**114 831**	**31 557**	**402**	**18 206 495**
Accumulated impairment	(3 520)	(2 758)	(9 003)	40	(15 241)
Total carrying amount	**18 056 185**	**112 073**	**22 554**	**442**	**18 191 254**

Rating system is described in Note 3.3.4.

Financial effect of collaterals

As at 31 December 2022	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to customers	19 465 324	(43 251)	(54 829)	11 578
Individual customers	19 465 324	(43 251)	(54 829)	11 578
Total balance sheet data	**19 465 324**	**(43 251)**	**(54 829)**	**11 578**

As at 31 December 2021	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to customers	18 206 495	(15 241)	(22 014)	6 773
Individual customers	18 206 495	(15 241)	(22 014)	6 773
Total balance sheet data	**18 206 495**	**(15 241)**	**(22 014)**	**6 773**

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22. Financial assets at amortised cost

31.12.2022	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**20 206 976**	**20 210 006**	**-**	**-**	**-**	**(3 030)**	**-**	**-**	**-**
General governments, including:	13 412 161	13 414 361	-	-	-	(2 200)	-	-	-
pledged assets	*1 089 602*	*1 089 602*	-	-	-	-	-	-	-
Credit institutions	3 345 406	3 345 858	-	-	-	(452)	-	-	-
Other financial corporations, including:	3 449 409	3 449 787	-	-	-	(378)	-	-	-
pledged assets	*1 041 894*	*1 041 894*	-	-	-	-	-	-	-
Loans and advances to banks	**15 392 870**	**15 392 395**	**2 431**	**-**	**-**	**(1 016)**	**(940)**	**-**	**-**
Loans and advances to customers	**87 805 447**	**81 702 670**	**5 233 498**	**3 190 157**	**205 984**	**(355 720)**	**(315 566)**	**(1 901 179)**	**45 603**
Individual customers	40 129 801	37 009 696	2 682 953	2 058 035	150 554	(209 481)	(270 118)	(1 262 306)	(29 532)
Corporate customers	47 622 759	44 640 026	2 550 531	1 132 120	55 430	(146 164)	(45 448)	(638 871)	75 135
Public sector customers	52 887	52 948	14	2	-	(75)	-	(2)	-
Total financial assets at amortised cost	**123 405 293**	**117 305 071**	**5 235 929**	**3 190 157**	**205 984**	**(359 766)**	**(316 506)**	**(1 901 179)**	**45 603**

Short-term (up to 1 year) gross	49 348 622
Long-term (over 1 year) gross	76 588 519

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	**16 632 915**	**16 635 003**	**-**	**-**	**-**	**(2 088)**	**-**	**-**	**-**
General governments, including:	11 517 053	11 518 593	-	-	-	(1 540)	-	-	-
pledged assets	*1 361 945*	*1 361 945*	-	-	-	-	-	-	-
Credit institutions	2 640 979	2 641 308	-	-	-	(329)	-	-	-
Other financial corporations	2 474 883	2 475 102	-	-	-	(219)	-	-	-
pledged assets	*462 075*	*462 075*	-	-	-	-	-	-	-
Loans and advances to banks	**11 194 916**	**11 196 202**	**-**	**-**	**-**	**(1 286)**	**-**	**-**	**-**
Loans and advances to customers	**86 121 767**	**81 730 671**	**3 822 250**	**2 939 041**	**230 771**	**(428 785)**	**(258 476)**	**(1 935 789)**	**22 084**
Individual customers	42 946 052	40 677 063	1 844 583	2 158 936	139 266	(244 702)	(198 576)	(1 439 126)	8 608
Corporate customers	43 094 995	40 972 748	1 977 667	780 104	91 505	(183 943)	(59 900)	(496 662)	13 476
Public sector customers	80 720	80 860	-	1	-	(140)	-	(1)	-
Total financial assets at amortised cost	**113 949 598**	**109 561 876**	**3 822 250**	**2 939 041**	**230 771**	**(432 159)**	**(258 476)**	**(1 935 789)**	**22 084**

Short-term (up to 1 year) gross	41 666 123
Long-term (over 1 year) gross	74 887 815

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

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 394 745 thousand (31 December 2021: PLN 305 374 thousand).

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

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Loans and advances to banks

	31.12.2022	31.12.2021
Current receivables	173 217	305 347
Placements with other banks (up to 3 months)	40 592	30 001
Included in cash equivalents (Note 42)	**213 809**	**335 348**
Loans and advances	2 896 550	2 182 349
Reverse repo or buy/sell back	8 223 722	5 790 914
Other receivables	4 060 745	2 887 591
Total (gross) loans and advances to banks	**15 394 826**	**11 196 202**
Accumulated impairment	**(1 956)**	**(1 286)**
Total (net) loans and advances to banks	**15 392 870**	**11 194 916**
Short-term (up to 1 year) gross	10 926 041	8 218 331
Long-term (over 1 year) gross	4 468 785	2 977 871

The item "Other receivables" includes cash collaterals in the amount of PLN 557 138 thousand, placed with other banks under the derivative transactions concluded by the Bank (Note 36) (31 December 2021: PLN 691 729 thousand).

As at 31 December 2022, the variable rate loans to banks amounted to PLN 2 625 589 thousand and the fixed rate loans to banks amounted to PLN 270 961 thousand (31 December 2021: PLN 2 112 572 thousand and PLN 69 777 thousand, respectively).

As at 31 December 2022 and as at 31 December 2021 the term placements with other banks were fixed rated. An average interest rate for placements in other banks and loans granted to other banks amounted to 4.56% (31 December 2021: 0.62%).

The following table presents receivables from Polish and foreign banks:

	31.12.2022		31.12.2021	
	Loans and advances to Polish banks	Loans and advances to foreign banks	Loans and advances to Polish banks	Loans and advances to foreign banks
Gross carrying amount	6 282 935	9 111 891	4 187 735	7 008 467
Accumulated impairment	(733)	(1 223)	(736)	(550)
Loans and advances to banks, net	**6 282 202**	**9 110 668**	**4 186 999**	**7 007 917**

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Loans and advances to customers

Loans and advances to customers 31.12.2022	Gross carrying amount	including: Individual customers	Corporate customers	Public sector customers
Current receivables	15 088 668	8 015 011	7 067 366	6 291
Term loans, including:	73 039 182	33 864 850	39 127 659	46 673
- housing and mortgage loans to natural persons	*18 947 803*	*18 947 803*		
Reverse repo or buy/sell back	1 611 154	-	1 611 154	-
Other loans and advances	556 330	-	556 330	-
Other receivables	36 975	21 377	15 598	-
Total gross carrying amount	**90 332 309**	**41 901 238**	**48 378 107**	**52 964**

Loans and advances to customers 31.12.2022	Accumulated impairment	including: Individual customers	Corporate customers	Public sector customers
Current receivables	(839 171)	(680 444)	(158 711)	(16)
Term loans, including:	(1 686 836)	(1 090 993)	(595 782)	(61)
- housing and mortgage loans to natural persons	*(427 756)*	*(427 756)*		
Other loans and advances	(855)	-	(855)	-
Total accumulated impairment	**(2 526 862)**	**(1 771 437)**	**(755 348)**	**(77)**

Total gross carrying amount	**90 332 309**	**41 901 238**	**48 378 107**	**52 964**
Total accumulated impairment	(2 526 862)	(1 771 437)	(755 348)	(77)
Total carrying amount	**87 805 447**	**40 129 801**	**47 622 759**	**52 887**

Short-term (up to 1 year) gross	34 321 759
Long-term (over 1 year) gross	56 010 550

Loans and advances to customers 31.12.2021	Gross carrying amount	including: Individual customers	Corporate customers	Public sector customers
Current receivables	13 709 533	7 922 189	5 785 907	1 437
Term loans, including:	74 393 760	36 884 367	37 429 969	79 424
- housing and mortgage loans to natural persons	*22 165 303*	*22 165 303*		
Reverse repo or buy/sell back	187 630	-	187 630	-
Other loans and advances	409 167	-	409 167	-
Other receivables	22 643	13 292	9 351	-
Total gross carrying amount	**88 722 733**	**44 819 848**	**43 822 024**	**80 861**

Loans and advances to customers 31.12.2021	Accumulated impairment	including: Individual customers	Corporate customers	Public sector customers
Current receivables	(841 689)	(669 456)	(172 229)	(4)
Term loans, including:	(1 757 814)	(1 204 340)	(553 337)	(137)
- housing and mortgage loans to natural persons	*(427 278)*	*(427 278)*		
Other loans and advances	(1 463)	-	(1 463)	-
Total accumulated impairment	**(2 600 966)**	**(1 873 796)**	**(727 029)**	**(141)**

Total gross carrying amount	**88 722 733**	**44 819 848**	**43 822 024**	**80 861**
Total accumulated impairment	(2 600 966)	(1 873 796)	(727 029)	(141)
Total carrying amount	**86 121 767**	**42 946 052**	**43 094 995**	**80 720**

Short-term (up to 1 year) gross	32 890 672
Long-term (over 1 year) gross	55 832 061

As at 31 December 2022, gross amount of variable interest rate loans amounted to PLN 86 097 066 thousand and fixed interest rate loans amounted to PLN 4 235 243 thousand (31 December 2021: PLN 86 531 400 thousand and PLN 2 191 333 thousand, respectively). In 2022, an average interest rate for loans granted to customers (excluding reverse repos) amounted to 5.14% (in 2021: 2.68%).

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

As at 31 December 2022, the above note includes receivables in the amount of PLN 286 567 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity (31 December 2021: PLN 222 684 thousand).

In addition, the item "other loans and advances" includes cash collaterals in the amount of PLN 376 277 thousand placed by the Bank under derivatives transactions (Note 36) (31 December 2021: PLN 283 160 thousand).

The currency structure of housing and mortgage loans to natural persons

	31.12.2022	31.12.2021
Housing and mortgage loans to natural persons (in PLN thousand), including:	**18 520 047**	**21 738 025**
- PLN	2 868 238	2 776 146
- CHF	6 141 673	9 063 602
- EUR	4 027 009	4 297 995
- CZK	5 301 068	5 407 924
- USD	168 475	173 638
- other	13 584	18 720
Housing and mortgage loans to natural persons in original currencies (main currencies in thousand)		
- PLN	2 868 238	2 776 146
- CHF	1 288 130	2 037 497
- EUR	858 656	934 469
- CZK	27 296 952	29 232 022
- USD	38 274	42 768

The table above presents currency breakdown of net carrying value of housing and mortgage loans measured at amortised cost granted to natural persons. The table above does not present housing and mortgage loans measured at fair value through other comprehensive income in the amount of PLN 19 422 073 thousand (31 December 2021: PLN 18 191 254 thousand), granted entirely in PLN (Note 21).

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Credit quality of financial assets at amortised cost according to internal rating system

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at amortised cost					
1.4 - 1.6	2 394 836	-	-	-	2 394 836
1.8 - 2.0	16 610 795	-	-	-	16 610 795
2.2 - 2.8	1 204 375	-	-	-	1 204 375
Total gross carrying amount	**20 210 006**	**-**	**-**	**-**	**20 210 006**
Total accumulated impairment	(3 030)	-	-	-	(3 030)
Total carrying amount	**20 206 976**	**-**	**-**	**-**	**20 206 976**
Loans and advances to banks at amortised cost					
1	9 041 711	143	-	-	9 041 854
2	406 628	-	-	-	406 628
3	5 692 463	26	-	-	5 692 489
4	17 279	23	-	-	17 302
5	4 312	-	-	-	4 312
7	-	2 239	-	-	2 239
8	230 002	-	-	-	230 002
Total gross carrying amount	**15 392 395**	**2 431**	**-**	**-**	**15 394 826**
Total accumulated impairment	**(1 016)**	**(940)**	**-**	**-**	**(1 956)**
Total carrying amount	**15 391 379**	**1 491**	**-**	**-**	**15 392 870**
Loans and advances to customers at amortised cost					
1	6 632 618	33 487	-	278	6 666 383
2	32 151 575	364 330	-	18 753	32 534 658
3	12 613 203	511 447	-	5 817	13 130 467
4	18 606 254	953 007	-	34 333	19 593 594
5	9 616 623	1 982 549	-	10 034	11 609 206
6	147 468	201 916	-	2 917	352 301
7	213 551	1 186 762	-	19 040	1 419 353
8	1 721 378	-	-	-	1 721 378
default	-	-	3 190 157	114 812	3 304 969
Total gross carrying amount	**81 702 670**	**5 233 498**	**3 190 157**	**205 984**	**90 332 309**
Total accumulated impairment	**(355 720)**	**(315 566)**	**(1 901 179)**	**45 603**	**(2 526 862)**
Total carrying amount	**81 346 950**	**4 917 932**	**1 288 978**	**251 587**	**87 805 447**

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at amortised cost					
1.0 - 1.2	12 939 555	-	-	-	12 939 555
1.4 - 1.6	500 806	-	-	-	500 806
1.8 - 2.0	2 140 502	-	-	-	2 140 502
2.2 – 2.8	1 054 140	-	-	-	1 054 140
Total gross carrying amount	**16 635 003**	**-**	**-**	**-**	**16 635 003**
Total accumulated impairment	(2 088)	-	-	-	(2 088)
Total carrying amount	**16 632 915**	**-**	**-**	**-**	**16 632 915**
Loans and advances to banks at amortised cost					
1	10 851 199	-	-	-	10 851 199
2	179 357	-	-	-	179 357
3	101 137	-	-	-	101 137
4	62 083	-	-	-	62 083
5	980	-	-	-	980
7	391	-	-	-	391
8	1 055	-	-	-	1 055
Total gross carrying amount	**11 196 202**	**-**	**-**	**-**	**11 196 202**
Total accumulated impairment	(1 286)	-	-	-	(1 286)
Total carrying amount	**11 194 916**	**-**	**-**	**-**	**11 194 916**
Loans and advances to customers at amortised cost					
1	12 310 193	26 034	-	11 320	12 347 547
2	21 794 048	191 324	-	15 625	22 000 997
3	22 645 903	311 442	-	6 539	22 963 884
4	15 125 927	700 343	-	11 788	15 838 058
5	8 868 633	1 376 100	-	7 440	10 252 173
6	294 695	182 082	-	1 033	477 810
7	331 631	1 034 925	-	13 075	1 379 631
8	359 641	-	-	-	359 641
default	-	-	2 939 041	163 951	3 102 992
Total gross carrying amount	**81 730 671**	**3 822 250**	**2 939 041**	**230 771**	**88 722 733**
Total accumulated impairment	**(428 785)**	**(258 476)**	**(1 935 789)**	**22 084**	**(2 600 966)**
Total carrying amount	**81 301 886**	**3 563 774**	**1 003 252**	**252 855**	**86 121 767**

Rating system is described in Note 3.3.4.

