# mBank S.A. Group
# Consolidated
# IFRS Financial Statements
# 2022

Official Financial Statements of mBank S.A. Group 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. Group 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 presented below are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2022.

| SELECTED CONSOLIDATED FINANCIAL DATA | | PLN thousand | | EUR thousand | |
|---|---|---|---|---|---|
| | | Year ended 31 December | | Year ended 31 December | |
| | | 2022 | 2021 - restated | 2022 | 2021 - restated |
| I. | Interest income | 9 265 806 | 4 454 007 | 1 976 368 | 973 022 |
| II. | Fee and commission income | 3 026 096 | 2 692 626 | 645 457 | 588 231 |
| III. | Net trading income | 97 198 | 96 890 | 20 732 | 21 167 |
| IV. | Operating profit | 576 156 | 17 596 | 122 892 | 3 844 |
| V. | Profit / (loss) before income tax | (108 019) | (591 031) | (23 040) | (129 117) |
| VI. | Net profit / (loss) attributable to Owners of mBank S.A. | (702 691) | (1 178 753) | (149 882) | (257 510) |
| VII. | Net profit / (loss) attributable to non-controlling interests | 164 | (60) | 35 | (13) |
| VIII. | Net cash flows from operating activities | 8 027 061 | 10 803 934 | 1 712 147 | 2 360 226 |
| IX. | Net cash flows from investing activities | (495 740) | (508 006) | (105 740) | (110 979) |
| X. | Net cash flows from financing activities | (3 783 916) | (1 994 726) | (807 098) | (435 768) |
| XI. | Net increase / decrease in cash and cash equivalents | 3 747 405 | 8 301 202 | 799 310 | 1 813 479 |
| XII. | Basic earnings / (loss) per share (in PLN/EUR) | (16.57) | (27.82) | (3.53) | (6.08) |
| XIII. | Diluted earnings / (loss) per share (in PLN/EUR) | (16.55) | (27.77) | (3.53) | (6.07) |
| XIV. | Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

| SELECTED CONSOLIDATED FINANCIAL DATA | | PLN thousand | | EUR thousand | |
|---|---|---|---|---|---|
| | | As at | | As at | |
| | | 31.12.2022 | 31.12.2021 - restated | 31.12.2022 | 31.12.2021 - restated |
| I. | Total assets | 209 892 113 | 198 373 374 | 44 754 070 | 43 130 272 |
| II. | Amounts due to other banks | 3 270 223 | 5 266 179 | 697 291 | 1 144 971 |
| III. | Amounts due to customers | 174 130 914 | 157 071 670 | 37 128 918 | 34 150 470 |
| IV. | Equity attributable to Owners of mBank S.A. | 12 713 001 | 13 716 050 | 2 710 719 | 2 982 139 |
| V. | Non-controlling interests | 2 030 | 1 866 | 433 | 406 |
| VI. | Registered share capital | 169 734 | 169 540 | 36 191 | 36 861 |
| VII. | Number of shares | 42 433 495 | 42 384 884 | 42 433 495 | 42 384 884 |
| VIII. | Book value per share (in PLN/EUR) | 299.60 | 323.61 | 63.88 | 70.36 |
| IX. | Total capital ratio (%) | 16.4 | 16.6 | 16.4 | 16.6 |
| X. | Common Equity Tier I capital ratio (%) | 13.8 | 14.2 | 13.8 | 14.2 |

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

- for items of the consolidated statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2022: EUR 1 = 4.6899 PLN, 31 December 2021: EUR 1 = 4.5994 PLN;
- for items of the consolidated income statement and the consolidated 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 = 4.6883 PLN and EUR 1 = 4.5775 PLN, respectively.

## CONTENTS

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | **2022** | **2021 - restated** |
| Interest income, including: | 6 | 9 265 806 | 4 454 007 |
| *Interest income accounted for using the effective interest method* | | *9 093 789* | *3 970 220* |
| *Income similar to interest on financial assets at fair value through profit or loss* | | *172 017* | *483 787* |
| Interest expenses | 6 | (3 356 567) | (327 694) |
| **Net interest income** | | **5 909 239** | **4 126 313** |
| Fee and commission income | 7 | 3 026 096 | 2 692 626 |
| Fee and commission expenses | 7 | (906 019) | (824 875) |
| **Net fee and commission income** | | **2 120 077** | **1 867 751** |
| Dividend income | 8 | 5 236 | 5 046 |
| Net trading income | 9 | 97 198 | 96 890 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 10 | (50 924) | 4 608 |
| Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | 11 | (91 548) | 93 690 |
| Other operating income | 12 | 265 162 | 232 384 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | 15 | (803 217) | (873 226) |
| Costs of legal risk related to foreign currency loans | 34 | (3 112 265) | (2 758 079) |
| Overhead costs | 13 | (2 851 881) | (2 020 629) |
| Depreciation | | (467 308) | (436 254) |
| Other operating expenses | 14 | (443 613) | (320 898) |
| **Operating profit** | | **576 156** | **17 596** |
| Tax on the Bank's balance sheet items | | (684 175) | (608 627) |
| **Profit / (loss) before income tax** | | **(108 019)** | **(591 031)** |
| Income tax expense | 16 | (594 508) | (587 782) |
| **Net profit / (loss)** | | **(702 527)** | **(1 178 813)** |
| **Net profit / (loss) attributable to:** | | | |
| - Owners of mBank S.A. | | (702 691) | (1 178 753) |
| - Non-controlling interests | | 164 | (60) |
| | | | |
| **Earnings / (loss) per share (in PLN)** | 17 | **(16.57)** | **(27.82)** |
| **Diluted earnings / (loss) per share (in PLN)** | 17 | **(16.55)** | **(27.77)** |

Notes presented on pages 10–173 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2022 | 2021 |
| **Net profit / (loss)** | | **(702 527)** | **(1 178 813)** |
| **Other comprehensive income net of tax, including:** | 18 | **(313 225)** | **(1 788 889)** |
| **Items that may be reclassified subsequently to the income statement** | | **(316 696)** | **(1 807 384)** |
| Exchange differences on translation of foreign operations (net) | | 6 194 | 4 898 |
| Cash flows hedges (net) | 18 | (296 666) | (919 332) |
| Cost of hedge (net) | | 27 105 | - |
| Change in valuation of debt instruments at fair value through other comprehensive income (net) | 18 | (53 329) | (892 950) |
| **Items that will not be reclassified to the income statement** | | **3 471** | **18 495** |
| Actuarial gains and losses relating to post-employment benefits (net) | 18 | 3 471 | 7 059 |
| Reclassification to investment properties (net) | 18 | - | 11 436 |
| **Total comprehensive income (net)** | | **(1 015 752)** | **(2 967 702)** |
| **Total comprehensive income (net), attributable to:** | | | |
| - Owners of mBank S.A. | | (1 015 916) | (2 967 642) |
| - Non-controlling interests | | 164 | (60) |