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Movements in expected credit losses allowance

Change from 1 January to 31 December 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	Net changes in credit risk	Net changes due to methodology update	Write-offs	Other changes	As at the end of the period
Debt securities	**(2 088)**	**-**	**-**	**-**	**(409)**	**104**	**(637)**	**-**	**-**	**-**	**(3 030)**
Stage 1	(2 088)	-	-	-	(409)	104	(637)	-	-	-	(3 030)
Loans and advances to banks	**(1 286)**	**-**	**-**	**-**	**(4 036)**	**3 708**	**(1 874)**	**-**	**-**	**1 532**	**(1 956)**
Stage 1	(1 286)	(8)	93	-	(3 138)	2 149	(341)	-	-	1 515	(1 016)
Stage 2	-	8	(93)	-	(898)	1 559	(1 533)	-	-	17	(940)
Loans and advances to customers	**(2 600 966)**	**-**	**-**	**-**	**(518 060)**	**623 733**	**(745 140)**	**(5 019)**	**895 605**	**(177 015)**	**(2 526 862)**
Stage 1	(428 785)	(305 114)	141 311	9 351	(192 325)	151 173	245 817	25 863	-	(3 011)	(355 720)
Stage 2	(258 476)	295 483	(168 818)	237 662	(38 610)	45 955	(394 744)	(30 276)	-	(3 742)	(315 566)
Stage 3	(1 935 789)	9 631	27 507	(247 013)	(290 248)	425 871	(595 933)	1	869 155	(164 361)	(1 901 179)
POCI	22 084	-	-	-	3 123	734	(280)	(607)	26 450	(5 901)	45 603
Expected credit losses allowance, total	**(2 604 340)**	**-**	**-**	**-**	**(522 505)**	**627 545**	**(747 651)**	**(5 019)**	**895 605**	**(175 483)**	**(2 531 848)**

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	Net changes in credit risk	Changes due to new default definition	Write-offs	Other changes	As at the end of the period
Debt securities	**(135)**	**-**	**-**	**-**	**(384)**	**93**	**(1 662)**	**-**	**-**	**-**	**(2 088)**
Stage 1	(135)	-	-	-	(384)	93	(1 662)	-	-	-	(2 088)
Loans and advances to banks	**(927)**	**-**	**-**	**-**	**(2 638)**	**2 172**	**109**	**(2)**	**-**	**-**	**(1 286)**
Stage 1	(927)	-	-	-	(2 638)	2 172	109	(2)	-	-	(1 286)
Loans and advances to customers	**(3 031 447)**	**-**	**-**	**-**	**(235 615)**	**258 791**	**(697 727)**	**(7 007)**	**1 037 039**	**75 000**	**(2 600 966)**
Stage 1	(274 423)	(503 890)	133 631	6 816	(127 049)	85 461	261 666	(10 997)	-	-	(428 785)
Stage 2	(332 339)	485 793	(163 193)	190 501	(15 569)	47 067	(450 278)	(20 458)	-	-	(258 476)
Stage 3	(2 371 638)	18 097	29 562	(197 317)	(90 450)	125 057	(562 426)	10 860	1 027 466	75 000	(1 935 789)
POCI	(53 047)	-	-	-	(2 547)	1 206	53 311	13 588	9 573	-	22 084
Expected credit losses allowance, total	**(3 032 509)**	**-**	**-**	**-**	**(238 637)**	**261 056**	**(699 280)**	**(7 009)**	**1 037 039**	**75 000**	**(2 604 340)**

Movements in expected credit losses resulting from changes in models are described in Note 3.3.6.2.2.

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

Change from 1 January to 31 December 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 changes	As at the end of the period
Debt securities	**16 635 003**	**-**	**-**	**-**	**4 164 745**	**(557 120)**	**-**	**(32 622)**	**20 210 006**
Stage 1	16 635 003	-	-	-	4 164 745	(557 120)	-	(32 622)	20 210 006
Loans and advances to banks	**11 196 202**	**-**	**-**	**-**	**11 992 048**	**(7 597 061)**	**-**	**(196 363)**	**15 394 826**
Stage 1	11 196 202	-	(4 562)	-	11 992 025	(7 597 061)	-	(194 209)	15 392 395
Stage 2	-	-	4 562	-	23	-	-	(2 154)	2 431
Loans and advances to customers	**88 722 733**	**-**	**-**	**-**	**27 717 338**	**(18 044 274)**	**(895 605)**	**(7 167 883)**	**90 332 309**
Stage 1	81 730 671	807 277	(2 663 522)	(877 646)	26 229 761	(16 749 387)	-	(6 774 484)	81 702 670
Stage 2	3 822 250	(778 877)	2 724 723	(464 191)	1 040 363	(837 582)	-	(273 188)	5 233 498
Stage 3	2 939 041	(28 400)	(61 201)	1 334 842	408 598	(427 555)	(869 155)	(106 013)	3 190 157
POCI	230 771	-	-	6 995	38 616	(29 750)	(26 450)	(14 198)	205 984
Financial assets at amortised cost, gross	**116 553 938**	**-**	**-**	**-**	**43 874 131**	**(26 198 455)**	**(895 605)**	**(7 396 868)**	**125 937 141**

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 changes	As at the end of the period
Debt securities	**15 952 636**	**-**	**-**	**-**	**2 840 649**	**(2 931 185)**	**-**	**772 903**	**16 635 003**
Stage 1	15 952 636	-	-	-	2 840 649	(2 931 185)	-	772 903	16 635 003
Loans and advances to banks	**10 846 771**	**-**	**-**	**-**	**8 744 195**	**(8 626 098)**	**-**	**231 334**	**11 196 202**
Stage 1	10 846 771	-	-	-	8 744 195	(8 626 098)	-	231 334	11 196 202
Loans and advances to customers	**85 464 088**	**-**	**-**	**-**	**28 805 240**	**(15 557 939)**	**(1 037 039)**	**(8 951 617)**	**88 722 733**
Stage 1	73 101 014	4 560 619	(1 360 134)	(365 615)	27 911 780	(13 699 517)	-	(8 417 476)	81 730 671
Stage 2	8 552 628	(4 460 991)	1 468 021	(539 143)	613 246	(1 505 964)	-	(305 547)	3 822 250
Stage 3	3 521 765	(99 628)	(107 887)	877 827	202 279	(266 031)	(1 027 466)	(161 818)	2 939 041
POCI	288 681	-	-	26 931	77 935	(86 427)	(9 573)	(66 776)	230 771
Financial assets at amortised cost, gross	**112 263 495**	**-**	**-**	**-**	**40 390 084**	**(27 115 222)**	**(1 037 039)**	**(7 947 380)**	**116 553 938**

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The item Other changes includes the effect of gross carrying amount adjustments for legal risk costs related to foreign currency loans (Note 34) and losses on non-substantial modification resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays" – Note 5).

In 2022, the following changes resulting from the model management process, which influenced the quantitative staging model, were reflected in the calculation of expected credit losses:

- Adjustment of model segmentation according to the Recommendation R requirements. This change resulted in reclassification of the credit exposure portfolio of PLN 331.5 million from the stage 2 to the stage 1, and PLN 621.5 million PLN from the stage 1 to the stage 2;
- Recalibration of the transfer logic model in connection with the implementation of the new behavioral rating model in retail area. This change resulted in reclassification of the credit exposure portfolio of PLN 752.2 million from the stage 2 to the stage 1, and PLN 779.9 million PLN from the stage 1 to the stage 2.

Financial effect of collaterals

31.12.2022	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	15 394 826	(1 956)	(4 096)	2 140
Loans and advances to customers, including:	90 332 309	(2 526 862)	(3 155 486)	628 624
Individual customers	41 901 238	(1 771 437)	(1 877 684)	106 247
- housing and mortgage loans to natural persons	*18 947 803*	*(427 756)*	*(499 082)*	*71 326*
Corporate customers	48 378 107	(755 348)	(1 277 329)	521 981
Public sector customers	52 964	(77)	(473)	396
Total balance sheet data	**105 727 135**	**(2 528 818)**	**(3 159 582)**	**630 764**
Off-balance sheet data				
Loan commitments and other commitments	32 652 084	(79 115)	(96 075)	16 960
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 580 947	(260 755)	(281 895)	21 140
Total off-balance sheet data	**41 233 031**	**(339 870)**	**(377 970)**	**38 100**

31.12.2021	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	11 196 202	(1 286)	(3 863)	2 577
Loans and advances to customers, including:	88 722 733	(2 600 966)	(3 049 756)	448 790
Individual customers	44 819 848	(1 873 796)	(2 006 379)	132 583
- housing and mortgage loans to natural persons	*22 165 303*	*(427 278)*	*(537 806)*	*110 528*
Corporate customers	43 822 024	(727 029)	(1 043 214)	316 185
Public sector customers	80 861	(141)	(163)	22
Total balance sheet data	**99 918 935**	**(2 602 252)**	**(3 053 619)**	**451 367**
Off-balance sheet data				
Loan commitments and other commitments	31 067 266	(90 636)	(109 744)	19 108
Guarantees, banker's acceptances, documentary and commercial letters of credit	7 556 406	(261 198)	(268 567)	7 369
Total off-balance sheet data	**38 623 672**	**(351 834)**	**(378 311)**	**26 477**

The carrying amount of loans and advances to customers as at 31 December 2022, for which the Bank has not recognised a loss allowance because of the collateral amounted to PLN 1 910 672 thousand (31 December 2021 PLN 2 369 688 thousand).

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23. Investments in subsidiaries

31 December 2022

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**BRE Property Partner Sp. z o.o.**	Poland	579	6	5	(299)	100,00	573
2.	**Future Tech Fundusz Inwestycyjny Zamknięty**	Poland	206 378	1 893	16 877	16 561	98,04	203 163
3.	**G-Invest Sp. z o.o.**	Poland	6 808	37	333	128	100,00	6 659
4.	**Herut Sp. z o.o.**	Poland	30	4	-	-	100,00	39
5.	**mBank Hipoteczny S.A.**	Poland	13 162 518	12 293 539	(234 228)	(327 926)	100,00	845 384
6.	**mBox Sp. z o.o.**	Poland	827	22	140	6	100,00	805
7.	**mElements S.A.**	Poland	26 785	5 970	8 921	(668)	100,00	20 815
8.	**mFaktoring S.A.**	Poland	2 702 221	2 508 881	82 727	44 708	100,00	196 661
9.	**mFinanse S.A.**	Poland	330 536	228 611	(2 012)	(53 893)	100,00	-
10.	**mInvestment Banking S.A.**	Poland	8 759	3 337	11 260	1 635	100,00	5 342
11.	**mLeasing Sp. z o.o.**	Poland	14 268 609	13 507 920	421 327	160 856	100,00	767 190
12.	**mServices Sp. z o.o.**	Poland	4 660	667	5 183	851	100,00	3 993
13.	**mTFI S.A.**	Poland	7 473	1 654	78	(3 531)	100,00	6 781
14.	**Octopus Sp. z o.o.**	Poland	412	1	(28)	(28)	99,90	50
								2 057 455

31 December 2021

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**BRE Property Partner Sp. z o.o.**	Poland	866	12	6	(433)	100,00	906
2.	**Future Tech Fundusz Inwestycyjny Zamknięty**	Poland	189 731	1 731	(5 731)	(6 057)	98,04	186 280
3.	**G-Invest Sp. z o.o.**	Poland	6 690	59	219	38	100,00	6 628
4.	**Herut Sp. z o.o.**	Poland	30	4	-	(9)	100,00	39
5.	**mBank Hipoteczny S.A.**	Poland	12 991 653	11 717 523	134 903	8 979	100,00	1 259 529
6.	**mBox Sp. z o.o.**	Poland	818	22	156	9	100,00	796
7.	**mElements S.A.**	Poland	26 073	4 590	8 531	(53)	100,00	21 483
8.	**mFaktoring S.A.**	Poland	3 193 780	3 045 427	55 261	19 989	100,00	152 074
9.	**mFinanse S.A.**	Poland	388 155	188 902	112 984	44 654	100,00	72 313
10.	**mInvestment Banking S.A.**	Poland	7 543	3 259	10 209	1 606	100,00	2 048
11.	**mLeasing Sp. z o.o.**	Poland	13 979 630	13 380 230	366 222	117 626	100,00	624 513
12.	**mServices Sp. z o.o.**	Poland	6 425	2 881	4 803	401	100,00	4 186
13.	**mTFI S.A.**	Poland	9 826	474	-	(648)	100,00	10 000
14.	**Octopus Sp. z o.o.**	Poland	440	1	16	(1)	99,90	50
15.	**Unitop Sp. z o.o.***	Poland	142 999	54 416	32 971	5 810	100,00	16 223
								2 357 068

** Data for Unitop Sp. z o.o. presented for the financial year running from 1 July 2020 to 30 June 2021.*

On 9 November 2022, the Bank sold all of its shares in Unitop Sp. z o.o. and all of the Bank's receivables from the subsidiary.

On 22 December 2020 the Management Board of mBank S.A. decided to establish its own investment fund company by way of founding a company under the name of mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna (mTFI S.A.). The company was formally established on 8 April 2021. The Bank acquired 100% of mTFI S.A. shares.

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

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Changes in investments in subsidiaries

	31.12.2022	31.12.2021
As at the beginning of the period	**2 357 068**	**2 204 922**
Increase	-	17 039
Decrease	-	(5 147)
Changes resulting from the application of the equity method, including:	(282 949)	140 176
- recognised in the income statement	*(190 435)*	*168 286*
- recognised in the other components of equity	*(92 514)*	*(28 110)*
Change of valuation of investment in subsidiaries not measured at equity method	(16 664)	78
As at the end of the period	**2 057 455**	**2 357 068**

24. 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, in accordance with the accounting principles described in Note 2.18, 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. According to an annex to the preliminary agreement the parties to the contract undertook to conclude the promised contract by 31 March 2023.

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

Non-current assets held for sale	31.12.2022	31.12.2021
Fixed asset	26 747	31 247
Total non-current assets held for sale	**26 747**	**31 247**

Liabilities classified as held for sale	31.12.2022	31.12.2021
Financial liabilities measured at amortised cost, including:	7 375	7 425
Lease liabilities	*7 375*	*7 425*
Total liabilities classified as held for sale	**7 375**	**7 425**

25. Intangible assets

	31.12.2022	31.12.2021
Patents, licences and similar assets, including:	985 972	858 734
- computer software	874 845	*713 590*
Intangible assets under development	223 750	252 745
Total intangible assets	**1 209 722**	**1 111 479**

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2022	Patents, licences and other similar assets		Other intangible assets	Goodwill	Total intangible assets
		Computer software			
Gross value of intangible assets as at the beginning of the period	**1 548 978**	**1 240 633**	**252 745**	**-**	**1 801 723**
Increase (due to):	**303 350**	**262 477**	**284 624**	**-**	**587 974**
- purchase	23 040	12	220 961	-	244 001
- transfer from intangible assets under development	278 641	262 319	-	-	278 641
- development costs	-	-	43 587	-	43 587
- other increases	1 669	146	20 076	-	21 745
Decrease (due to):	**(67 057)**	**(24 057)**	**(313 619)**	**-**	**(380 676)**
- liquidation	(67 057)	(24 057)	-	-	(67 057)
- transfer to intangible assets given to use	-	-	(278 641)	-	(278 641)
- other decreases	-	-	(34 978)	-	(34 978)
Gross value of intangible assets as at the end of the period	**1 785 271**	**1 479 053**	**223 750**	**-**	**2 009 021**
Accumulated amortisation as at the beginning of the period	**(690 244)**	**(527 043)**	**-**	**-**	**(690 244)**
Amortisation for the period (due to):	**(109 055)**	**(77 165)**	**-**	**-**	**(109 055)**
- amortisation	(175 152)	(100 317)	-	-	(175 152)
- other increases	(182)	(127)	-	-	(182)
- liquidation	66 279	23 279	-	-	66 279
Accumulated amortisation as at the end of the period	**(799 299)**	**(604 208)**	**-**	**-**	**(799 299)**
Net value of intangible assets as at the end of the period	**985 972**	**874 845**	**223 750**	**-**	**1 209 722**