Notes presented on pages 10–173 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS | Note | 31.12.2022 | 31.12.2021 - restated | 01.01.2021 - restated |
|---|---|---|---|---|
| Cash and balances with the Central Bank | 19 | 16 014 318 | 12 202 266 | 3 968 691 |
| Financial assets held for trading and hedging derivatives | 20 | 2 524 652 | 2 589 076 | 2 586 721 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 21 | 1 044 189 | 1 417 191 | 1 784 691 |
| *Equity instruments* | | *185 788* | *224 389* | *202 304* |
| *Debt securities* | | *45 009* | *81 128* | *76 068* |
| *Loans and advances to customers* | | *813 392* | *1 111 674* | *1 506 319* |
| Financial assets at fair value through other comprehensive income – Debt securities | 22 | 35 117 450 | 36 206 059 | 35 498 061 |
| Financial assets at amortised cost, including: | 23 | 148 138 819 | 139 919 159 | 129 883 521 |
| *Debt securities* | | *19 002 527* | *16 164 103* | *15 952 501* |
| *Loans and advances to banks* | | *9 806 262* | *7 229 681* | *7 354 268* |
| *Loans and advances to customers* | | *119 330 030* | *116 525 375* | *106 576 752* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 20 | 3 064 | (110 033) | (10 986) |
| Non-current assets and disposal groups classified as held for sale | 24 | 26 747 | 31 247 | - |
| Intangible assets | 25 | 1 391 707 | 1 283 953 | 1 178 698 |
| Tangible assets | 26 | 1 484 933 | 1 542 250 | 1 514 577 |
| Investment properties | 27 | 136 909 | 127 510 | - |
| Current income tax assets | | 28 302 | 28 147 | 23 957 |
| Deferred income tax assets | 32 | 1 875 728 | 1 392 350 | 853 880 |
| Other assets | 28 | 2 105 295 | 1 744 199 | 1 578 820 |
| **TOTAL ASSETS** | | **209 892 113** | **198 373 374** | **178 860 631** |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Financial liabilities held for trading and hedging derivatives | 20 | 2 086 111 | 2 011 182 | 1 338 564 |
| Financial liabilities measured at amortised cost, including: | 29 | 190 567 661 | 179 348 925 | 156 673 052 |
| *Amounts due to banks* | | *3 270 223* | *5 266 179* | *5 654 331* |
| *Amounts due to customers* | | *174 130 914* | *157 071 670* | *133 672 142* |
| *Lease liabilities* | | *960 324* | *956 838* | *771 935* |
| *Debt securities issued* | | *9 465 479* | *13 429 782* | *13 996 317* |
| *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 | 20 | (1 528 582) | (1 055 478) | 48 638 |
| Liabilities classified as held for sale | 24 | 7 375 | 7 425 | - |
| Provisions | 31 | 1 362 259 | 836 900 | 535 179 |
| Current income tax liabilities | | 571 456 | 61 910 | 225 796 |
| Deferred income tax liabilities | 32 | - | 89 | 690 |
| Other liabilities | 30 | 4 110 802 | 3 444 505 | 3 363 645 |
| **TOTAL LIABILITIES** | | **197 177 082** | **184 655 458** | **162 185 564** |
| **EQUITY** | | | | |
| **Equity attributable to Owners of mBank S.A.** | | **12 713 001** | **13 716 050** | **16 673 133** |
| **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 | **10 625 836** | **11 326 494** | **12 501 597** |
| - Profit from the previous years | | 11 328 527 | 12 505 247 | 12 397 766 |
| - Profit (loss) for the current year | | (702 691) | (1 178 753) | 103 831 |
| **Other components of equity** | 40 | **(1 517 613)** | **(1 204 388)** | **584 501** |
| **Non-controlling interests** | | **2 030** | **1 866** | **1 934** |
| **TOTAL EQUITY** | | **12 715 031** | **13 717 916** | **16 675 067** |
| **TOTAL LIABILITIES AND EQUITY** | | **209 892 113** | **198 373 374** | **178 860 631** |

Notes presented on pages 10–173 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Changes in equity from 1 January to 31 December 2022

| | Share capital | | Retained earnings | | Other components of equity | Equity attributable to Owners of mBank S.A. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Registered share capital | Share premium | Profit from the previous years | Profit/loss for the current year | | | | |
| **Equity as at 1 January 2022** | **169 540** | **3 424 404** | **12 505 247** | **(1 178 753)** | **(1 204 388)** | **13 716 050** | **1 866** | **13 717 916** |
| Transfer of profit/loss from previous year | - | - | (1 178 753) | 1 178 753 | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **-** | **(702 691)** | **(313 225)** | **(1 015 916)** | **164** | **(1 015 752)** |
| Issuance of ordinary shares | 194 | - | - | - | - | 194 | - | 194 |
| **Stock option program for employees** | **-** | **10 640** | **2 033** | **-** | **-** | **12 673** | **-** | **12 673** |
| *value of services provided by the employees* | - | - | *12 673* | - | - | *12 673* | - | *12 673* |
| *settlement of exercised options* | - | *10 640* | *(10 640)* | - | - | - | - | - |
| **Equity as at 31 December 2022** | **169 734** | **3 435 044** | **11 328 527** | **(702 691)** | **(1 517 613)** | **12 713 001** | **2 030** | **12 715 031** |

## Changes in equity from 1 January to 31 December 2021

| | Share capital | | Retained earnings | | Other components of equity | Equity attributable to Owners of mBank S.A. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Registered share capital | Share premium | Profit from the previous years | Profit/loss for the current year | | | | |
| **Equity as at 1 January 2021** | **169 468** | **3 417 567** | **12 397 766** | **103 831** | **584 501** | **16 673 133** | **1 934** | **16 675 067** |
| Transfer of profit/loss from previous year | - | - | 103 831 | (103 831) | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **-** | **(1 178 753)** | **(1 788 889)** | **(2 967 642)** | **(60)** | **(2 967 702)** |
| Issuance of ordinary shares | 72 | - | - | - | - | 72 | - | 72 |
| Other increase or decrease in equity | - | - | - | - | - | - | (8) | (8) |
| **Stock option program for employees** | **-** | **6 837** | **3 650** | **-** | **-** | **10 487** | **-** | **10 487** |
| *value of services provided by the employees* | - | - | *10 487* | - | - | *10 487* | - | *10 487* |
| *settlement of exercised options* | - | *6 837* | *(6 837)* | - | - | - | - | - |
| **Equity as at 31 December 2021** | **169 540** | **3 424 404** | **12 505 247** | **(1 178 753)** | **(1 204 388)** | **13 716 050** | **1 866** | **13 717 916** |

Notes presented on pages 10–173 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2022 | 2021 - restated |
| **Profit / (loss) before income tax** | | **(108 019)** | **(591 031)** |
| **Adjustments:** | | **8 135 080** | **11 394 965** |
| Income taxes paid | | (454 867) | (837 687) |
| Depreciation, including depreciation of fixed assets provided under operating lease | 25,26 | 498 701 | 468 584 |
| Foreign exchange (gains) losses related to financing activities | | 473 497 | 205 130 |
| (Gains) losses on investing activities | | 2 490 | 14 965 |
| Dividends received | 8 | (5 236) | (5 046) |
| Interest income (income statement) | 6 | (9 265 806) | (4 454 007) |
| Interest expense (income statement) | 6 | 3 356 567 | 327 694 |
| Interest received | | 9 227 748 | 4 698 299 |
| Interest paid | | (2 657 442) | (234 411) |
| Changes in loans and advances to banks | | (2 486 657) | 96 423 |
| Changes in financial assets and liabilities held for trading and hedging derivatives | | (954 096) | (1 452 131) |
| Changes in loans and advances to customers | | (2 890 289) | (9 448 118) |
| Changes in financial assets at fair value through other comprehensive income | | 1 261 938 | (2 054 013) |
| Changes in securities at amortised cost | | (2 806 315) | (284 047) |
| Changes of non-trading securities mandatorily at fair value through profit or loss | | 57 934 | (17 617) |
| Changes in other assets | | (382 611) | (142 056) |
| Changes in amounts due to banks | | (2 123 045) | 949 944 |
| Changes in amounts due to customers | | 16 669 811 | 23 405 905 |
| Changes in lease liabilities | | 6 436 | (42 226) |
| Changes in issued debt securities | | (662 074) | (246 519) |
| Changes in provisions | | 528 816 | 301 721 |
| Changes in other liabilities | | 739 580 | 144 178 |
| **A. Cash flows from operating activities** | | **8 027 061** | **10 803 934** |
| Disposal of shares in subsidiaries, net of cash disposed | | 122 | 5 147 |
| Disposal of intangible assets and tangible fixed assets | | 61 723 | 85 802 |
| Dividends received | 8 | 5 236 | 5 046 |
| Other investing outflows | | 289 | - |
| Acquisition of shares in subsidiaries | | - | (14 597) |
| Purchase of intangible assets and tangible fixed assets | | (563 110) | (589 404) |
| **B. Cash flows from investing activities** | | **(495 740)** | **(508 006)** |
| Issue of debt securities | 29 | 1 792 187 | 3 497 354 |
| Issue of ordinary shares | | 194 | 72 |
| Repayments of loans and advances from banks | | - | (1 358 250) |
| Redemption of debt securities | | (5 366 177) | (3 980 595) |
| Payments of lease liabilities | | (115 629) | (93 616) |
| Interest paid from loans and advances received from banks and from subordinated liabilities | | (94 491) | (59 691) |
| **C. Cash flows from financing activities** | | **(3 783 916)** | **(1 994 726)** |
| **Net increase / decrease in cash and cash equivalents (A+B+C)** | | **3 747 405** | **8 301 202** |
| Effects of exchange rate changes on cash and cash equivalents | | 4 020 | (9 649) |
| Cash and cash equivalents at the beginning of the reporting period | | 12 540 599 | 4 249 046 |
| **Cash and cash equivalents at the end of the reporting period** | **42** | **16 292 024** | **12 540 599** |

Notes presented on pages 10–173 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

# EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Information regarding the Group of mBank S.A.

| | |
|---|---|
| Name of reporting entity or other means of identification | mBank S.A. |
| Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period | not applicable |
| Domicile of entity | Poland |
| Legal form of entity | joint stock company |
| Country of incorporation | Poland |
| Address of registered office of entity | Poland, 00-850 Warszawa, ul. Prosta 18 |
| Principal place of business | Poland, 00-850 Warszawa, ul. Prosta 18 |
| Description of nature of entity's operations and principal activities | 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 |
| Name of parent entity | Commerzbank AG |
| Name of ultimate parent of group | Commerzbank AG |

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

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

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

The head office of the Bank is located at 18 Prosta St., Warsaw.

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

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

**mBank S.A. – the parent entity**

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

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

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

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

The Bank conducts retail banking business in 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) and of the Group to 7 014 FTEs (31 December 2021: Bank 6 075 FTEs, Group 6 738 FTEs).

As at 31 December 2022 the employment in mBank S.A. was at 7 387 persons and in the Group at 8 364 persons (31 December 2021: Bank 7 088 persons, Group 9 464 persons).

The business activities of the Group are conducted in the following business segments presented in detail in Note 5.

**Corporate and Investment Banking Segment**

- mBank Hipoteczny S.A., subsidiary (the corporate segment of the company's activity)

The core business of mBank Hipoteczny S.A. is to ensure stable and long-term financing of the Group by issuing mortgage bonds. The company does not conduct independent credit operations but uses the pooling model in cooperation with mBank. The company performs market analysis and provides consultancy services addressed to investors and commercial real estate sector entities.

- mFaktoring S.A., subsidiary

The company operates in Poland and provides factoring services for domestic, export and import transactions.

- mLeasing Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company's core business is to lease machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. mLeasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland.

- Asekum Sp. z o.o., subsidiary (the corporate segment of the company's activity)

The company operates as an insurance agent, mainly in the field of insurance of leasing objects. The Bank holds indirectly through mLeasing Sp. z o.o. 100% shares in the company.

**Retail Banking Segment**

- mFinanse S.A., subsidiary

mFinanse S.A. offers mBank S.A. and third-party banks' products. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. Distribution is carried out throughout the whole country in 40 offices of mFinanse and 149 mKiosks placed in shopping centres.

- mFinanse CZ s.r.o., subsidiary
- mFinanse SK s.r.o., subsidiary

The mFinanse companies in the Czech Republic and Slovakia operate in the area of financial intermediation in the sale of banking products distributed by mBank's branches in the Czech Republic and Slovakia. The mFinanse companies in the Czech Republic and Slovakia took over the tasks that were previously carried out by mBank Branches in these countries. The Bank holds indirectly through mFinanse S.A. 100% shares in the companies.

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

LeaseLink Sp. z o.o. is a company operating in the fintech area in the leasing of low-value items, specialises in providing leasing as a payment method for e-commerce. The Bank holds indirectly through mLeasing Sp. z o.o. 100% shares in the company.

- mElements S.A., subsidiary

mElements S.A. operates in the construction of dedicated solutions for e-commerce trade and new technologies. The company designs and develops IT solutions including API solutions (Application Programming Interface), online and mobile payments as well as services dedicated to online sellers, including the Paynow payment integrator. In October 2019, mElements S.A. received from the Polish Financial Supervision Authority permission to operate as a National Payment Institution.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

### Treasury and Other Segment

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

The Fund was established as an investment vehicle within the mAccelerator project, which focuses on developing and commercialising high-potential projects in the field of new technologies for the financial services sector (fintech). The Bank held 98.04% of the Fund's investment certificates, while the remaining 1.96% was owned by minority shareholders. The entity managing the Fund is Quercus Towarzystwo Funduszy Inwestycyjnych S.A.