Movements in intangible assets from 1 January to 31 December 2021	Patents, licences and other similar assets		Other intangible assets	Goodwill	Total intangible assets
		Computer software			
Gross value of intangible assets as at the beginning of the period	**1 546 898**	**1 210 442**	**211 395**	**3 532**	**1 761 825**
Increase (due to):	**213 015**	**158 483**	**282 710**	**-**	**495 725**
- purchase	36 944	-	210 311	-	247 255
- transfer from intangible assets under development	175 786	158 371	-	-	175 786
- development costs	-	-	34 012	-	34 012
- other increases	285	112	38 387	-	38 672
Decrease (due to):	**(210 935)**	**(128 292)**	**(241 360)**	**(3 532)**	**(455 827)**
- liquidation	(210 929)	(128 288)	-	-	(210 929)
- transfer to intangible assets given to use	-	-	(175 786)	-	(175 786)
- other decreases	(6)	(4)	(65 574)	(3 532)	(69 112)
Gross value of intangible assets as at the end of the period	**1 548 978**	**1 240 633**	**252 745**	**-**	**1 801 723**
Accumulated amortisation as at the beginning of the period	**(748 079)**	**(565 396)**	**-**	**-**	**(748 079)**
Amortisation for the period (due to):	**57 835**	**38 353**	**-**	**-**	**57 835**
- amortisation	(144 014)	(80 922)	-	-	(144 014)
- other increases	(179)	(112)	-	-	(179)
- liquidation	202 028	119 387	-	-	202 028
Accumulated amortisation as at the end of the period	**(690 244)**	**(527 043)**	**-**	**-**	**(690 244)**
Impairment losses as at the beginning of the period	**-**	**-**	**-**	**-**	**-**
- increase	-	-	-	(3 532)	(3 532)
- decrease	-	-	-	3 532	3 532
Impairment losses at the end of the period	**-**	**-**	**-**	**-**	**-**
Net value of intangible assets as at the end of the period	**858 734**	**713 590**	**252 745**	**-**	**1 111 479**

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26. Tangible assets

	31.12.2022	31.12.2021
Fixed assets, including:	**431 370**	**417 228**
- land	653	653
- buildings and structures	33 804	35 860
- equipment	198 179	166 430
- vehicles	-	7
- other fixed assets	198 734	214 278
Fixed assets under construction	**42 761**	**62 818**
Right-of-use, including:	**698 583**	**724 634**
- real estate	684 286	708 604
- perpetual usufruct of land	2 146	2 177
- vehicles	11 190	13 612
- other	961	241
Total tangible assets	**1 172 714**	**1 204 680**

Movements in fixed assets

Movements in tangible assets from 1 January to 31 December 2022	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of fixed assets as at the beginning of the period	**653**	**90 444**	**584 848**	**47**	**453 639**	**62 818**	**1 192 449**
Increase (due to)	**-**	**-**	**110 295**	**-**	**24 620**	**59 178**	**194 093**
- purchase	-	-	62 070	-	3 373	51 813	117 256
- transfer from fixed assets under construction	-	-	47 626	-	20 223	-	67 849
- other increases	-	-	599	-	1 024	7 365	8 988
Decrease (due to)	**-**	**-**	**(128 149)**	**-**	**(33 867)**	**(79 235)**	**(241 251)**
- sale	-	-	(36 930)	-	(4 508)	-	(41 438)
- liquidation	-	-	(14 274)	-	(14 107)	-	(28 381)
- transfer to fixed assets	-	-	-	-	-	(67 849)	(67 849)
- other decreases	-	-	(76 945)	-	(15 252)	(11 386)	(103 583)
Gross value of fixed assets as at the end of the period	**653**	**90 444**	**566 994**	**47**	**444 392**	**42 761**	**1 145 291**
Accumulated depreciation as at the beginning of the period	**-**	**(33 804)**	**(418 418)**	**(40)**	**(239 361)**	**-**	**(691 623)**
Depreciation for the period (due to)	**-**	**(2 056)**	**49 603**	**(7)**	**(6 297)**	**-**	**41 243**
- depreciation charge	-	(2 056)	(77 489)	(7)	(38 963)	-	(118 515)
- other increases	-	-	(410)	-	(760)	-	(1 170)
- sale	-	-	36 903	-	4 316	-	41 219
- liquidation	-	-	14 141	-	13 898	-	28 039
- other decreases	-	-	76 458	-	15 212	-	91 670
Accumulated depreciation as at the end of the period	**-**	**(35 860)**	**(368 815)**	**(47)**	**(245 658)**	**-**	**(650 380)**
Impairment losses as at the beginning of the period	**-**	**(20 780)**	**-**	**-**	**-**	**-**	**(20 780)**
- increase	-	-	-	-	-	-	-
- decrease	-	-	-	-	-	-	-
Impairment losses as at the end of the period	**-**	**(20 780)**	**-**	**-**	**-**	**-**	**(20 780)**
Net value of fixed assets as at the end of the period	**653**	**33 804**	**198 179**	**-**	**198 734**	**42 761**	**474 131**

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Movements in fixed assets from 1 January to 31 December 2021	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of fixed assets as at the beginning of the period	**653**	**313 853**	**563 920**	**47**	**332 350**	**175 560**	**1 386 383**
Increase (due to)	**-**	**-**	**98 236**	**-**	**168 022**	**193 426**	**459 684**
- purchase	-	-	31 446	-	1 596	128 157	161 199
- transfer from fixed assets under construction	-	-	66 236	-	165 266	-	231 502
- other increases	-	-	554	-	1 160	65 269	66 983
Decrease (due to)	**-**	**(223 409)**	**(77 308)**	**-**	**(46 733)**	**(306 168)**	**(653 618)**
- sale	-	-	(5 390)	-	(16 071)	-	(21 461)
- liquidation	-	-	(34 573)	-	(30 082)	-	(64 655)
- transfer to fixed assets	-	-	-	-	-	(231 502)	(231 502)
- non-current assets held for sale	-	(89 962)	(3 615)	-	(215)	-	(93 792)
- reclassification to investment properties	-	(133 447)	(32 185)	-	(365)	-	(165 997)
- other decreases	-	-	(1 545)	-	-	(74 666)	(76 211)
Gross value of fixed assets as at the end of the period	**653**	**90 444**	**584 848**	**47**	**453 639**	**62 818**	**1 192 449**
Accumulated depreciation as at the beginning of the period	**-**	**(121 622)**	**(417 356)**	**(28)**	**(250 543)**	**-**	**(789 549)**
Depreciation for the period (due to)	**-**	**87 818**	**(1 062)**	**(12)**	**11 182**	**-**	**97 926**
- depreciation charge	-	(5 147)	(77 433)	(12)	(34 138)	-	(116 730)
- other increases	-	-	(359)	-	(905)	-	(1 264)
- sale	-	-	5 358	-	15 891	-	21 249
- liquidation	-	-	34 197	-	29 754	-	63 951
- non-current assets held for sale	-	35 159	3 615	-	215	-	38 989
- reclassification to investment properties	-	57 806	32 181	-	365	-	90 352
- other decreases	-	-	1 379	-	-	-	1 379
Accumulated depreciation as at the end of the period	**-**	**(33 804)**	**(418 418)**	**(40)**	**(239 361)**	**-**	**(691 623)**
Impairment losses as at the beginning of the period	**-**	**(49 270)**	**-**	**-**	**-**	**-**	**(49 270)**
- increase	-	(2 400)	-	-	-	-	(2 400)
- decrease	-	30 890	-	-	-	-	30 890
Impairment losses as at the end of the period	**-**	**(20 780)**	**-**	**-**	**-**	**-**	**(20 780)**
Net value of fixed assets as at the end of the period	**653**	**35 860**	**166 430**	**7**	**214 278**	**62 818**	**480 046**

The recoverable value of impaired fixed assets is the net sale price determined on the basis of market prices for similar assets.

Movements in right-of-use assets

Movements in right-of-use from 1 January to 31 December 2022	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of right-of-use as at the beginning of the period	**1 011 377**	**2 271**	**30 796**	**1 007**	**1 045 451**
Increase (due to)	**107 264**	**-**	**6 033**	**1 100**	**114 397**
- new contracts	25 161	-	3 978	-	29 139
- modification of contracts	80 439	-	1 962	1 100	83 501
- other increases	1 664	-	93	-	1 757
Decrease (due to)	**(23 273)**	**-**	**(2 044)**	**(74)**	**(25 391)**
- termination of contracts	(14 221)	-	(1 213)	(74)	(15 508)
- modification of contracts	(9 052)	-	(831)	-	(9 883)
Gross value of right-of-use as at the end of the period	**1 095 368**	**2 271**	**34 785**	**2 033**	**1 134 457**
Accumulated depreciation as at the beginning of the period	**(302 773)**	**(94)**	**(17 184)**	**(766)**	**(320 817)**
Depreciation for the period (due to)	**(108 309)**	**(31)**	**(6 411)**	**(306)**	**(115 057)**
- depreciation charge	(114 752)	(31)	(8 117)	(375)	(123 275)
- other increases	(1 001)	-	(59)	(3)	(1 063)
- modification of contracts	(5 682)	-	697	-	(4 985)
- termination of contracts	13 126	-	1 068	72	14 266
Accumulated depreciation as at the end of the period	**(411 082)**	**(125)**	**(23 595)**	**(1 072)**	**(435 874)**
Net value of right-of-use as at the end of the period	**684 286**	**2 146**	**11 190**	**961**	**698 583**

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Movements in right-of-use from 1 January to 31 December 2021	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of right-of-use as at the beginning of the period	**821 104**	**49 046**	**32 187**	**2 015**	**904 352**
Increase (due to)	**326 136**	**-**	**3 037**	**455**	**329 628**
- new contracts	258 370	-	1 994	205	260 569
- modification of contracts	59 008	-	309	233	59 550
- other increases	8 758	-	734	17	9 509
Decrease (due to)	**(135 863)**	**(46 775)**	**(4 428)**	**(1 463)**	**(188 529)**
- termination of contracts	(9 956)	-	(1 803)	(1 313)	(13 072)
- modification of contracts	(123 186)	-	(13)	-	(123 199)
- other decreases	(2 721)	(46 775)	(2 612)	(150)	(52 258)
Gross value of right-of-use as at the end of the period	**1 011 377**	**2 271**	**30 796**	**1 007**	**1 045 451**
Accumulated depreciation as at the beginning of the period	**(190 275)**	**(1 376)**	**(12 239)**	**(1 530)**	**(205 420)**
Depreciation for the period (due to)	**(112 498)**	**1 282**	**(4 945)**	**764**	**(115 397)**
- depreciation charge	(119 501)	(412)	(8 146)	(354)	(128 413)
- other increases	(1 107)	-	(56)	(7)	(1 170)
- modification of contracts	777	-	7	-	784
- termination of contracts	7 333	-	1 303	975	9 611
- other decreases	-	1 694	1 947	150	3 791
Accumulated depreciation as at the end of the period	**(302 773)**	**(94)**	**(17 184)**	**(766)**	**(320 817)**
Net value of right-of-use as at the end of the period	**708 604**	**2 177**	**13 612**	**241**	**724 634**

27. 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 properties". The difference in the revaluation of these components to fair value amounting to PLN 14 118 thousand was recognised in other comprehensive income (Note 17). The building is intended for rent.

	31.12.2022	31.12.2021
Gross value as at the beginning of the period	**127 510**	**-**
Increase (due to):	**12 862**	**127 510**
- reclassification to investment properties	-	113 392
- gains arising from fair value adjustments	12 862	14 118
Decrease (due to):	**(3 463)**	**-**
- losses arising from fair value adjustments	(3 463)	-
Fair value at the end of the period	**136 909**	**127 510**

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28. Other assets

	31.12.2022	31.12.2021
Other financial assets	**1 053 015**	**1 087 933**
- debtors, including:	871 417	961 698
- settlements of cash deposit machines and cash sorting companies	*484 463*	*377 379*
- settlements of payment cards	*54 527*	*47 398*
- accrued income	112 780	77 275
- interbank balances	40 694	22 867
- settlements of securities transactions	28 124	26 093
Other non-financial assets	**521 811**	**146 923**
- other accruals	130 013	143 817
- inventories	2 966	3 106
- non-financial receivables due to final verdicts in legal proceedings relating to loans in foreign currencies	388 832	-
Total other assets	**1 574 826**	**1 234 856**
Short-term (up to 1 year)	1 441 702	1 110 889
Long-term (over 1 year)	133 124	123 967

In 2022 and in 2021, the item Settlements of the securities transaction relates entirely to the settlements of securities transactions in connection with the Brokerage Office activity.

Other financial assets included in the other assets

	31.12.2022	31.12.2021
Gross other financial assets, including:	**1 074 281**	**1 104 854**
- not past due	1 065 813	1 083 617
- past due from 1 to 90 days	888	11 894
- past due over 90 days	7 580	9 343
Provisions for impaired assets (negative amount)	(21 266)	(16 921)
Net other financial assets	**1 053 015**	**1 087 933**

Movements of impairment allowance for other assets

	31.12.2022	31.12.2021
As at the beginning of the period	**(16 921)**	**(16 493)**
Change in the period (due to):	**(4 345)**	**(428)**
- increase of provisions	(4 601)	(3 138)
- release of provisions	8	477
- write-offs	249	2 233
- foreign exchange differences	(1)	-
As at the end of the period	**(21 266)**	**(16 921)**

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29. Financial liabilities measured at amortised cost

Amounts due to other banks and customers

31.12.2022	Amounts due to banks	Amounts due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**603 158**	**173 182 532**	**122 669 186**	**49 253 122**	**1 260 224**
Current accounts	330 336	133 914 762	95 642 108	37 828 765	443 889
Term deposits	254 972	38 957 844	27 027 078	11 114 431	816 335
Repo or sell/buy back transactions	17 850	309 926	-	309 926	-
Loans and advances received	**1 910 721**	**-**	-	-	-
Other financial liabilities	**791 872**	**818 379**	**220 850**	**597 520**	**9**
Liabilities in respect of cash collaterals	697 425	508 848	39 713	469 135	-
Other	94 447	309 531	181 137	128 385	9
Total financial liabilities measured at amortised cost	**3 305 751**	**174 000 911**	**122 890 036**	**49 850 642**	**1 260 233**

Short-term (up to 1 year)	1 269 583	173 778 705
Long-term (over 1 year)	2 036 168	222 206

31.12.2021	Amounts due to banks	Amounts due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**2 264 479**	**156 135 235**	**112 225 674**	**43 302 151**	**607 410**
Current accounts	805 729	147 253 206	103 992 478	42 667 497	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	**1 906 621**	**-**	-	**-**	-
Other financial liabilities	**1 155 522**	**910 139**	**220 397**	**689 740**	**2**
Liabilities in respect of cash collaterals	988 663	704 995	75 252	629 743	-
Other	166 859	205 144	145 145	59 997	2
Total financial liabilities measured at amortised cost	**5 326 622**	**157 045 374**	**112 446 071**	**43 991 891**	**607 412**

Short-term (up to 1 year)	3 426 900	156 156 579
Long-term (over 1 year)	1 899 722	888 795

In the item amounts due to individual customers liabilities to microenterprises were also included.

The average interest rate for loans obtained from banks in 2022 amounted to 2.87% (31 December 2021: 0.10%).

The Bank did not note any violations of contractual terms related to liabilities in respect of loans received.

As at 31 December 2022 and 31 December 2021, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 0.99% (31 December 2021: 0.04%).

As at 31 December 2022, loans and advances received include loans received from European Investment Bank amounting to PLN 1 910 721 thousand (31 December 2021: PLN 1 906 621 thousand). The loans with fixed interest rate are collateralised with treasury bonds, which have been disclosed as pledged assets under Note 22 and Note 36.

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Lease liabilities

Undiscounted Lease liabilities breakdown by maturity dates is presented in Note 3.8.1.

Debt securities issued

31 December 2022 Debt securities by type	Nominal value (currency of issue)	Carrying amount of the liability by maturity date				Total carrying amount
		up to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Bonds, including:		**986 675**	**-**	**3 417 085**	**119 753**	**4 523 513**
- PLN	642 500	20 935	-	512 922	91 219	625 076
- EUR	564 000	7 521	-	2 330 062	28 534	2 366 117
- CHF	325 000	958 219	-	574 101	-	1 532 320
Deposit certificates		**185**	**10 000**	**15 000**	**-**	**25 185**
- PLN	25 000	185	10 000	15 000	-	25 185
Total		**986 860**	**10 000**	**3 432 085**	**119 753**	**4 548 698**

31 December 2021 Debt securities by type	Nominal value (currency of issue)	Carrying amount of the liability by maturity date				Total carrying amount
		up to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Bonds, including:		**-**	**2 913 146**	**1 445 730**	**2 299 700**	**6 658 576**
- EUR	960 030	-	2 103 666	-	2 299 700	4 403 366
- CHF	505 000	-	809 480	1 445 730	-	2 255 210
Deposit certificates		**-**	**15 047**	**10 000**	**-**	**25 047**
- PLN	25 000	-	15 047	10 000	-	25 047
Total		**-**	**2 928 193**	**1 455 730**	**2 299 700**	**6 683 623**

Bank has not registered any contractual conditions infringement related to liabilities due to debt security issuance.

Movements in debt securities issued

Movements from 1 January to 31 December	2022	2021
As at the beginning of the period	**6 683 623**	**6 335 165**
Additions (issue)	939 230	2 309 950
Disposals (redemptions)	(2 969 117)	(2 020 661)
Exchange differences	205 055	114 185
Other changes	(310 093)	(55 016)
Debt securities issued as at the end of the period	**4 548 698**	**6 683 623**

Issues in 2022

- On 24 March 2022, the Bank concluded a synthetic securitisation transaction referencing a portfolio of corporate as well as small and medium enterprises loans with a total value of PLN 8 922 million. The securitised 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 securitised portfolio to an investor. The risk transfer of the securitised portfolio is performed through a recognised 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 securitisation 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 securitisation.

  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. CLNs were introduced to trading on the Vienna MTF operated by the Vienna Stock Exchange.

  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 amending regulation (EU) No 648/2012 with further amendments ("CRR Regulation") and has been structured as meeting the STS criteria (simple, transparent and standard securitisation) 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.

- On 23 December 2022, the Bank concluded a synthetic securitisation transaction referencing a portfolio of corporate as well as small and medium enterprises loans with a total value of EUR 801 million of which 55.3% were credit exposures secured on commercial real estate (CRE). The securitised portfolio has been divided into three tranches determining the order of allocation of credit losses. 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 securitised portfolio to an investor. The risk transfer of the securitised portfolio is performed through a recognised credit protection instrument, in the form of a credit linked notes. The CLN provides coverage of losses from credit risk on the securitisation 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 each securitised exposure.

  As part of the transaction, on 23 December 2022, the Bank issued CLNs with a maturity date of 22 July 2040, with a total nominal value of EUR 64.0 million. The CLNs were purchased in total by fund represented by Christofferson Robb & Company. In accordance with the terms of the issue, the Bank has the option of early repayment of liabilities under the CLNs. As part of the transaction, the Bank undertook to provide collateral to the investor in form of qualified debt securities (and/or cash) deposited with an independent custodian. The required value of collateral as of a given date will be determined on the basis of the actual value of mezzanine tranche. CLNs were introduced to trading in the alternative trading system on the Vienna MTF organised by the Vienna Stock Exchange.

  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 amending regulation (EU) No 648/2012 with further amendments ("CRR Regulation").

In accordance with IFRS 9, the contractual conditions of the transaction do not meet the conditions for derecognition of assets covered by the securitisation 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 securitised loans. The liability under the issued CLNs is shown under "Financial liabilities measured at amortised cost". The carrying amount of the CLN is adjusted for the change in the expected cash flows from the embedded financial guarantee in accordance with paragraph B5.4.6 of IFRS 9.

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Redemptions in 2022

- On 7 June 2022 mBank S.A. redeemed fixed rate bonds with a nominal value of CHF 180 000 thousand which were issued on 7 June 2018 under EMTN scheme.
- On 5 September 2022, mBank S.A. redeemed fixed rate bonds with a nominal value of EUR 460 030 thousand which were issued on 5 September 2018 under EMTN scheme.

Issues in 2021

- On 20 September 2021, the Bank issued senior non-preferred notes under the EMTN Programme in the total nominal value of EUR 500 000 thousand, which is the equivalent of PLN 2 299 950 thousand at the average NBP exchange rate as of 20 September 2021, maturing on 21 September 2027 (with an option of early redemption at the issuer's request on 21 September 2026). The bonds bear interest at a fixed rate of 0.966% per annum for five years from the issue date and a variable rate of EURIBOR 3M plus a margin of 1.25% throughout the sixth year.
  The bonds were admitted to trading on the regulated market of the Luxembourg Stock Exchange.
- In 2021 mBank issued certificates of deposit with a nominal value of PLN 10 000 thousand.

Redemptions in 2021

- On 26 November 2021, the Bank redeemed bonds, issued on 26 November 2014, with a total nominal value of EUR 427 583 thousand, obtained by the Bank in the substitution process.
- In 2021, mBank S.A. redeemed certificates of deposit in the amount of PLN 20 000 thousand.

Subordinated liabilities

31.12.2022	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	Carrying amount as at the end of the period
Commerzbank AG	250 000	CHF	Comp. SARON + CAS + 2,75%	3,70	21.03.2028	1 193 021
Investors not associated with mBank S.A	550 000	PLN	6M WIBOR + 1,8%	9,29	10.10.2028 [1)]	561 338
Investors not associated with mBank S.A	200 000	PLN	6M WIBOR + 1,95%	9,44	10.10.2030 [1)]	204 189
Investors not associated with mBank S.A	750 000	PLN	6M WIBOR + 2,1%	9,39	17.01.2025	782 173
						2 740 721

31.12.2021	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	Carrying amount as at the end of the period
Commerzbank AG	250 000	CHF	3M LIBOR + 2,75%	1,97	21.03.2028	1 112 709
Investors not associated with mBank S.A	550 000	PLN	6M WIBOR + 1,8%	2,14	10.10.2028 [1)]	552 643
Investors not associated with mBank S.A	200 000	PLN	6M WIBOR + 1,95%	2,29	10.10.2030 [1)]	201 028
Investors not associated with mBank S.A	750 000	PLN	6M WIBOR + 2,1%	2,35	17.01.2025	758 076
						2 624 456

[1)] *The issue conditions assume the possibility of early redemption of bonds with a nominal value of PLN 550 000 thousand on 10 October 2023 and bonds with a nominal value of PLN 200 000 thousand on 10 October 2025.*

Movements in subordinated liabilities

Movements from 1 January to 31 December	2022	2021
As at the beginning of the period	**2 624 456**	**2 578 327**
Exchange differences	79 875	46 075
Other changes	36 390	54
Subordinated liabilities as at the end of the period	**2 740 721**	**2 624 456**
Short-term (up to 1 year)	48 747	12 356
Long-term (over 1 year)	2 691 974	2 612 100

On 29 March 2018, the Polish Financial Supervision Authority gave consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand, taken on 21 March 2018, as instrument in the Bank’s Tier II capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.

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On 9 October 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on 10 October 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on 10 October 2030.

The Bank applied to the Polish Financial Supervision Authority for permission to include in the supplementary capital of the Bank, in accordance with art. 127 para. 3 point 2 letter b) of the Banking Law Act, a monetary liability in the amount of PLN 750 000 thousand obtained by the Bank for the above-mentioned subordinated bond issue. The Bank obtained such consent on 28 November 2018.

According to the decision dated 8 January 2015 mBank obtained permission of the PFSA to include in Tier II capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2022 and 2021, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

30. Other liabilities

	31.12.2022	31.12.2021
Other financial liabilities	**2 566 522**	**2 050 329**
Interbank settlements	1 514 812	1 042 600
Creditors, including:	810 433	748 452
- settlements of payment cards	*45 202*	*47 543*
- liabilities to pay to BFG	*321 453*	*251 044*
Accrued expenses	241 277	259 277
Other non-financial liabilities	**924 956**	**727 152**
Tax liabilities	109 539	286 202
Deferred income	267 466	273 081
Provisions for holiday equivalents	28 442	22 003
Provisions for other liabilities to employees	172 471	139 668
Non-financial liabilities due to final verdicts in legal proceedings relating to loans in foreign currencies	345 126	-
Other	1 912	6 198
Total other liabilities	**3 491 478**	**2 777 481**

Cash flows resulting from financial liabilities are presented under the Note 3.8.1. The other components of presented liabilities are short-term liabilities.

31. Provisions

	31.12.2022	31.12.2021
Provisions for legal proceedings, including:	766 830	395 446
- provisions for other legal proceedings relating to loans in foreign currencies	*718 128*	*358 807*
- provisions for remaining legal proceedings	*48 702*	*36 639*
Off-balance commitments and guarantees given	339 870	351 834
Provisions for post-employment benefits	20 086	24 131
Other provisions	160 792	92 418
Provisions, total	**1 287 578**	**863 829**

Estimated dates of granted contingent liabilities realisation are presented in Note 35.

Estimated cash flows due to created provisions for legal proceedings and other provisions are expected to occur over 1 year period.

The description regarding individual cases concerning indexation clauses in mortgage and housing loans in CHF is presented in Note 34. The position Other provisions includes, inter alia, the provision for the reimbursement of bridging insurance costs charged to customers who was granted mortgage loans for the period before the mortgage was registered in the land register (Note 13) and the provisions 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. Detailed information on the impact of this judgement is presented in Note 4.

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Movements in provisions

Change from 1 January to 31 December 2022	Provisions for legal proceedings relating to loans in foreign currencies	Other provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**358 807**	**36 639**	**92 418**
Change in the period, due to:	**359 321**	**12 063**	**68 374**
- increase of provisions	292 945	18 830	287 631
- release of provisions	(1 784)	(5 500)	(4 322)
- utilisation	(143 728)	(1 392)	(214 965)
- reclassification to other positions	227 553	-	-
- foreign exchange differences	(15 665)	125	30
Provisions as at the end of the period	**718 128**	**48 702**	**160 792**

Change from 1 January to 31 December 2021	Provisions for legal proceedings relating to loans in foreign currencies	Other provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**188 467**	**11 959**	**92 594**
Change in the period, due to:	**170 340**	**24 680**	**(176)**
- increase of provisions	269 382	53 412	43 841
- release of provisions	(334)	(2 148)	(3 489)
- utilisation	(90 221)	(26 608)	(39 931)
- reclassification to other positions	(8 487)	-	-
- foreign exchange differences	-	24	(597)
Provisions as at the end of the period	**358 807**	**36 639**	**92 418**

Movements in provisions for loan commitments and guarantees

Change in the period from 1 January to 31 December 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	Reductions caused by derecognition	Net changes in credit risk	Net changes due to methodology update	Other changes	As at the end of the period
Loan commitments	**90 636**	**-**	**-**	**-**	**46 901**	**(40 216)**	**(22 546)**	**187**	**4 153**	**79 115**
Stage 1	50 339	18 509	(4 861)	(146)	36 624	(23 971)	(36 746)	487	133	40 368
Stage 2	14 576	(17 337)	5 879	(1 250)	6 149	(8 469)	14 750	(300)	28	14 026
Stage 3	24 555	(1 172)	(1 018)	1 396	5 445	(8 481)	3 538	-	13	24 276
POCI	1 166	-	-	-	(1 317)	705	(4 088)	-	3 979	445
Guarantees and other financial facilities	**261 198**	**-**	**-**	**-**	**53 082**	**(42 195)**	**(12 340)**	**-**	**1 010**	**260 755**
Stage 1	35 692	(334)	198	-	11 784	(10 796)	4 781	-	715	42 040
Stage 2	1 153	332	(232)	-	1 032	(918)	(293)	-	10	1 084
Stage 3	225 860	2	34	-	40 266	(30 921)	(15 970)	-	(43)	219 228
POCI	(1 507)	-	-	-	-	440	(858)	-	328	(1 597)
Total provisions on off-balance sheet items	**351 834**	**-**	**-**	**-**	**99 983**	**(82 411)**	**(34 886)**	**187**	**5 163**	**339 870**

Change in the period 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	Reductions caused by derecognition	Net changes in credit risk	Changes due to new default definition	Other changes	As at the end of the period
Loan commitments	**89 432**	**-**	**-**	**-**	**42 524**	**(33 267)**	**(13 578)**	**5 525**	**-**	**90 636**
Stage 1	44 598	50 411	(7 237)	(107)	31 399	(16 586)	(48 909)	(3 230)	-	50 339
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	**132 759**	**-**	**-**	**-**	**104 949**	**(133 290)**	**156 756**	**24**	**-**	**261 198**
Stage 1	20 630	1 444	(271)	-	35 466	(39 903)	18 291	35	-	35 692
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	**222 191**	**-**	**-**	**-**	**147 473**	**(166 557)**	**143 178**	**5 549**	**-**	**351 834**

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Movements in provisions for post-employment benefits

Period from 1 January to 31 December 2022	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment benefits				
As at the beginning of the period	**13 057**	**2 877**	**8 197**	**24 131**
Change in the period (due to)	**(380)**	**(219)**	**(3 446)**	**(4 045)**
Provisions created	764	69	388	1 221
Interest expense	442	100	286	828
Actuarial gains and losses recognised in other comprehensive income (Note 17), due to:	(658)	(352)	(3 285)	(4 295)
- change in financing assumptions	*(3 567)*	*(734)*	*(4 574)*	(8 875)
- change in demographic assumptions	*161*	*280*	*(556)*	(115)
- other changes	*2 748*	*102*	*1 845*	4 695
Benefits paid	(928)	(36)	(835)	(1 799)
As at the end of the period (by type)	**12 677**	**2 658**	**4 751**	**20 086**
Short-term (up to 1 year)	2 248	258	134	**2 640**
Long-term (over 1 year)	10 429	2 400	4 617	**17 446**

Period from 1 January to 31 December 2021	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment benefits				
As at the beginning of the period	**14 080**	**5 563**	**12 154**	**31 797**
Change in the period (due to)	**(1 023)**	**(2 686)**	**(3 957)**	**(7 666)**
Provisions created	835	152	626	1 613
Interest expense	177	75	164	416
Actuarial gains and losses recognised in other comprehensive income (Note 17), due to:	(1 283)	(2 913)	(4 086)	(8 282)
- change in financing assumptions	*(2 750)*	*(571)*	*(5 359)*	(8 680)
- change in demographic assumptions	*387*	*(2 369)*	*516*	(1 466)
- other changes	*1 080*	*27*	*757*	1 864
Benefits paid	(752)	-	(661)	(1 413)
As at the end of the period (by type)	**13 057**	**2 877**	**8 197**	**24 131**
Short-term (up to 1 year)	1 740	202	111	**2 053**
Long-term (over 1 year)	11 317	2 675	8 086	**22 078**

The discount rate is one of the key assumptions used in the actuarial valuation of provisions for post-employment benefits. If the discount rate used in the calculation of these provisions as at 31 December 2022 was decreased by 0.5 p.p., the value of the provisions would increase by PLN 964 thousand, and in the case of an increase of the discount rate by 0.5 p.p. the value of the provisions would fall by PLN 884 thousand (31 December 2021, respectively: PLN 1 682 thousand and PLN 1 498 thousand).

32. Deferred income tax assets and liabilities

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2022 and 2021.