### Other information concerning companies of the Group

In the first quarter of 2022, the Group ceased to consolidate the subsidiary G-Invest Sp. z o.o. due to its immaterial impact on financial result and on financial statements of mBank S.A. Group.

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

Information concerning the business conducted by the Group's entities is presented under Note 5 Business Segments of these consolidated financial statements.

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

| Company | 31.12.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method |
| mBank Hipoteczny S.A. | 100% | full | 100% | full |
| mLeasing Sp. z o.o. | 100% | full | 100% | full |
| mFinanse S.A. | 100% | full | 100% | full |
| mFaktoring S.A. | 100% | full | 100% | full |
| Future Tech Fundusz Inwestycyjny Zamknięty | 98.04% | full | 98.04% | full |
| mElements S.A. | 100% | full | 100% | full |
| Asekum Sp. z o.o. | 100% | full | 100% | full |
| LeaseLink Sp. z o.o. | 100% | full | 100% | full |
| mFinanse CZ s.r.o. | 100% | full | 100% | - |
| mFinanse SK s.r.o. | 100% | full | 100% | - |
| G-Invest Sp. z o.o. | 100% | - | 100% | full |

As of 31 December 2022, the Bank did not include the following subsidiaries in its consolidated financial statements due to their immateriality:

- Direct subsidiaries of mBank S.A.: BRE Property Partner Sp. z o.o., G-Invest Sp. z o.o., Herut Sp. z o.o., mBox Sp. z o.o., mInvestment Banking S.A., mServices Sp. z o.o., mTowarzystwo Funduszy Inwestycyjnych S.A., Octopus Sp. z o.o.
- Indirectly owned subsidiaries, through:
  - Future Tech Fundusz Inwestycyjny Zamknięty: Digital Operations S.A., Digital Teammates S.A., Bot4Business Sp. z o.o., Samito S.A., CyberRescue Sp. z o.o., HCM Deck Sp. z o.o., Mercury Financial S.A.;
  - mLeasing Sp. z o.o.: Ravenna Kraków Sp. z o.o.;
  - BRE Property Partner Sp. z o.o.: Property Partner Sp. z o.o., Projekt CH Łódź Sp. z o.o.

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

## 2. Description of relevant accounting policies

The principal accounting policies used in the preparation of these consolidated financial statements are set forth below. These accounting policies have been applied consistently in all periods presented, except for accounting policy for 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 Group 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 Group's financial statements. In particular, no hedge relationships were discontinued as a result of this change. New accounting policies are presented in Note 2.13. In addition, the Group changed the presentation of certain items in the statement of financial position. These changes are described in Note 2.31.

### 2.1. Accounting basis

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

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

The data for the year 2021 presented in these mBank S.A. Group consolidated 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 Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

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

These consolidated financial statements were prepared under the assumption that all the entities of the Group continue as a going concern in the foreseeable future, i.e. in the period of at least 12 months following the reporting date.

The Management Board, in its assessment of the appropriateness of the going concern assumption for the Bank and the Group companies, considered, inter alia, net loss incurred by the Bank and the Group in 2022 in the amount of PLN 696.7 million and PLN 702.5 million, respectively. 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 170.9 million (Note 13).

The results for 2022 were influenced by extraordinary events listed above. The profitability of core business model of the Bank and the Group remained high and stable in 2022.

It should be emphasized 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 consolidated financial statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered in the period of at least 12 months from the reporting date.

## 2.2. Consolidation

Subsidiaries

Subsidiaries are entities, regardless of the nature of the involvement with an entity (including special purpose vehicles) over which the Group exercises control. The control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over the investee, including a contractual arrangements between the Group and other vote holders, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights. If facts and circumstances indicate that there are changes in at least one of the three elements of control listed above, the Group reassess whether it controls an investee. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Thus arises goodwill. If goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a negative balance. If the Group loses control of a subsidiary, it accounts for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income is reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income is transferred directly to retained earnings on the disposal of the assets, the Group transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

Non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent. The Group presents non-controlling interest in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners). In such cases, the Group adjusts the carrying amount of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in the equity any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received and attributes it to the owners of the parent.

In case when an acquirer made a bargain purchase, which is a business combination, and a result of that is a gain, the acquirer recognises the resulting gain in profit or loss on the acquisition date. Before recognising a gain on a bargain purchase, the acquirer reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognises any additional assets and liabilities that are identified in that review. The acquirer then reviews the procedures used to measure the amounts required to be recognised at the acquisition date to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies predecessor accounting method for combinations of businesses under common control. The method stipulates that assets and liabilities of the acquired businesses are not measured at fair value, but the acquirer includes them in its financial statements based on the value of the acquired businesses derived from the consolidated financial statements of the consolidating entity that prepares the consolidated financial statements at the higher level and exercises the common control under which the transaction takes place.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group.

## 2.3. 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 amortized cost of a financial liability. When calculating the effective interest rate, the Group 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 Group calculates interest income using the effective interest rate to 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 amortized 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 accounting.

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 accounting.

## 2.4. 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 contracts with a customer

The Group 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 Group can identify each party’s rights regarding the goods or services to be transferred,
3. the Group 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 Group 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 Group 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 Group may offer the customer a price discount.

<u>Step 2: Identifying performance obligations in the contract</u>

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 Group's business practice. At contract inception, the Group 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 Group'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 Group 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 Group 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).

<u>Step 3: Determining the transaction price</u>

The transaction price reflects the amount of consideration that the Group expects to be entitled to in exchange for distinct good or service transferred as provided by the terms of the contract and the Group'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 Group estimates the amount of remuneration to which it will be entitled in exchange for the transfer of promised services.

<u>Step 4: Allocating the transaction price to the performance obligations</u>

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 Group 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.

<u>Step 5: Recognition of revenue when (or as) the Group satisfies a performance obligation</u>

The Group 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 Group recognises immediately the fees not related directly to origination of loans and advances. Fees for services delivered over the period longer than 3 months are recognised by the Group over time. As the fee and commission income, the Group 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 in a separate Note 2.5.

Fees charged for the 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 Group 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 Group 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.

Fees and commissions collected by the Group 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, revenue from fees and commissions include income from fees on instalment payment for premium on insurance products sold through the Internet platform. The fees on instalment payment are settled in time in accordance with the duration of the policy.

The Group'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.

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

The Group 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 Group 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 including deferring 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 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 Group 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.

### 2.6. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), and whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. As defined in IFRS 8, the Group has determined the Management Board of the Bank as its chief operating decision-maker.