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

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Changes in assets and liabilities for deferred income tax are presented below:

Deferred income tax assets	As at 01.01.2022	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2022
Interest accrued	10 595	61 279	-	-	71 874
Valuation of derivative financial instruments	97 486	114 199	46 830	-	258 515
Valuation of securities	294 340	60 928	10 924	-	366 192
Provisions for impairment of loans and advances	476 105	14 763	-	-	490 868
Provisions for employee benefits	32 914	7 700	(816)	-	39 798
Other provisions	37 918	201 662	-	-	239 580
Prepayments/accruals	33 389	32	-	-	33 421
Difference between tax and book value of tangible and intangible assets	203 286	6 518	-	-	209 804
Other negative temporary differences	36 818	7 014	-	92	43 924
Total, gross	**1 222 851**	**474 095**	**56 938**	**92**	**1 753 976**
Offsetting effect	(501 527)				(608 060)
Total, net	**721 324**				**1 145 916**

Deferred income tax liabilities	As at 01.01.2022	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2022
Interest accrued	(51 738)	(48 135)	-	-	(99 873)
Valuation of derivative financial instruments	-	-	-	-	-
Valuation of securities	(127 928)	(63 373)	(16 902)	-	(208 203)
Interest and fees received in advance	(48 254)	42 848	-	-	(5 406)
Difference between tax and book value of tangible and intangible assets	(233 426)	(3 496)	-	-	(236 922)
Prepayments regarding amortisation of applied investment relief	(9 163)	-	-	-	(9 163)
Other positive temporary differences	(31 107)	(17 386)	-	-	(48 493)
Total	**(501 616)**	**(89 542)**	**(16 902)**	**-**	**(608 060)**
Offsetting effect	501 527				608 060
Total, net	**(89)**				**-**

Deferred income tax assets	As at 01.01.2021	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2021
Interest accrued	11 846	(1 251)	-	-	10 595
Valuation of derivative financial instruments	-	(18 852)	116 338	-	97 486
Valuation of securities	110 750	20 652	162 938	-	294 340
Provisions for impairment of loans and advances	503 705	(27 600)	-	-	476 105
Provisions for employee benefits	23 519	10 968	(1 573)	-	32 914
Other provisions	11 408	26 510	-	-	37 918
Prepayments/accruals	31 550	1 839	-	-	33 389
Difference between tax and book value of tangible and intangible assets	154 667	48 619	-	-	203 286
Other negative temporary differences	44 274	(7 597)	-	141	36 818
Total, gross	**891 719**	**53 288**	**277 703**	**141**	**1 222 851**
Offsetting effect	(684 795)				(501 527)
Total, net	**206 924**				**721 324**

Deferred income tax liabilities	As at 01.01.2021	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2021
Interest accrued	(46 778)	(4 960)	-	-	(51 738)
Valuation of derivative financial instruments	(174 835)	79 676	95 159	-	-
Valuation of securities	(196 987)	30 712	38 347	-	(127 928)
Interest and fees received in advance	(26 017)	(22 237)	-	-	(48 254)
Difference between tax and book value of tangible and intangible assets	(186 328)	(47 098)	-	-	(233 426)
Prepayments regarding amortisation of applied investment relief	(18 657)	9 494	-	-	(9 163)
Other positive temporary differences	(35 282)	6 857	(2 682)	-	(31 107)
Total	**(684 884)**	**52 444**	**130 824**	**-**	**(501 616)**
Offsetting effect	684 795				501 527
Total, net	**(89)**				**(89)**

The item "Difference between tax and book value of tangible and intangible assets" includes the impact of IFRS16 on the deferred tax.

	As of 31 December	
	2022	2021
Interest accrued	13 144	(6 211)
Valuation of derivative financial instruments	114 199	60 824
Valuation of securities	(2 445)	51 364
Provisions for impairment of loans and advances	14 763	(27 600)
Provisions for employee benefits	7 700	10 968
Other provisions	201 662	26 510
Prepayments/accruals	32	1 839
Interest and fees received in advance	42 848	(22 237)
Prepayments regarding amortisation of applied investment relief	-	9 494
Difference between tax and book value of tangible and intangible assets	3 022	1 521
Other temporary differences	(10 372)	(740)
Total deferred income tax included in the income statement (Note 15)	**384 553**	**105 732**

The item "Other positive temporary differences" includes the impact of the creation of deferred tax provision in the amount of PLN 7 510 thousand resulting from the implementation of IFRS 9 in respect of recognised in previous years tax-deductible costs from the provision for incurred undocumented credit risk (in 2021: PLN 11 265 thousand). According to art. 12 para. 4 of the Act of 27 October 2017 on amendments to the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Flat Rate Income Tax on Certain Revenue Earned by Natural Persons, in the event that the bank included IBNR to the tax-deductible costs before 1 January 2018, after the entry into force of the amendment the bank is obliged to recognise income up to the amount previously recognised as tax cost. The Bank recognises revenues on this account pro rata for a period of 7 consecutive tax years.

Bank evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29 the Bank recognised deferred tax assets to the extent that it is probable that the Bank will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

At the end of 2022, the Group recognised deferred tax assets of PLN 198 899 thousand arising from the ongoing settlement program for customers with foreign currency loans denominated in CHF (Other provisions).

Bank recognises deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and affiliated except that the implementation of the temporary differences is controlled by Bank and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2022 Bank did not include settlements on temporary differences in the total amount of PLN 1 326 903 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation (at the end of 2021: PLN 1 607 289 thousand).

33. Proceedings before court, arbitration body or public administration authority

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

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

The value of provisions for litigations as at 31 December 2022 amounted to PLN 766 830 thousand of which PLN 718 128 thousand refers to provisions for legal proceedings relating to loans in foreign currencies (at 31 December 2021 PLN 395 446 thousand and PLN 358 807 thousand respectively). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Bank.

Information on the most important court proceedings

1. 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.

   In a judgment dated 27 January 2023, the District Court in Warsaw dismissed LPP S.A.'s lawsuit in its entirety. The verdict is not final, LPP S.A. may file an appeal.

2. 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.

3. Class action against mBank S.A. concerning CHF indexation clauses

   Detailed information on the class action against the Bank is provided in Note 34.

4. Individual court proceedings concerning indexation clauses

   Detailed information on individual court cases against the Bank regarding CHF indexed loans is provided in Note 34.

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.

On 9 September 2022 the Office for Selected Economic Entities (Úrad pre vybrané hospodárske subjekty) in Bratislava has initiated tax audits regarding the correctness of settlements of corporate income tax (CIT) for 2019 year in mBank S.A. Slovak Branch. The tax audit is under way.

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

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

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

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

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

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

On 27 February 2020, the Bank received the decision of PFSA Office dated 25 February 2020 to initiate administrative proceedings regarding the imposition of an administrative penalty on the Bank, pursuant to the provisions of the Act dated 27 May 2004 on investment funds and management of alternative investment funds. On 23 April 2021 the Bank received a decision of the PFSA dated 16 April 2021 regarding this proceeding, imposing a fine on the Bank in the total amount of PLN 4 300 thousand. The Bank paid the fine on 17 March 2022.

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 Provincial Administrative Court against the decision of PFSA. On 24 August 2022, the Provincial Administrative Court dismissed the Bank's complaint regarding a fine. On 14 November 2022, the Bank filed a cassation complaint with the Supreme Administrative Court in the above case.

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 and in subsequent letters presented arguments to support its position. In a letter of 2 January 2023, the President of UOKiK extended the proceedings until 30 April 2023.
- 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 31 July 2022. As at the date of approval of these financial statements, the Group has not received information about another extension of the proceedings.

- On 18 July 2022, the Office of Competition and Consumer Protection (UOKiK) delivered the decision to initiate proceedings for violation of the collective interests of consumers through:
  - failing, after a consumer notification an unauthorised transaction, to refund the unauthorised transaction or restore the account to its pre-transaction state,
  - providing consumers with information in response to complaints that proper authentication of the questioned transaction excludes the obligation to refund the transaction.

  Proceedings have also been initiated against four other banks. Previously, the UOKiK had conducted an investigation into the matter, initiated on 23 June 2021, in which the Bank provided explanations on 4 August 2021. In the letter of 22 August 2022, mBank S.A. adopted a position on the allegations contained in the decision of 18 July 2022.

34. 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. To date, there is no consistent line of judgments on the assessment of contractual provisions introducing an indexation mechanism and the consequences of establishing their abusiveness (ineffectiveness) issued by the courts in such cases.

The carrying amount of mortgage and housing loans granted to natural persons in CHF as of 31 December 2022 amounted to PLN 6.1 billion (i.e. CHF 1.3 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 December 2022, taking into account the exchange rate on the date of disbursement of individual loan tranches, amounted to PLN 7.5 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 December 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 settlement program, as well as information on the impact of legal risk related to these court cases on the balance sheet and profit or 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 December 2022, 17 849 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 5 982.1 million (31 December 2021: PLN 3 506.5 million).

Out of the individual proceedings, 17 627 proceedings (31 December 2021: 13 036 proceedings) with the total value of claims amounting to PLN 5 977.8 million (31 December 2021: PLN 3 499.9 million) related to indexation clauses in CHF loan agreements and included 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 December 2022 mBank received 1 941 final rulings in individual lawsuits (31 December 2021: 473 final rulings), out of which 97 rulings were favourable to the Bank and 1 844 rulings were unfavourable (31 December 2021: 82 rulings favourable and 391 unfavourable).

At the same time 33 proceedings (as of 31 December 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 unfavourable for the Bank judgments stating the absolute invalidity of the credit agreement. Unfavourable judgments were based on the same patterns of facts which in the past had resulted in different verdicts. Approximately 84% 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, emphasising 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, the 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 court held that the valorised loan agreements were valid and that there were no grounds to declare them invalid due to the fact that the foreign currency valorisation mechanism was introduced into them. In the court's view, the agreements can continue to apply even after the clauses concerning the method of repayment of the loan have been eliminated from them. The plaintiff appealed against this verdict, to which the Bank responded. The case is currently pending before the Court of Appeal in Łódź.

As of 31 December 2022 the Bank recognised the impact of legal risk in the class action in the amount of PLN 296.5 million. The details of the methodology and calculation are described further in this note.

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, 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. On 17 March 2022, the parties were heard by the Court of Justice of the European Union. The litigation position was presented by the parties: Poland, the European Commission, Spain and Finland. On 8 September 2022, the CJEU issued a ruling upholding its previous jurisprudence. The Tribunal confirmed once again that the limitation period for the consumer's claims for reimbursement of amounts unduly paid on the basis of an unfair contract term begins to run from the moment when the consumer knows or should have known about the unfairness of the contract term. The Tribunal also reiterated that the application of the supplementary standard is possible only if the cancellation of the contract is unfavourable to the borrower and the borrower agrees to apply this standard. Automatic application (irrespective of the consumer's consent) could only apply to a provision that was introduced by the national legislator in order to eliminate abusiveness, if such a provision would restore the balance of the parties. The Court of Justice has again emphasised that the purpose of Directive 93/13 is not to annul all contracts containing unfair terms.

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 to the continuation of the contract.

By the decision of 12 August 2021, another question was addressed to the CJEU (C-520/21), 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 hearing before the CJEU took place on 12 October 2022. On 16 February 2023, the opinion of the Advocate General was presented, which is further described in the Note 47 Events after the balance sheet day. The verdict is expected in the second half of 2023.

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 enable (on the basis of clear and comprehensible criteria) 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.

In January 2022, further questions for a preliminary ruling were submitted to the CJEU in three cases pending against mBank. The question in the first case is aimed at determining whether, if there are grounds both for determining the absolute invalidity of the contract and for declaring the contract invalid (ineffective) due to the abusive clauses contained therein, the court should determine absolute nullity or a decision on the choice of sanctions belongs to the consumer. The questions in the second case concern the consequences of entering abusive clauses in the register, the possibility of repaying the loan from the beginning in a foreign currency and informing the consumer who is knowledgeable about the exchange rate risk. In the third case, the questions relate to the remuneration for the use of capital and the effects of the consumer's declaration regarding the lack of consent to uphold the abusive provision in relation to the ineffectiveness of the contract, the commencement of the limitation period for the bank's claims and statutory interest. The question remains partly consistent with the preliminary question of another bank before the CJEU in case C-520/21. The Bank presents a position consistent with the previous positions of the FSA and the NBP in favour of the legitimacy of formulating such claims. The CJEU only acted on the second and third cases, in which the Bank submitted its statements on 15 August 2022.

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 National Bank of Poland (NBP) submitted to case no. III CZP 25/22 (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.385(1) §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 recognised that, as a rule, the limitation period for these claims may start running only after the consumer has made a binding decision in this regard. Only then, in the opinion of the Supreme Court, can it be concluded that the lack of a legal basis for the benefit has become definitive (as in the case of condictio causa finita), and the parties could effectively demand the return of the undue benefit. This means, in particular, that the consumer cannot assume that the bank's claim has expired within the time limit calculated as if the call to return the loan was possible already on the day it was made available. In justifying the resolution, the Supreme Court also confirmed that in order to avoid risks related to the borrower's insolvency, the bank may use the right of retention provided in Art. 497 in connection with Art. 496 of the Civil Code, thus protecting its claim for the return of used principal, since the obligation to return it is – in relation to the obligation to put the funds at the disposal of the borrower – something more than a consideration obligation.

On 6 July 2021, the Civil Chamber of the Supreme Court refused to pass a resolution on Swiss franc indexed loans. The Supreme Court indicated that the question of whether the balance theory or the two 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, initially set for 8 November 2021, was removed from the case list, and the judge-rapporteur was also changed.

On 28 April 2022 the Supreme Court issued a resolution (III CZP 40/22) in which it indicated that in disputes with consumers, the provision of Article 385(1) of the Civil Code constitutes lex specialis in relation to Article 353(1) of the Civil Code. Consequently, when there are prerequisites for the application of both legal norms, the court should apply the sanction of ineffectiveness of the contractual clauses, without declaring it invalid on general principles.

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 if 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 WIBOR 3M 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 December 2022, would amount to PLN 5.4 billion if only active portfolio indexed/denominated to CHF 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.

Settlement program

On 26 September 2022, the Bank decided to launch the settlement program for borrowers who have active CHF indexed loan including borrowers currently in court dispute with the Bank.

The presented offer is based on two basic assumptions: (i) elimination of the CHF/PLN FX risk incurred by the client and (ii) limitation of the interest rate risk. The settlement proposal consists in conversion of the CHF indexed loan into a PLN loan with simultaneous write-off of a portion of the loan balance. The write-off level will be individually negotiated with customers. The Bank will also reimburse low contribution insurance premiums by redeeming capital equal to the sum of premiums collected from the customer.

After conversion, the customer will be able to decide which interest rate he chooses: temporarily fixed or variable. The Bank offers a preferential interest rate on the loan after conversion to the clients that will sign the settlement. By deciding to sign a settlement with the Bank, the client will benefit from a reduction in the outstanding loan balance, eliminate the currency risk and, due to the offered preferential interest rate and the possibility to choose a temporarily fixed interest rate, will minimise the interest rate risk. Settlements will be signed in an out-of-court mode, although, the Bank will allow to any customer who wishes to do so to sign a settlement at an arbitration court.

As of 31 December 2022 the Bank concluded 1 886 settlements (as of 31 December 2021: 33 settlements).

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

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

- IFRS 9 "Financial instruments" in relation to active loans, including active loans covered by the class action case and 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 amortised 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 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 recognise the impact of legal risk with respect to active loans and the expected impact of the 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.

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

The methodology 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 settlement program is based on historical observations and due to the lack of market data and lack of clear jurisprudence, partially on expert assumption that are highly judgmental and with a high range of possible values. It is possible that the impact of the legal risk will need to be adjusted significantly in the future, particularly that important parameters used in calculations are significantly 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 settlement program included in the Group’s statement of financial position is shown in the table below.

	31.12.2022	31.12.2021
Impact of legal risk concerning lawsuits related to active loans and settlement program recognised as a reduction of gross carrying amount of loans	5 752 732	3 785 097
Impact of legal risk concerning individual lawsuits and class action case related to repaid loans and low value active loans recorded as provisions for legal proceedings	709 187	348 476
The cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in CHF	**6 461 919**	**4 133 573**

Total costs of legal risk related to foreign currency loans recognised in the income statement for the 2022 amounted to PLN 3 112.3 million (in 2021: PLN 2 758.1 million). The most significant factors of these costs in 2022 was the increase of the impact of the legal risk related to individual court cases, which mainly resulted from the change in the distribution of expected court rulings scenarios due to the adoption of historical observations in the model, an increase in the forecasted population of borrowers who will file a lawsuit against the Bank and an increase in the cost of the settlement program as a result of the Bank's decision to launch the settlement program in September 2022.

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. The most important assumptions are: an expected population of borrowers who will file a lawsuit against the Bank, the distribution of expected verdicts judged by the courts and the loss to be incurred by the Bank in case of losing the case in court and the level of settlement acceptance.

Expected population of borrowers who will file a lawsuit

The population of borrowers who will file a lawsuit against the Bank has been projected with the use of statistical methods over the remaining life of the portfolio based on the Bank’s history of legal cases and assumes a further inflow of new cases. The Bank assumes that the inflow of plaintiffs will be significant until the end of 2026. The Bank assumes that vast majority of the projected cases will be filed until the end of 2024, and then their number will decrease following the expected unification of the jurisprudential line.

For the purpose of calculating the impact of legal risk mBank assumes that approximately 38% of CHF borrowers i.e. 31 thousand borrowers, including 27 thousand borrowers with active loans (representing approximately 61% of borrowers with active loans) and 4 thousand borrowers with repaid loans (representing approximately 11% of borrowers with repaid loans) filed or with intention to file a lawsuit against the Bank (as of 31 December 2021: 27%, i.e. 23 thousand borrowers). Moreover, the Bank assumed that some portion of borrowers will sign settlements. 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 63.8 million (while other relevant assumptions remain constant) as compared to 31 December 2022, of which PLN 55.7 million would reduce gross carrying amount of the loans, and PLN 8.1 million would increase the provisions for legal proceedings.

The Bank estimates that 26.2% part of borrowers with active CHF indexed loans will not decide to sue the Bank or sign a settlement with the Bank in the future, and 87.5% of borrowers who repaid CHF indexed loans will not sue 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). This is not a direct estimate, but the result of the difference between the estimate of the population of clients already in dispute with the Bank or intending to do so and the estimate of the population of clients who decide to settle and the number of clients with an active CHF credit agreement.

Distribution of expected court rulings

The expected distribution of court rulings was based on final judgments issued in cases against the Bank starting from 2020. As currently there is still no homogenous line of verdicts taken by the courts the Bank took into account three possible scenarios for termination of court proceedings: (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 for a loan indexed to CHF, (ii) the contract is invalid in its entirety, as removing the exchange rate clause would be too far-reaching change (assuming that the clause specifies the main subject of the contract) and (iii) dismissal of the claim. In scenario (ii), the Bank takes into account two versions of the cancellation, assuming that the parties settle in a formula similar to the settlement on a net basis. The first version assumes that the consumer is obliged to return the paid-up capital together with the remuneration for using it, and the second assumes that the consumer is obliged to return the capital without remuneration. The Bank assumed the probability of return on capital with remuneration at the level of 70%. If the assumed probability of return on capital with remuneration changed by +/- 1 percentage point and all other relevant assumptions remained constant, the impact of the legal risk would change by +/- PLN 18.2 million, of which PLN 16.3 million would change the gross carrying amount of loans, and PLN 1.9 million provisions for legal proceedings.

Each of these scenarios is associated with a different level of predicted loses for the Bank. As of 31 December 2022 the Bank assumed probability of unfavourable scenario at the level of 95% (as of 31 December 2021: 50%). If the assumed probability of unfavourable scenario changed by +/- 1 percentage point and all other relevant assumptions remained constant, the impact of the legal risk would change by +/- PLN 51.8 million, of which PLN 46.6 million would change the gross carrying amount of loans, and PLN 5.2 million provisions for legal proceedings.

Probability of settlement acceptance

As there is currently no sufficiently reliable and complete data in the market that would allow the Bank to make clear estimates of the levels of acceptance of settlements in CHF cases, the Bank assumed the probability of accepting the settlements partially based on the available market data, the results of the completed pilot of the settlement program concluded by the Bank in 2021 and 2022 and based on its own forecasts.

As at 31 December 2022, the Bank assumed 32% probability of settlements acceptance for the entire active portfolio (34% as at 31 December 2021).

In the event of a change in the probability of accepting settlements by +/- 1 percentage point, with the remaining significant assumptions unchanged, the total amount of the impact of legal risk would change by +/- PLN 12.1 million which would change the gross carrying amount of loans.

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

In order to calculate the legal risk costs related to a class action, the methodology described above for calculating the impact of the legal risk related to individual cases was used and the it was applied to the whole population covered by the class action. The distribution of expected court rulings used is the same as for individual cases.

35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Bank comprise: loan commitments, guarantees and other financial facilities, other liabilities.

The amounts and dates by which the Bank will be obliged to realise its off-balance sheet financial liabilities by granting loans or other monetary services are presented in the table below.

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Loan commitments, guarantees and other financial facilities and other commitments

31.12.2022	Nominal amount of off-balance loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment				Provisions on off-balance loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	31 900 434	674 689	74 062	2 899	40 368	14 026	24 276	445
Guarantees and other financial facilities	7 851 769	460 520	266 455	2 203	42 040	1 084	219 228	(1 597)

31.12.2021	Nominal amount of off-balance loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment				Provisions on off- loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	30 580 113	424 899	50 803	8 910	50 339	14 576	24 555	1 166
Guarantees and other financial facilities	6 998 437	245 546	309 900	2 523	35 692	1 153	225 860	(1 507)
Other commitments	2 541	-	-	-	-	-	-	-

Off-balance loan commitments, guarantees, other financial facilities, other commitments and provisions for off-balance loan commitments and guarantees by internal rating system levels

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Nominal value of off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
1	4 756 152	1 847	-	-	**4 757 999**
2	13 852 028	59 227	-	2	**13 911 257**
3	10 039 077	370 674	-	279	**10 410 030**
4	7 608 704	338 620	-	277	**7 947 601**
5	2 716 126	267 307	-	125	**2 983 558**
6	12 319	14 506	-	2	**26 827**
7	518 010	83 028	-	14	**601 052**
8	249 787	-	-	-	**249 787**
default	-	-	340 517	4 403	**344 920**
Total nominal values	**39 752 203**	**1 135 209**	**340 517**	**5 102**	**41 233 031**
Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
Total provisions	**82 408**	**15 110**	**243 504**	**(1 152)**	**339 870**

31.12.2021	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Nominal value of off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
1	4 567 782	179	-	-	**4 567 961**
2	15 150 398	3 588	-	106	**15 154 092**
3	7 759 022	17 593	-	273	**7 776 888**
4	6 616 466	243 531	-	201	**6 860 198**
5	2 563 566	279 699	-	95	**2 843 360**
6	17 287	22 112	-	4	**39 403**
7	649 278	103 743	-	4	**753 025**
8	257 292	-	-	-	**257 292**
default	-	-	360 703	10 750	**371 453**
Total nominal values	**37 581 091**	**670 445**	**360 703**	**11 433**	**38 623 672**
Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
Total provisions	**86 031**	**15 729**	**250 415**	**(341)**	**351 834**

Rating system is described in Note 3.3.4.

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The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2022 and as at 31 December 2021.

Guarantees are presented in the table below based on the contractual maturity date.

31.12.2022	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Contingent liabilities granted and received	**28 917 511**	**16 207 207**	**5 313 462**	**50 438 180**
Commitments granted	**25 767 569**	**11 141 741**	**4 323 721**	**41 233 031**
Financing	21 806 985	8 124 517	2 720 582	32 652 084
- loan commitments	*21 806 985*	*8 124 517*	*2 720 582*	*32 652 084*
Guarantees and other financial facilities	3 960 584	3 017 224	1 603 139	8 580 947
- guarantees and standby letters of credit	*3 960 584*	*3 017 224*	*1 603 139*	*8 580 947*
Commitments received	**3 149 942**	**5 065 466**	**989 741**	**9 205 149**
Financial commitments received	476 790	-	-	476 790
Guarantees received	2 673 152	5 065 466	989 741	8 728 359
Derivative financial instruments (nominal value of contracts)	**275 788 770**	**403 855 792**	**42 014 001**	**721 658 563**
Interest rate derivatives	158 128 185	388 474 304	41 921 183	588 523 672
Currency derivatives	112 626 393	14 604 013	41 818	127 272 224
Market risk derivatives	5 034 192	777 475	51 000	5 862 667
Total off-balance sheet items	**304 706 281**	**420 062 999**	**47 327 463**	**772 096 743**

31.12.2021	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Contingent liabilities granted and received	**27 864 414**	**13 716 685**	**5 170 155**	**46 751 254**
Commitments granted	**23 440 287**	**10 398 850**	**4 784 535**	**38 623 672**
Financing	20 182 907	7 525 067	3 356 751	31 064 725
loan commitments	*20 182 907*	*7 525 067*	*3 356 751*	*31 064 725*
Guarantees and other financial facilities	3 254 839	2 873 783	1 427 784	7 556 406
guarantees and standby letters of credit	*3 254 839*	*2 873 783*	*1 427 784*	*7 556 406*
Other commitments	2 541	-	-	2 541
Commitments received	**4 424 127**	**3 317 835**	**385 620**	**8 127 582**
- Financial commitments received	464 840	-	-	464 840
- Guarantees received	3 959 287	3 317 835	385 620	7 662 742
Derivative financial instruments (nominal value of contracts)	**313 428 962**	**452 048 970**	**49 824 400**	**815 302 332**
Interest rate derivatives	199 338 323	429 996 786	48 872 035	678 207 144
Currency derivatives	107 205 767	21 934 729	917 185	130 057 681
Market risk derivatives	6 884 872	117 455	35 180	7 037 507
Total off-balance sheet items	**341 293 376**	**465 765 655**	**54 994 555**	**862 053 586**

The carrying amounts of derivatives are presented in the Note 19.

As at 31 December 2022, commitments received by the Bank in the amount of PLN 9 205 149 thousand (31 December 2021: PLN 8 127 582 thousand), related mainly to guarantees received as collateral of loans and advances granted.

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36. Pledged assets

Assets may be pledged as collateral for repo or sell/buy back transactions, derivative contracts with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Bank. If securities are subject to collateral (in buy/sell back transaction) they can be re-pledged in the opposite transaction (sell/buy back).

Moreover the Bank accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The table below presents the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank. Treasury securities are the main component of the Bank's liquidity collateral that can be eligible to pledge.

31.12.2022	Assets			Fair value of collateral received in form of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19, 20, 21 and 22), including:	55 744 730	3 502 884	47 885 585	9 310 924	562 338	8 748 586	56 634 171
- NBP bills	*17 083 666*	-	*17 083 666*	-	-	-	*17 083 666*
- Government bonds	*28 383 378*	*2 045 372*	*26 338 006*	*9 310 924*	*562 338*	*8 748 586*	*35 086 592*
- Mortgage bonds	*1 831 663*	-	-	-	-	-	-
- Other non-treasury securities	*8 446 023*	*1 457 512*	*4 463 913*	-	-	-	*4 463 913*
Cash collaterals (due to derivatives transactions) (Note 22)	933 415	933 415	-	-	-	-	-
Other assets	147 297 633	-	-	-	-	-	-
Total	**203 975 778**	**4 436 299**	**47 885 585**	**9 310 924**	**562 338**	**8 748 586**	**56 634 171**

31.12.2021	Assets			Fair value of collateral received in form of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19, 20, 21 and 22), including:	53 359 531	2 649 157	48 199 334	5 941 696	128 964	5 812 732	54 012 066
- NBP bills	*8 495 243*	-	*8 495 243*	-	-	-	*8 495 243*
- Government bonds	*36 234 523*	*2 079 126*	*34 155 397*	*5 941 696*	*128 964*	*5 812 732*	*39 968 129*
- Mortgage bonds	*1 055 151*	-	-	-	-	-	-
- Other non-treasury securities	*7 574 614*	*570 031*	*5 548 694*	-	-	-	*5 548 694*
Cash collaterals (due to derivatives transactions) (Note 22)	974 889	974 889	-	-	-	-	-
Other assets	136 373 888	-	-	-	-	-	-
Total	**190 708 308**	**3 624 046**	**48 199 334**	**5 941 696**	**128 964**	**5 812 732**	**54 012 066**

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes Bank's collateral of liabilities due to the fixed interest rate loans received from the EIB, collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund.

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37. Registered share capital

The total number of ordinary shares as at 31 December 2022 was 42 433 495 shares (31 December 2021: 42 384 884 shares) of PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2022						
Share type	**Type of preference**	**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
ordinary bearer	-	-	48 611	194 444	fully paid in cash	2022
Total number of shares			**42 433 495**			
Total registered share capital				**169 733 980**		
Nominal value per share (PLN)	**4**					

* As at the end of the reporting period

In 2022, the National Depository of Securities (KDPW) has registered 48 611 shares of mBank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes to take up shares in mBank. As a result of the above registration, in 2022 mBank's share capital increased by PLN 194 444.

The shareholders holding more than 5% of the total number of votes at the general meeting of mBank S.A. on 31 December 2022 were:

- Commerzbank AG, which held 29 352 897 shares, representing 69.17% of the total number of shares in the share capital of mBank and entitled to 29 352 897 votes at the Meeting of Shareholders of mBank,
- PTE Allianz Polska S.A., which held 2 148 729 shares, representing 5.06% of the total number of shares in mBank's share capital and entitled to exercise 2 148 729 votes at mBank's Meeting of Shareholders.

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The changes in the ownership structure of Bank's material shares packages

On 5 January 2023 the Bank received notification from Powszechne Towarzystwo Emerytalne Allianz Polska S.A. (PTE Allianz Polska S.A.) that as a result of the merger on 30 December 2022 with Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A., the share of the funds managed by PTE Allianz Polska S.A. in the number of votes at the Meeting of Shareholder of mBank S.A. had exceeded 5%.

As a result of this transaction, funds managed by PTE Allianz Polska S.A. held a total of 2 148 729 shares in mBank S.A., representing 5.06% of the share capital of mBank S.A. and entitling to 2 148 729 votes at the Meeting of Shareholder of mBank S.A.

38. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2022 and 2021 results from the issue of shares under incentive programmes described under Note 43.