In accordance with IFRS 8, the Group has the following business segments: "Corporate and Investment Banking Segment", "Retail Banking", "Treasury and Other business" and "FX Mortgage Loans".

### 2.7. Financial assets

The Group 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 group 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 is 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 or when the Group transfers the financial asset, and the transfer qualifies for derecognition or in case of substantial modification of the financial asset.

**Financial assets measured at fair value through profit or loss**

A financial asset is measured at fair value through profit or loss unless it is measured at amortized 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 Group 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 either 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 these financial statements reporting periods, the Group 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 measured 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 2.3), except for derivatives the recognition of which is discussed in Note 2.13, 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 flow characteristics 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 and 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 financial assets and liabilities not measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income 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 Group 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 Group as part of a business combination in accordance with IFRS 3.

In 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 profit and loss even if the instrument is derecognised. Only dividends received related to these instruments are recognised in profit and loss when the entity's right to receive payment is established.

**Modification of contractual terms for financial assets**

The Group 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. As substantial modification the Group defines such a modification that meets one of the following criteria:

- substantial increase of the credit amount of more than 10%,
- substantial prolongation of the contractual maturity of more than 12 months,
- change of currency not provided for in the terms of the contract. Change of 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 this 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 not substantial modifications and the gain or loss on modification is recognised. The effects of all identified not 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 case contract terms are modified as a result of a market-wide reform of the 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 significant 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 Group 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 Group 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 Group.

### 2.8. 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.

### 2.9. 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 Group’s approach that involves rejection of the presumption that a significant deterioration in credit quality occurs where DPD ≥ 31 days (rebuttable presumption) involves introducing a thresholds of materiality (thresholds of activation) for any outstanding amount payable to the Group. 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 2500 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 2000 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 Group 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 Group applies a common default definition in all areas of credit risk management, including the calculation of 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 in the case of:

1. debt recovery is not possible 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. recovery is not available 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 debtors' lack of liquidation assets to cover the costs of the proceedings,
   c. the conclusion is that a claim is as a bad debt,
   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 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 Group's claim.

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

### 2.10. 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 IFRS9, the methodology is described in Note 3.3.6 Calculating expecting credit losses,
- the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 when appropriate.

### 2.11. 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 and amounts due from other banks.

### 2.12. 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 Group is exposed to the same risks as those associated with holding identical assets not subject to repurchase agreements.

When concluding a repo/sell/buy back or reverse repo/buy-sell-back transaction Group 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/buy/sell back transactions measured at amortised cost.

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

## 2.13. 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 Group recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.14.

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 the 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 Group designates some derivative instruments either as (1) fair value hedge against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as (2) hedge 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 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 Group 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 hedge relations, which start 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 Group actually hedges and the quantity of the hedging instrument that the Group 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 Group 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 Group'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 includes 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 Group 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 Group also documents its own assessment of the effectiveness of fair value hedging and cash flow hedging transactions, measured both prospectively and retrospectively 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 Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.3. 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 fulfilling the criteria of hedge accounting**

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the income statement of the current period.

The Group 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.

## 2.14. 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 Group 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 and loss", is amortised over the period of time.

The timing of recognition of deferred day one profit and 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 and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

## 2.15. 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.

## 2.16. Intangible assets

The Group 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.

**Goodwill**

Goodwill as of the acquisition date is initially recognised at cost of acquisition that comprises the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Goodwill on acquisition of subsidiaries is included in Intangible assets. Goodwill is not amortised, but it is tested annually for impairment and if there have been any indication that it may be impaired, it is carried in the statement of financial position at cost reduced by accumulated impairment losses. The Group assesses at the end of each reporting period whether there is any indication that cash generating unit to which goodwill is allocated may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of the activity include the carrying amount of goodwill relating to the sold activity. Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made as at the date of purchase to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, not bigger than operating segments in accordance with IFRS 8 irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**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.

## 2.17. 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 Group 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:

| | |
|---|---|
| Buildings and structures | 20-40 years, |
| Equipment | 2-15 years, |
| Vehicles | 4-5 years, |
| Information technology hardware | 2-10 years, |
| Investments in third party fixed assets | 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.

Group 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 Group 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 Group 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.

### 2.18. 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 Group to investment property, the difference between the carrying amount of the property determined in accordance with IAS 16 or IFRS 16 and its fair value is recognised by the Group (i) in the profit or loss account in the event of a decrease in the carrying amount or reversal of a previously recognised impairment loss on this property, or (ii) in other comprehensive income, in the event of an increase in the current value above the amount of the reversed impairment loss. On subsequent disposal of the investment property, the revaluation reserve in other comprehensive income is transferred to retained earnings. The transfer from other comprehensive income to retained earnings is not made through the income statement.

### 2.19. Inventories

Inventories comprise assets held for lease as well as assets taken over as a result of terminated lease agreements. Inventories are presented in the item Other assets and stated at the lower of cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as other operating costs. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognised as cost of the period in which the reversals took place. Inventory disposals are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. When the inventories are sold, the carrying amount of the inventories is recognised as other operating expenses in the period in which the related revenue is recognised, which is recognised as other operating income.

### 2.20. Non-current assets held for sale and discontinued operations

The Group 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. Furthermore, 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 Group ceases to classify the assets as held for sale and reclassifies them into appropriate category of assets. The Group 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 Group 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.

### 2.21. Deferred income tax

The Group 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 Provisions for deferred income tax. 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, 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 Group reviews the carrying amount of a deferred tax assets at the end of each reporting period. The Group 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.

The Group presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

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.

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

Deferred income tax for the Group 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 Group 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 on 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.

## 2.22. Assets repossessed for debt

Assets repossessed for debt represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in tangible fixed assets, financial assets or other assets depending on their nature and the Group'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.

## 2.23. 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 Group 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.

## 2.24. Leasing

A contract is, or contains, a lease if it transfers the right of use of an identified asset for a period of time in exchange for consideration. The Group reassesses whether a contract is, or contains, a lease only 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. Group as a lessee**

If lease definition is fulfilled, the Bank recognises the right of 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 Group 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 Group applies simplified approach.

Perpetual usufruct is classified as a lease according to IFRS 16 due to the occurrence of future fees for the use of this right. The Group 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 Group determines the period of lease for non-cancellable leases, taking into account both:

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

The Group reassesses whether it is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Group considers 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 Group reassesses 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 Group 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 Group revises the lease term if there is a change in the non-cancellable period of a lease.

At the commencement date, the Group as a lessee measures 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 Group as a lessee in connection with the conclusion of the leasing contract and
- an estimate of the costs to be incurred by the Group 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 Group as a lessee measures 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 Group applies the depreciation requirements of IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset and requirements of IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired.

At the commencement date, the Group measures the lease liability at the present value of outstanding lease payments. 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 provides for 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 Group 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.