39. Retained earnings

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

	31.12.2022	31.12.2021
Other supplementary capital	8 001 299	9 216 652
Other reserve capital	36 012	33 979
General banking risk reserve	1 115 143	1 115 143
Profit from the previous year	2 098 482	2 098 482
Profit (loss) for the current year	(696 724)	(1 215 353)
Total retained earnings	**10 554 212**	**11 248 903**

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 Bank 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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40. Other components of equity

	31.12.2022	31.12.2021
Exchange differences on translating foreign operations	**8 635**	**2 506**
Unrealised gains (foreign exchange gains)	30 068	34 267
Unrealised losses (foreign exchange losses)	(21 433)	(31 761)
Cash flow hedges	**(695 611)**	**(495 965)**
Unrealised gains	16 637	-
Unrealised losses	(875 416)	(612 303)
Deferred income tax	163 168	116 338
Valuation of debt instruments at fair value through other comprehensive income	**(874 758)**	**(956 540)**
Unrealised gains on debt instruments	25 090	11 503
Unrealised losses on debt instruments	(1 024 866)	(1 099 039)
Deferred income tax	125 018	130 996
Actuarial gains and losses relating to post-employment benefits	**(7 140)**	**(10 619)**
Actuarial gains	1 376	1 024
Actuarial losses	(10 191)	(14 134)
Deferred income tax	1 675	2 491
Share of other comprehensive income of entities under the equity method	**(104 356)**	**(11 842)**
Share of other comprehensive income of subsidiaries and associates	(104 356)	(11 842)
Reclassification to investment properties	**11 436**	**11 436**
Gains on reclassification to investment properties	14 118	14 118
Deferred income tax	(2 682)	(2 682)
Total other components of equity	**(1 661 794)**	**(1 461 024)**

41. Dividend per share

On 31 March 2022, the XXXV Ordinary General Meeting of mBank S.A. adopted a resolution on covering the loss for 2021. The net loss of mBank S.A. reported in 2021, amounting to PLN 1 215 353 334.02 was covered from the Bank's supplementary capital. The General Meeting of mBank S.A. also decided not to divide profits from previous years, amounting to PLN 2 098 480 869.01.

42. Explanatory notes to the statement of cash flows

Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents include the following balances with maturities of less than three months.

	31.12.2022	31.12.2021
Cash and balances with the Central Bank (Note 18)	15 906 492	12 087 608
Loans and advances to banks (Note 22)	213 809	335 348
Total cash and cash equivalents	**16 120 301**	**12 422 956**

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Supplementary information to the cash flow statement

Explanation of differences between the change in the balances resulting from the balance sheet and the change disclosed in the cash flows from operating activities

	Year ended 31 December	
	2022	**2021**
Loans and advances to banks - change in the balances of the statement of financial position	**(4 197 954)**	**(349 072)**
The difference between the interest accrued and paid in cash in the period	154 510	-
Exclusion of a change in the balance of cash and cash equivalents	(121 539)	69 514
Total change in loans and advances to banks	**(4 164 983)**	**(279 558)**
Financial assets and liabilities held for trading, hedging derivatives and fair value changes of the hedged items in portfolio hedge of interest rate risk - change in the balance of the statement of financial position	**(561 232)**	**(462 481)**
The difference between the interest accrued and paid in cash in the period	(195 401)	2 849
Valuation included in other comprehensive income	(246 476)	(1 113 142)
Total financial assets and liabilities held for trading, hedging derivatives and fair value changes of the hedged items in portfolio hedge of interest rate risk	**(1 003 109)**	**(1 572 774)**
Loans and advances to customers - change in the balance of the statement of financial position	**(2 635 600)**	**(8 984 356)**
The difference between the interest accrued and paid in cash in the period	(193 772)	37 109
Valuation included in other comprehensive income	142 686	-
Total change in loans and advances to customers	**(2 686 686)**	**(8 947 247)**
Debt securities at fair value through other comprehensive income - change in the balance of the statement of financial position	**1 550 750**	**(754 804)**
Valuation included in other comprehensive income	(54 926)	(1 175 553)
The difference between the interest accrued and paid in cash in the period	224 438	(214 265)
Total change in debt securities at fair value through other comprehensive income	**1 720 262**	**(2 144 622)**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(3 574 061)**	**(680 414)**
The difference between the interest accrued and paid in cash in the period	23 303	(73 131)
Total change in debt securities measured at amortised cost	**(3 550 758)**	**(753 545)**
Other assets – change in the balance of the statement of financial position	**(335 470)**	**(196 469)**
Other changes	21 269	160 633
Total change in other assets	**(314 201)**	**(35 836)**
Amounts due to other banks - change in the balance of the statement of financial position	**(2 020 871)**	**(552 255)**
The difference between the interest accrued and paid in cash in the reporting period	4 656	27 207
Exchange differences	(136 445)	(52 517)
Exclusion of change in cash flows from financing activity	4 700	1 358 250
Total change in amounts due to other banks	**(2 147 960)**	**780 685**
Amounts due to customers - change in the balance of the statement of financial position	**16 955 537**	**23 270 428**
The difference between the interest accrued and paid in cash in the reporting period	(389 902)	13 479
Total change in amounts due to customers	**16 565 635**	**23 283 907**
Lease liabilities - change in the balance of the statement of financial position	**1 440**	**205 499**
Exclusion of changes in cash from financial activities	115 395	89 901
Exclusion of increase in lease liabilities	(112 640)	(320 745)
Total change in lease liabilities	**4 195**	**(25 345)**
Debt securities issued - change in the balance of the statement of financial position	**(2 134 925)**	**348 458**
The difference between the interest accrued and paid in cash in the reporting period	1 136	(7 699)
Exchange differences	(205 055)	(114 185)
Exclusion of change in cash flows from financing activity	2 029 887	(289 289)
Total change in debt securities issued	**(308 957)**	**(62 715)**
Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position	**1 137 696**	**386 348**
Valuation of incentive programmes recognised in income statement (Note 12)	12 673	10 487
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 17)	4 295	8 282
Exclusion of change in cash flows from investing activity	59 832	39 219
Exclusion of liabilities classified as held for sale	-	(7 425)
Exclusion of TCG liabilities	(36 919)	-
Total change in other liabilities (including liabilities classified as held for sale) and provisions	**1 177 577**	**436 911**

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Interests received and paid from operating activities

	Year ended 31 December	
	2022	**2021**
Interest income, including:		
Loans and advances to banks	928 066	105 139
Loans and advances to customers	6 551 654	2 850 922
Debt securities	1 100 540	770 080
Interest income on derivatives	-	400 633
Other interest income	47 561	18 014
Total interest income	**8 627 821**	**4 144 788**
Interest expense, including:		
Settlements with banks due to deposits received	(69 244)	(31 482)
Settlements with customers due to deposits received	(1 295 189)	(71 868)
Issuance of debt securities	(125 460)	(80 189)
Interest expense on derivatives	(824 189)	-
Other interest expense	(72 700)	(42 461)
Total interest expense	**(2 386 782)**	**(226 000)**

Cash flows from investing activities

In 2022 and in 2021, cash flows from investment activities mainly related to the settlements regarding the purchase of intangible and tangible assets.

Cash flows from financing activities

Cash flows from financing activities mainly related to the settlements regarding the issue of debt securities and to the settlements of long-term loans received from the European Investment Bank (Note 29). Moreover, cash flows from financing activities included the settlements relates to subordinated liabilities.

The following table presents the change in liabilities as part of financial activities.

	As at 01.01.2022	Cash flows	Change not connected with cash flows	As at 31.12.2022
Loans and advances received from banks (Note 29)	1 906 621	(4 700)	8 800	1 910 721
Lease liabilities (Note 29)	953 996	(115 395)	116 835	955 436
Debt securities in issue (Note 29)	6 683 623	(2 029 887)	(105 038)	4 548 698
Subordinated liabilities (Note 29)	2 624 456	(89 791)	206 056	2 740 721
Total liabilities from financing activities	**12 168 696**	**(2 239 773)**	**226 653**	**10 155 576**

	As at 01.01.2021	Cash flows	Change not connected with cash flows	As at 31.12.2021
Loans and advances received from banks (Note 29)	3 254 591	(1 363 406)	15 436	1 906 621
Lease liabilities (Note 29)	748 497	(89 901)	295 400	953 996
Debt securities in issue (Note 29)	6 335 165	289 289	59 169	6 683 623
Subordinated liabilities (Note 29)	2 578 327	(54 535)	100 664	2 624 456
Total liabilities from financing activities	**12 916 580**	**(1 218 553)**	**470 669**	**12 168 696**

Exchange differences and accrued interest were included in the change not related to cash flows.

The total cash outflow from leases (including cash flow related to short-term lease contracts, low-value asset lease contracts that are not short-term contracts and variable components of lease liabilities that are disclosed in cash flows from operating activities) amounted to PLN 117 724 thousand (in 2021: PLN 92 383 thousand).

43. Share-based incentive programmes

2018 incentive programme for the Management Board Members and key staff of mBank Group – mBank Risk Takers

On 7 June 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee of the Supervisory Board and the decision of the Annual General Meeting of mBank S.A. of 9 May 2018, adopted the mBank S.A. Incentive Programme Rules.

The Programme is being implemented from 1 January 2018. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, referred to as Risk Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., which applies a different incentive programme.

Risk Taker I means a Member of the Management Board of the bank. Risk Taker II means a person holding a position identified as having a material impact on the Bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Rules and Remuneration Policy of employees with a significant impact on the risk profile of mBank (referred to as Risk Takers Remuneration Policy), Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

Bonus for Risk Takers I

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool. The bonus pool is a total of base amounts calculated for each Management Board Member. The base amount is calculated as a multiple of the base salary, which depends on the Economic Profit (EP); EP is calculated for the period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus).

Both, the deferred part and the non-deferred part, are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date on which the consolidated financial statements of mBank Group S.A. for a given calendar year are approved.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements of mBank Group S.A. are approved.

Bonus for Risk Takers II

The bonus amount for a given calendar year is determined by the Bank's Management Board for a Risk Taker II, who is the Bank's employee, or by a subsidiary's Supervisory Board for Risk Taker II, who is a Member of the Management Board of mBank's subsidiary, on the basis of: assessment of MbO achievement for the period of the last three calendar years, the Economic Profit of mBank Group and the result of a business line/subsidiary/organisational unit.

The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus). Both, the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the date on which the consolidated financial statements of mBank S.A. Group for a given calendar year are approved.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements of mBank S.A. Group for a given calendar year are approved.

In case when the bonus amount determined for a Risk Taker II for a given calendar year does not exceed one-third of their total annual remuneration or PLN 200 000, the bonus may be paid in cash in a non-deferred form based on a decision of mBank's Management Board with regard to the employees of the Bank or by the Supervisory Board of a subsidiary with regard to Members of the Management Boards of mBank Group subsidiaries.

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank with respect to the Management Board of mBank, the Management Board of mBank with respect to the Bank's employees or the Supervisory Board of mBank Group subsidiary with respect to Members of the subsidiary's Management Board may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e. a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the Bank/subsidiary/Group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises, stipulated in Article 142 especially (2) of the Banking Law Act, has occurred.

If the circumstances referred to the above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group/the subsidiary or has contributed to financial sanctions being imposed on the Bank/subsidiary by supervisory bodies under a final and unappealable decision.

The decision determining the occurrence of the described events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a resolution of the General Meeting of mBank S.A. on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus under the aforesaid programme was granted to Risk Takers I and Risk Takers II for 2018 and 2019.

On 17 December 2020 the Supervisory Board, in accordance with a recommendation of the Remuneration Committee of the Supervisory Board, decided to amend the Risk Takers Remuneration Policy, bearing in mind the need to align the Policy with new Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as well as the recommendation of the Polish Financial Supervision Authority on variable remuneration components at banks communicated in the letter dated 17 April 2020 regarding measures expected to be taken by banks in response to the COVID-19 pandemic outbreak. In particularly justified cases when there is a need to mitigate the risk connected with maintaining a sound capital base of the Bank, enabling it to effectively respond to the economic situation in Poland arising from, for example, the COVID-19 pandemic, the Supervisory Board with regard to Risk Takers I and mBank's Management Board with regard to Risk Takers II may adopt a resolution to pay the cash tranche in whole or in part (both the non-deferred and deferred tranche) in the form of subscription warrants, starting from the bonus for 2020.

Starting from the bonus for 2021, the deferral period for the cash tranche and the tranche awarded in the form of subscription warrants has been extended: from three to five years for Risk Takers II being members of senior management (applicable to Managing Directors and members of the management boards of mBank Group subsidiaries) and from three to four years for the remaining Risk Takers.

In the case when the bonus amount determined for a Risk Taker II (excluding Risk Takers II being members of senior management: Managing Directors and members of the management boards of mBank Group subsidiaries) for a given calendar year does not exceed one-third of their total annual remuneration or PLN equivalent of EUR 50 000 (according to the value as of the date on which the bonus was granted), the bonus can be paid in whole in cash in a non-deferred form based on a decision of mBank's Management Board.

Variable remuneration for Risk Takers I for 2020 and 2021 was fully granted in subscription warrants. Variable remuneration for Risk Takers II for 2020 was fully granted in subscription warrants.

The table below presents change in the number of prices of share warrants related to the 2018 incentive programme for Management Board Members of the Bank and for key managers of mBank Group.

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	31.12.2022		31.12.2021	
	Number of warrants	Weighted average exercise price (in PLN)	Number of warrants	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**97 510**		**33 264**	
Granted during the period	32 203		79 297	
Forfeited during the period	-		220	
Exercised during the period*	48 611	4	14 831	4
Expired during the period	-		-	
Outstanding at the end of the period	**81 102**		**97 510**	
Exercisable at the end of the period	**-**		**-**	

* In 2022, the weighted average price of the shares was PLN 292.44 (in 2021 PLN 345.14).

Summary of the Impact of the Programmes on the Group's statement of financial position and income statement

Share-Based Payments settled in shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2022	31.12.2021
Incentive programs		
As at the beginning of the period	**33 979**	**30 329**
- value of services provided by the employees	12 673	10 487
- settlement of exercised options	(10 640)	(6 837)
As at the end of the period	**36 012**	**33 979**

Cash Payments

The cost of the cash part of the programmes is presented in Note 12.

44. Transactions with related entities

mBank S.A. is the parent entity of 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 Bank provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which include maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the by-laws adopted by the Supervisory Board of mBank S.A.

The by-laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as with transactions with other Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2022 and 31 December.

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	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		mBank's subsidiaries		Commerzbank AG		Other companies of the Commerzbank AG Group excluding mBank subsidiaries	
As at the end of the period	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Statement of Financial Position										
Assets	3 627	3 669	1 882	1 833	22 293 361	20 331 269	674 513	1 204 403	37	37
Liabilities	18 382	18 585	3 447	4 156	427 198	556 352	2 465 567	2 884 929	77 829	73 658
Income Statement										
Interest income	175	52	103	41	1 050 717	189 072	65 212	33 504	28	138
Interest expense	(104)	(2)	(8)	-	(56 012)	(320)	(42 613)	(21 547)	(1 416)	(20)
Commission income	38	56	89	9	21 634	20 784	4 991	6 101	176	258
Commission expense	-	-	-	-	(191 209)	(217 814)	-	-	-	-
Other operating income	-	-	14	15	21 426	12 804	3 846	3 522	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	(5 769)	(4 522)	(11 408)	(5 192)	-	-
Contingent liabilities granted and received										
Commitments granted	755	669	158	145	3 274 715	2 763 259	2 101 314	1 564 733	1 608	3 514
Commitments received	-	-	-	-	-	-	1 915 387	1 895 575	-	-

** Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons*

The item Contingent liabilities – Commitments granted includes the guarantee granted to subsidiary mBank Hipoteczny S.A in the amount of PLN 468 130 thousand (31 December 2021: PLN 565 211 thousand), which secures the risk of repayment of the credit portfolio granted by the subsidiary to the clients of commercial real estate sector. Additionally, the Bank recognised also the submitted deposit related to the aforementioned guarantee, in the same amount.

Management Board of mBank S.A.

At the end of 2022, the Management Board of mBank S.A. performed functions in the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer,
3. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
4. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
5. Marek Lusztyn – Vice-President of the Management Board, Head of Risk,
6. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking.

In 2022, there were no changes regarding the composition of the Management Board of mBank S.A.

Supervisory Board of mBank S.A.