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

The discount rates calculated by the Group 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). Leasing liabilities are recognised 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. Group as a lessor**

In operating lease

The Group recognises lease payments from operating leases as income on a straight-line basis or in another systematic manner. The Group recognises costs, including depreciation, incurred in order to obtain benefits from leasing. The Group 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 Group 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 Group applies IAS 36.

In finance lease

At the commencement date the Group recognises assets held under a finance lease as receivable at an amount equal to the net investment in the lease. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. The Group recognises finance income over the lease term on a systematic and rational basis. The lease payments relating to the period reduce gross investment in the lease lowering both the principal and the unearned finance income. The Group applies the derecognition and impairment requirements of IFRS 9 to the net investment in the lease.

## 2.25. Provisions

Loan commitments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments. Method of guarantee valuation is presented in Note 2.10.

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

## 2.26. Post-employment benefits and other employee benefits

**Post-employment benefits**

The Group 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. The Group 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. The Group 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**

The Group 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, the Group 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.

**Cash-settled share-based payment transactions**

In case of the part of the programme based on cash-settled share-based payments based on shares of the ultimate parent of the Group, the fair value of the service rendered by employees in return for right to options/share appreciation rights increases the costs of the respective period, corresponding to liabilities. Until the liability related to the cash-settled share-based payments transactions is settled, the Group measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

**Other employee benefits**

From September 2012, the incentive programme based on phantom shares in mBank Hipoteczny has been functioning in this bank. Cash-settled part of the programme as well as the part based on phantom shares increases the costs of the given period in relation to liabilities. Expenses are recognised over the term of the programme.

## 2.27. Equity

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Bank by-laws or the Company Articles of Association.

**Registered share capital**

Share capital is presented at its nominal value, in accordance with the by-laws and with the entry in the National Court 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 the share 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 the 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 recognition in the books of the Bank or the Group:

- 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,
- fair value measurement of assets reclassified to investment property,
- cost of hedge.

## 2.28. Valuation of items denominated in foreign currencies

### Functional currency and presentation currency

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

### Companies belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented statement of financial position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period,
- revenues and expenses in each income statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods,
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a foreign operation such foreign exchange differences are recognised in the income statement as part of the profit or loss arising upon disposal.

### Leasing business

In the case of mBank Group as a lessee, the profit and loss account includes negative or positive foreign exchange differences from the conversion of the lease liability expressed in a foreign currency after conversion into PLN at the time of initial recognition.

In the case of mBank Group as a lessor in finance lease, exchange rate differences from the valuation of receivables in the amount equal to the net investment in the lease in a foreign currency are charged to the income statement at the end of the reporting period.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

In the case of mBank Group as the lessor in operating lease, exchange rate differences from the valuation of the leased asset are posted to the profit or loss account.

## 2.29. Trust and fiduciary activities

mBank S.A. operates trust and fiduciary activities covering 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 2.4. 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. The assets concerned are not shown in these financial statements as they do not belong to the Group.

Other companies belonging to the Group do not conduct any trust or fiduciary activities.

## 2.30. New standards, interpretations and amendments to published standards

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

### Standards and interpretations endorsed by the European Union

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

| Standards and interpretations | Description of the changes | The beginning of the binding period | Impact on the Group's financial statements in the period of initial application |
|---|---|---|---|
| Annual Improvements to IFRS Standards 2018-2020 | Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture.<br>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.<br>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. |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

| Standards and interpretations | Description of the changes | The beginning of the binding period | Impact on the Group's financial statements in the period of initial application |
|---|---|---|---|
| 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 and IFRS 9 - Comparative data | 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 Group'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. |

**The interest rate benchmark reform**

Since year 2021, mBank continued efforts to implement the reform of reference rates (hereinafter IBOR reform) 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.

In order to effectively implement the changes resulting from the IBOR reform a project has already been launched at mBank in 2020 involving Bank'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 second 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 | 87 348 | 5 532 | (21 647) |
| USD LIBOR | 448 | 5 | (44) |
| Others | 7 | - | - |

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

The impact of the IBOR reform on hedge accounting is presented in Note 20.

## 2.31. Comparative data

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

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

- Separation of the item Lease liabilities (adjustment 2)

Beginning with the financial statements for 2022, in the consolidated statement of financial position, within the item Financial liabilities measured at amortised cost, the Group 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)

Beginning with the financial statements for 2022, the Group 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 Group presented these liabilities within Financial liabilities at amortised cost - Due to customers.

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

Beginning with the financial statements for 2022, the Group has changed the presentation of provisions for post-employment benefits and now presents them within Provisions. Previously, the Group presented these liabilities under Other Liabilities.

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

Beginning with the financial statements for 2022, the Group has changed the presentation of receivables from the settlement of deposit machines and sorting plants and now presents them within Other assets. Previously, the Group 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)

Beginning with the financial statement for 2022, the Group 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. Currently the Group 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 in other words gains related to hedging the portfolio of assets or losses related to hedging the portfolio of liabilities were reported as a separate line item of assets, while losses related to hedging the portfolio of assets or gains related to hedging the portfolio of liabilities were reported as a separate line item of liabilities.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The above changes were due to the adjustment of the presentation of selected assets and liabilities to the prevailing market practice. The changes did not affect equity levels and the Group'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 introduced adjustments on the comparative data is presented in the following tables.

Restatements in consolidated income statement 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 |
|---|---|---|---|---|
| Interest income, including: | | 4 431 737 | 22 270 | 4 454 007 |
| *Interest income accounted for using the effective interest method* | *1* | *3 947 950* | *22 270* | *3 970 220* |
| *Income similar to interest on financial assets at fair value through profit or loss* | | *483 787* | - | *483 787* |
| Interest expenses | | (327 694) | - | (327 694) |
| **Net interest income** | | **4 104 043** | **22 270** | **4 126 313** |
| Fee and commission income | 1 | 2 714 896 | (22 270) | 2 692 626 |
| Fee and commission expenses | | (824 875) | - | (824 875) |
| **Net fee and commission income** | | **1 890 021** | **(22 270)** | **1 867 751** |
| Dividend income | | 5 046 | - | 5 046 |
| Net trading income | | 96 890 | - | 96 890 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | | 4 608 | - | 4 608 |
| Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | | 93 690 | - | 93 690 |
| Other operating income | | 232 384 | - | 232 384 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | | (873 226) | - | (873 226) |
| Costs of legal risk related to foreign currency loans | | (2 758 079) | - | (2 758 079) |
| Overhead costs | | (2 020 629) | - | (2 020 629) |
| Depreciation | | (436 254) | - | (436 254) |
| Other operating expenses | | (320 898) | - | (320 898) |
| **Operating profit** | | **17 596** | **-** | **17 596** |
| Tax on the Bank's balance sheet items | | (608 627) | - | (608 627) |
| **Profit / (loss) before income tax** | | **(591 031)** | **-** | **(591 031)** |
| Income tax expense | | (587 782) | - | (587 782) |
| **Net profit / (loss)** | | **(1 178 813)** | **-** | **(1 178 813)** |
| **Net profit / (loss) attributable to:** | | | | |
| - Owners of mBank S.A. | | (1 178 753) | - | (1 178 753) |
| - Non-controlling interests | | (60) | - | (60) |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Restatements in consolidated 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: | | 130 179 902 | (296 381) | 129 883 521 |
| *Debt securities* | | *15 952 501* | *-* | *15 952 501* |
| *Loans and advances to banks* | | *7 354 268* | *-* | *7 354 268* |
| *Loans and advances to customers* | *5* | *106 873 133* | *(296 381)* | *106 576 752* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 6 | - | (10 986) | (10 986) |
| Other assets | 5 | 1 282 439 | 296 381 | 1 578 820 |
| Other items | | 47 409 276 | - | 47 409 276 |
| **TOTAL ASSETS** | | **178 871 617** | **(10 986)** | **178 860 631** |