At the end of 2022 the composition of the Supervisory Board of mBank S.A. is as follows:

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

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

- On 14 October 2022 Mr. Arno Walter resigned from membership in the Bank's Supervisory Board with the effective date of 30 March 2023.
- On 7 December 2022 Mr. Armin Barthel resigned from membership in the Bank's Supervisory Board with the effective date of 31 December 2022.

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Supervisory Board and Management Board Remuneration

The table below presents the information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2022 and at the end of 2021, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

Renumeration paid (in PLN)	2022	2021
mBank Management Board		
Basic salary	11 970 427	11 892 665
Other benefits	1 460 547	1 423 271
Deferred bonus	780 000	1 278 316
Remuneration of the former Management Board Members		
Other benefits	1 710	3 210
Deferred bonus	216 000	491 000
Compensation (no competition)	-	2 228 000
mBank Supervisory Board		
Basic salary	1 742 360	1 466 378

The total compensation of members of the Management Board consists of: basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

The total remuneration received in 2022 by Bank's Management Board members was PLN 14 211 thousand (2021: PLN 14 594 thousand).

In accordance with the Bank's remuneration system, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2022, which would be paid out from 2023. Therefore, a provision was created for the payment of a cash bonus for 2022 for the members of the Management Board, which amounted to PLN 2 178 thousand as of 31 December 2022 (31 December 2021: PLN 2 313 thousand). The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 1 March 2023.

In 2022 and 2021, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2022 amounted to PLN 23 190 thousand (2021: PLN 21 796 thousand).

Detailed information on the remuneration of individual Members of the Management Board and the Supervisory Board, as well as the composition of the Management Board and the Supervisory Board was presented in the Management Board Report on the Performance of mBank S.A. Group in 2022 in item 13.7. "Composition, powers and procedures of the Management Board and the Supervisory Board".

Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

As at 31 December 2022, the Bank shares were held by six Members of the Management Board: Mr. Cezary Stypułkowski – 27 884 shares, Mr. Andreas Böger – 2 994 shares, Mr. Krzysztof Dąbrowski – 2 240 shares, Mr. Cezary Kocik – 1 392 shares, Mr. Marek Lusztyn – 303 shares and Mr. Adam Pers 26 shares.

As at 31 December 2021, the Bank shares were held by four Members of the Management Board: Mr. Cezary Stypułkowski – 25 230 shares, Mr. Andreas Böger – 1 646 shares, Mr. Krzysztof Dąbrowski – 892 shares and Mr. Cezary Kocik – 256 shares.

45. Acquisitions and disposals

Sale of shares in Tele-Tech Investment Sp. z o.o.

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

Liquidation of mFinance France S.A.

In relation to substitution of the liabilities of mFinance France S.A. to mBank S.A., starting from December 2020, mBank ceased to consolidate this company. The substitution process was completed in October 2020. On 4 November 2020, the Extraordinary General Meeting of shareholder of mFinance France S.A., adopted a resolution to open the liquidation process of the company and to appoint the liquidator. Company was removed from the French register of enterprises on 4 June 2021.

46. Capital adequacy

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management strategy, the Bank creates a framework and guidelines for the effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, ensuring an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management strategy in mBank is based on two pillars:

- aiming at optimal level and structure of own funds, assuring capital adequacy above the capital strategic targets (established above minimum requirement taking into account the risk appetite at approved level) as well as ensuring coverage against all material risks identified in mBank’s activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and IFRS equity and thus creating stable basis for strengthening capital in future periods.

Above pillars of the capital management allow to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in mBank was made according to the following regulations:

- 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 amending regulation (EU) No 648/2012 with further amendments (CRR Regulation);
- the Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014 (ITS Regulation);
- the Banking Act of 29 August 1997 (Dz.U. from year 2002 No 72, item 665) with further amendments;
- the Act on Macroprudential Supervision of the Financial System and Crisis Management of 5 August 2015 (Dz.U. 2015 item 1513);
- the Regulation of the Minister of Development and Finance of 25 May 2017 on the higher risk weight for exposures secured by mortgages on real estate,
- Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer.

As a result of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System (the Act) that entered into force in 2015 and transposed the CRD IV provisions to the Polish prudential regulations, as of 31 December 2022 Bank was obliged to ensure adequate own funds to meet conservation buffer of 2.5% of total risk exposure amount (31 December 2021: 2.5%).

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As of the end of 2022 and 2021 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. mBank specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Bank are located, amounted to 12 b.p. as of 31 December 2022 (31 December 2021: 5 b.p.). The value of the indicator was predominantly affected by the exposures of mBank's foreign branches in the Czech Republic and Slovakia, where the countercyclical buffer rates at the end of 2022 were 1.5% and 1.0% (31 December 2021: 0.5% and 1.0%, respectively).

In 2016 the Bank received an administrative decision of the PFSA that identified mBank as other systemically important institutions (O-SII) and imposed a capital buffer of the total risk exposure amount. Pursuant to the PFSA decision of 29 October 2020 the Bank was obliged to maintain the capital buffer of 0.50% of the total risk exposure, calculated in accordance with article 92(3) of the Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2022.

Starting from 1 January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the exceptional socio-economic situation that arose after the outbreak of the global COVID-19 pandemic, this requirement was lifted by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020 and was applied as at 31 December 2022.

Consequently, the combined buffer requirement set for the mBank as at the end of 2022 amounted to 3.12% of the total risk exposure amount (at the end of 2021: 3.05%).

Additionally, as a result of risk assessment carried out in 2022 by the PFSA within the supervisory review and evaluation process (SREP), in particular with regard to the evaluation of risk related to the portfolio of foreign exchange retail mortgage loans, the Bank received an individual recommendation to maintain own funds on the individual level to cover additional capital requirement of 2.03% for total capital ratio and 1,52% for Tier I capital (2021: 2,45% and 1,83%, respectively). Additional capital requirement set by PFSA in 2022 encompasses also additional risk factors related to the FX mortgage loan portfolio such as operational risk, market risk or risk of collective default of borrowers.

During 2022 and 2021 capital ratios on the individual level were above the required values taking into account the abovementioned components.

mBank	31.12.2022		31.12.2021	
Capital ratio	**Required level**	**Reported level**	**Required level**	**Reported level**
Total capital ratio	13.15%	19.37%	13.50%	19.01%
Tier I ratio	10.64%	16.42%	10.88%	16.23%

The stand-alone leverage ratio, calculated in accordance with the provisions of the CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including transitional definition of Tier I capital, at the end of 2022 amounted to 6.43% (at the end of 2021: 6.53%).

Own Funds

In accordance with the CRR Regulation, own funds consist of Common Equity Tier I capital, Additional Tier I capital and Tier II capital, however items that could be treated as Additional Tier I capital are not identified within mBank.

Common Equity Tier I capital of mBank contains:

- capital instruments and the related share premium accounts,
- retained earnings,
- accumulated other comprehensive income and other reserves,
- funds for general banking risk,
- regulatory adjustments.

Tier II capital of mBank contains capital instruments and the related share premium accounts (subordinated liabilities with specified maturity and excess of provisions over the expected AIRB recognised losses in case of its occurrence).

The own funds of mBank as of 31 December 2022 amounted to PLN 14 768 545 thousand while the Common Equity Tier I capital amounted to PLN 12 519 047 thousand (as of 31 December 2021 it was PLN 15 849 040 thousand and PLN 13 529 356 thousand respectively).

IFRS Financial Statements 2022 (PLN thousand)

Total risk exposure amount (TREA)

The total risk exposure amount contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, securitisation transactions, dilution risk and free deliveries,
- risk exposure amount for market risk, containing position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure.

As at 31 December 2022 the AIRB approach was applied to the calculation of own funds requirements for credit and counterparty credit risk for the following portfolios:

- mBank corporate portfolio,
- mBank retail mortgage loan portfolio,
- mBank real estate-related specialised lending exposure (IRB slotting approach),
- mBank retail non-mortgage exposures,
- mBank retail microenterprises mortgage loan portfolio,
- other commercial banks exposures.

Since 2021, mBank Group applies PFSA supervisory restrictions (multipliers) related to the recommendation following the implementation of the New Default Definition and the new LGD model for the retail loan portfolio in the process of calculating the total capital ratio. These limitations were taken into account in the process of calculating the total risk exposure amount at the end of 2022 as well, and will apply until further notice.

The total risk exposure amount of mBank as of 31 December 2022 amounted to PLN 76 253 472 thousand (31 December 2021: PLN 83 376 287 thousand), including PLN 65 951 615 thousand of risk-weighted exposure amount for credit risk, counterparty credit risk (31 December 2021: PLN 73 238 780 thousand).

ICAAP and internal capital

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank aims at adjusting own funds to the level and the profile of risk arising from mBank's operations.

These resources are at safe level. The value of Bank's internal funds in regulatory approach is higher than value required to cover the total Bank's capital requirement calculated in line with CRR regulation. Similarly, in the economic approach, the capital resources in a form of own funds or risk coverage potential, are higher that internal capital estimated for Bank in line with Regulation of the Minister of Finance, Funds and Regional Policy of 27 July 2021 on the detailed manner of estimation of internal capital and the Bank's review of the strategy and procedures for the estimation and ongoing maintenance of internal capital.

The internal capital of Bank as at 31 December 2022 amounted to PLN 6 461 234 thousand (at 31 December 2021: PLN 6 206 163 thousand).

CAPITAL ADEQUACY	31.12.2022	31.12.2021
Common Equity Tier I Capital	**12 519 047**	**13 529 356**
Total Own Funds	**14 768 545**	**15 849 040**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries, including:	65 951 615	73 238 780
- under standardised approach	*20 065 367*	*20 084 295*
- under AIRB approach	*44 321 331*	*53 149 683*
- securitisation transactions	*1 560 845*	*-*
- risk exposure amount for contributions to the default fund of a CCP	*4 072*	*4 803*
Total risk exposure amount for position, foreign exchange and commodities risks	791 154	1 111 589
Total risk exposure amount for operational risks	9 234 453	8 656 577
Total risk exposure amount for credit valuation adjustments	276 250	369 340
Total risk exposure amount	**76 253 472**	**83 376 287**
Common Equity Tier I capital ratio	**16.4%**	**16.2%**
Total capital ratio	**19.4%**	**19.0%**
Internal capital	**6 461 234**	**6 206 163**

IFRS Financial Statements 2022 (PLN thousand)

OWN FUNDS	31.12.2022	31.12.2021
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**13 707 768**	**14 597 109**
Capital instruments and the related share premium accounts	3 604 519	3 593 878
Retained earnings, including:	2 612 589	2 098 481
- profit from the previous years	*2 098 482*	*2 098 481*
- eligible net profit of mBank for the first quarter of the year 2022	*514 107*	-
Accumulated other comprehensive income (and other reserves)	6 375 517	7 789 607
Funds for general banking risk	1 115 143	1 115 143
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**(1 188 721)**	**(1 067 753)**
Additional value adjustments (negative amount)	(66 439)	(65 845)
Intangible assets (net of related tax liability) (negative amount)	(750 465)	(683 698)
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	695 611	495 965
Negative amounts resulting from the calculation of expected loss amounts	(57 476)	(60 879)
Losses for the current financial year (negative amount)	(1 210 831)	(1 215 353)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	(14 306)	(5 472)
Other regulatory adjustments	215 185	467 529
Common Equity Tier 1 (CET1) capital	**12 519 047**	**13 529 356**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**12 519 047**	**13 529 356**
Tier 2 (T2) capital before regulatory adjustments	**2 249 498**	**2 319 684**
Capital instruments and the related share premium accounts	2 249 498	2 319 684
Tier 2 (T2) capital: regulatory adjustments	-	-
Tier 2 (T2) capital	**2 249 498**	**2 319 684**
Total capital (TC = T1 + T2)	**14 768 545**	**15 849 040**

As of 31 December 2022 and as of 31 December 2021 mBank included transitional provisions regarding the temporary treatment of unrealised gains and losses 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 ("transitional provisions") in the calculation of own funds, capital ratios and leverage ratio.

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

	31.12.2022		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	12 519 047	12 251 039	13 529 356	13 061 828
Tier I capital	12 519 047	12 251 039	13 529 356	13 061 828
Own funds	14 768 545	14 500 537	15 849 040	15 381 512
Common Equity Tier I ratio (%)	16.4	16.0	16.2	15.7
Tier I capital ratio (%)	16.4	16.0	16.2	15.7
Total capital ratio (%)	19.4	19.0	19.0	18.5
Leverage ratio (%)	6.43	6.29	6.53	6.32

47. Events after the balance sheet date

- Resignation of the Management Board Member

On 17 January 2023 Mr. Andreas Böger, Vice-President of the Management Board, Chief Financial Officer handed over resignation from his position as of 30 April 2023. The reason for the resignation are plans of Mr. Andreas Böger to take on the role of Divisional Board Member responsible for Group Finance at Commerzbank AG.

- Opinion of the Advocate General of the CJEU to the case related to CHF mortgage loans

On 16 February 2023, the Opinion of the Advocate General of the CJEU was presented to Case C-520/21, the subject of which is whether, in the event of the cancellation of a credit agreement, the parties, in addition to the reimbursement of the money paid in performance of that agreement and statutory interest for delay from the time of the demand for payment, may also claim any other benefits, in particular remuneration, compensation, reimbursement or valorisation of the benefit.

As regards the consumer's claim, the Ombudsman pointed out that "it is for the referring court to determine, in the light of its national law, whether consumers are entitled to pursue such a claim and if so, to rule on its merits". If, however, the referring court takes the view that national law entitles the consumer also to claim additional benefits from the bank, Directive 93/13 does not preclude that. It is therefore for the referring court to determine, in the light of its national law, whether consumers are entitled to pursue such claims and, if so, to rule on their merits. The national courts may also exercise their jurisdiction to dismiss such an action where it constitutes an abuse of rights.

With regard to the bank's claims against the consumer, the Advocate General also notes that 'it is in principle for the national court to determine, in the light of national law, whether the bank (...) may pursue claims against the consumer that go beyond reimbursement of the loan capital provided and payment of statutory interest for late payment', he considers that, even if national law were to permit such claims, Directive 93/13 precludes them, since it is clear from its general scheme that, rather than seeking to ensure a contractual balance between the rights and obligations of the parties to the contract, it seeks to avoid an imbalance between those rights and obligations to the detriment of consumers. In addition, a bank cannot derive economic benefit from a situation created by its own unlawful action, and the sanction of free credit is the usual effect of declaring a credit agreement retroactively null and void once the unfair terms have been deleted from it.

The Ombudsman's opinion is not binding on the CJEU, neither is it binding on the ordinary courts and the Supreme Court. The CJEU may share the Ombudsman's position, but it may also rule otherwise, interpreting Directive 93/13 differently. In particular, it may not rule on the bank's claims at all, as the proceedings before the national court concern only the 'remuneration' that would be due to the consumer.

With reference to the Ombudsman’s opinion, the Bank performed a reassessment of assumptions of the model applied as at the balance sheet date for the purpose of estimate of impact of legal risk related to legal claims on indexation clauses in mortgage loan agreements in CHF and the settlement program, described in details in Note 34 to these financial statements. In the opinion of the Bank as at the balance sheet date there is no need to change the applied estimate assumptions. The Bank will await the judgment of the CJEU in this respect which is expected in second half of 2023 and subsequent development of Polish jurisprudence. The ruling issued in this case may be of significant importance for the shaping of the jurisprudence in matters of foreign currency indexed loans. It will also be reflected in the parameters such as the distribution of expected court rulings or scenarios, determining the behaviour of borrowers towards accepting settlements or filing lawsuits. It cannot be excluded that such future events may have significant impact on the estimate of legal risk related to mortgage loans in CHF in the future. If the periodical monitoring of parameters and assumptions of the model indicate a need for their changes, they will be implemented.