| LIABILITIES AND EQUITY | No | 01.01.2021 before restatement | restatement | 01.01.2021 after restatement |
|---|---|---|---|---|
| Financial liabilities measured at amortised cost, including: | | 156 673 052 | - | 156 673 052 |
| *Amounts due to banks* | *3* | *2 399 740* | *3 254 591* | *5 654 331* |
| *Amounts due to customers* | *2,3* | *137 698 668* | *(4 026 526)* | *133 672 142* |
| *Lease liabilities* | *2* | *-* | *771 935* | *771 935* |
| *Debt securities issued* | | *13 996 317* | *-* | *13 996 317* |
| *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 | 501 691 | 33 488 | 535 179 |
| Other liabilities | 4 | 3 397 133 | (33 488) | 3 363 645 |
| Other items | | 1 565 050 | - | 1 565 050 |
| **TOTAL LIABILITIES** | | **162 196 550** | **(10 986)** | **162 185 564** |
| **TOTAL EQUITY** | | **16 675 067** | **-** | **16 675 067** |
| **TOTAL LIABILITIES AND EQUITY** | | **178 871 617** | **(10 986)** | **178 860 631** |

Restatements in consolidated 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: | | 140 296 538 | (377 379) | 139 919 159 |
| *Debt securities* | | *16 164 103* | *-* | *16 164 103* |
| *Loans and advances to banks* | | *7 229 681* | *-* | *7 229 681* |
| *Loans and advances to customers* | *5* | *116 902 754* | *(377 379)* | *116 525 375* |
| 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 | 1 366 820 | 377 379 | 1 744 199 |
| Other items | | 56 820 049 | - | 56 820 049 |
| **TOTAL ASSETS** | | **199 538 885** | **(1 165 511)** | **198 373 374** |

| LIABILITIES AND EQUITY | No | 31.12.2021 before restatement | restatement | 31.12.2021 after restatement |
|---|---|---|---|---|
| Financial liabilities measured at amortised cost, including: | | 179 348 925 | - | 179 348 925 |
| *Amounts due to banks* | *3* | *3 359 558* | *1 906 621* | *5 266 179* |
| *Amounts due to customers* | *2,3* | *159 935 129* | *(2 863 459)* | *157 071 670* |
| *Lease liabilities* | *2* | *-* | *956 838* | *956 838* |
| *Debt securities issued* | | *13 429 782* | *-* | *13 429 782* |
| *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 | 811 455 | 25 445 | 836 900 |
| Other liabilities | 4 | 3 469 950 | (25 445) | 3 444 505 |
| Other items | | 2 080 606 | - | 2 080 606 |
| **TOTAL LIABILITIES** | | **185 820 969** | **(1 165 511)** | **184 655 458** |
| **TOTAL EQUITY** | | **13 717 916** | **-** | **13 717 916** |
| **TOTAL LIABILITIES AND EQUITY** | | **199 538 885** | **(1 165 511)** | **198 373 374** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Restatements in consolidated 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** | | **(591 031)** | **-** | **(591 031)** |
| ***Adjustments, including:*** | | ***11 394 965*** | **-** | ***11 394 965*** |
| Income taxes paid | | (837 687) | - | (837 687) |
| Depreciation, including depreciation of fixed assets provided under operating lease | | 468 584 | - | 468 584 |
| Foreign exchange (gains) losses related to financing activities | | 205 130 | - | 205 130 |
| (Gains) losses on investing activities | | 14 965 | - | 14 965 |
| Dividends received | | (5 046) | - | (5 046) |
| Interest income (income statement) | 1 | (4 431 737) | (22 270) | (4 454 007) |
| Interest expense (income statement) | | 327 694 | - | 327 694 |
| Interest received | 1 | 4 676 029 | 22 270 | 4 698 299 |
| Interest paid | | (234 411) | - | (234 411) |
| Changes in loans and advances to banks | | 96 423 | - | 96 423 |
| Changes in financial assets and liabilities held for trading and hedging derivatives | | (1 452 131) | - | (1 452 131) |
| Changes in loans and advances to customers | 5 | (9 529 116) | 80 998 | (9 448 118) |
| Changes in financial assets at fair value through other comprehensive income | | (2 054 013) | - | (2 054 013) |
| Changes in securities at amortised cost | | (284 047) | - | (284 047) |
| Changes of non-trading securities mandatorily at fair value through profit or loss | | (17 617) | - | (17 617) |
| Changes in other assets | 5 | (61 058) | (80 998) | (142 056) |
| Changes in amounts due to banks | 3 | 991 300 | (41 356) | 949 944 |
| Changes in amounts due to customers | 2,3 | 23 322 323 | 83 582 | 23 405 905 |
| Changes in lease liabilities | 2 | - | (42 226) | (42 226) |
| Changes in issued debt securities | | (246 519) | - | (246 519) |
| Changes in provisions | 4 | 309 764 | (8 043) | 301 721 |
| Changes in other liabilities | 4 | 136 135 | 8 043 | 144 178 |
| **A. Cash flows from operating activities** | | **10 803 934** | **-** | **10 803 934** |
| **B. Cash flows from investing activities** | | **(508 006)** | **-** | **(508 006)** |
| Issue of debt securities | | 3 497 354 | - | 3 497 354 |
| Issue of ordinary shares | | 72 | - | 72 |
| Repayments of loans and advances from banks | 3 | - | (1 358 250) | (1 358 250) |
| Repayments of other loans and advances | 3 | (1 358 250) | 1 358 250 | - |
| Redemption of debt securities | | (3 980 595) | - | (3 980 595) |
| Payments of lease liabilities | | (93 616) | - | (93 616) |
| Interest paid from loans and advances received from banks and from subordinated liabilities | | (59 691) | - | (59 691) |
| **C. Cash flows from financing activities** | | **(1 994 726)** | **-** | **(1 994 726)** |
| **Net increase / decrease in cash and cash equivalents (A+B+C)** | | **8 301 202** | **-** | **8 301 202** |
| Effects of exchange rate changes on cash and cash equivalents | | (9 649) | - | (9 649) |
| Cash and cash equivalents at the beginning of the reporting period | | 4 249 046 | - | 4 249 046 |
| **Cash and cash equivalents at the end of the reporting period** | | **12 540 599** | **-** | **12 540 599** |

# 3. Risk management

The mBank Group 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 Group.

## 3.1. Risk management in mBank Group in 2022 – regulatory environment

The mBank Group 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 Group 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 4).

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.

The Group 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 mBank 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 Group 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 end of 2023 as the deadline for banks to comply with the provisions of the Recommendation. Recommendation A will be implemented by the Group 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 O/N (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 an exceedingly high priority and is guided by the schedule published by the NGR.

Additional information on the impact of IBOR reform is presented in Note 2.30 and Note 20.

**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 essential 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 Group 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 Group focused on identifying factors that could significantly affect customers and the quality of the 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 intense 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 the Business (business units) which 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. 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, legislative, decision-making and discussion 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, 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 the 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 the 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 Group is willing and able to incur in pursuing its business objectives undergoing 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 mBank Group's approach to the assessment and control of mBank Group risk bearing capacity covers internal and regulatory requirements.

Risk limit system

The mBank Group 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 Group's activity. In addition to the limits, monitoring action triggers and early warning indicators are also used to ensure the safe operation of the Group.

### 3.2.5. Stress tests within ICAAP and ILAAP

Stress tests are used in the management and capital and liquidity planning of the Bank and the Group. Stress tests allow an assessment of the Group'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 Group's financial and liquidity position.

As part of ICAAP, the Group 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 and Group. Such analyses take into account various 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 and the Group.

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

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

The Group 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 including the scope of meeting the trigger of recovery plan.

In line with the guidelines of European Banking Authority (EBA/GL/2021/11) on 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 own funds of the institution.

The profitability of core business model of the Group in 2022 remained at a very high level. The results for 2022 were influenced by extraordinary events, independent from the core business of the Group, 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 consolidated net loss in 2022 in the amount of PLN 702 527 thousand, 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).

Decision-making for credit exposures in the corporate area

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.

Decision-making for credit exposures in the retail banking area

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

mBank 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

Collateral accepted in the process of granting credit products

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 Group with a realistic opportunity to repay receivables. In making a decision about granting a credit risk bearing product, the Group strives to obtain collateral adequate to the accepted risk. The Group 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,
- cession 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.

mBank 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.

Collateral accepted for transactions in derivative instruments

mBank 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.

Collaterals accepted by the mBank Group subsidiaries

The mBank Group subsidiaries accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities, type of offered products and transaction risk.

mBank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

mFaktoring accepts only highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by mBank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers.

mLeasing applies types of collateral that are most similar to those of mBank. The subsidiary accepts both standard personal collateral: bill of exchange and civil surety, letters of comfort, guarantees, assuming the debt, debt take over, and tangible collateral: mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, as well as deposits. The company manages the residual value risk based on Eurotax Glass's Forecast. The residual value calculations includes the lease subject, lease term, estimated mileage, estimated condition of the vehicle after the lease term. The residual value also includes factors such as retrofitting, colour and year of manufacture (if the vehicle was manufactured earlier than the lease year). The obtained value is reduced by a safety factor to cover the risks associated with the fact that the user of the vehicle is not also its owner, i.e. the vehicle is the subject of the long-term rental. In the final stage, the residual value calculation is verified with the prices observed in the used car market and approved by authorised personnel. During the term of the contract, if for six-month periods, counting from the date of handover of the vehicle, the proportional mileage of the vehicle differs from the one agreed by the parties by more than 10%, the financing party has the right to recalculate the amount of the remuneration instalments based on the new estimated mileage of the vehicle. After the end of the contract, the company settles possible excess consumption and possible excess mileage by applying additional fees.

### 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 two 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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+ till C | *n/a* | D |
| | Investment Grade | | | | | | | | Sub-investment Grade | | | Non-investment Grade | | | | | | Default |

The following models comprised by 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).

All the mBank Group subsidiaries, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems applied by the mBank Group. Rating systems that are used by the Group subsidiaries are due to the nature of their business; at the same time the factoring and leasing companies use the PD-rating of the customer, and the leasing company applies additionally credit rating (EL-rating). A rating based on supervisory measures (slotting approach) is applied in the case of mortgage loans and real estate leasing.

### 3.3.5. Monitoring and validation of models

All models of risk parameters applied in mBank and in the Group subsidiaries (mLeasing, mBank Hipoteczny), 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 and/or Validation Unit in subsidiary (if relevant).

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 other internal regulations of mBank and other Group subsidiaries. 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 there is assured an independence of Validation Unit 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 model 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 (covering 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 management changes 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 expecting credit losses

The Group 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 during its lifetime in portfolio,
- 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 them no longer meet any of the Transfer Logic qualitative 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 the 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 of exposure is greater than or equal to 91 days (without materiality thresholds),
- occurrence of the Forborne performing flag (the client status shows that they are 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 Group 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 are 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%;
- the 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, the 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 the 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,
- the 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 multiplication of individual for each exposure estimated value of PD, LGD and EAD 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 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

Approach to the use of macroeconomic scenarios in ECL estimation is adapted to the specificity of the subsidiaries belonging to the mBank Group. The Group 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). 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:

- the probability-weighted average of the expected loss from three macroeconomic scenarios ('average estimation') comprising: baseline scenario, optimistic scenario and pessimistic scenario. The weights of scenarios are consistent with probabilities of realisation each scenario – 60% for base, 20% for optimistic and 20% for pessimistic,
- divided by 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 (LtPD, LtEAD, LtLGD). 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 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 Group 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 6.4 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 55.2 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 16.8 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 (PFSA) 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. Within the Group 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, 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 the 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 thresholds based on a long-term sample of data),
        - taking into account the model segmentation compliant with the cross-sections suggested in the R recommendation,
- 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.

#### 3.3.6.3. Coverage by expected credit loss allowance of individual sub-portfolios

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Portfolio measured at amortised cost

| Sub - portfolio | 31.12.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| | Exposure (%) | Coverage by expected credit losses allowances (%) | Exposure (%) | Coverage by expected credit losses allowances (%) |
| 1 | 8.64 | 0.05 | 20.22 | 0.02 |
| 2 | 33.65 | 0.04 | 28.77 | 0.05 |
| 3 | 17.55 | 0.17 | 14.16 | 0.17 |
| 4 | 19.76 | 0.53 | 17.16 | 0.59 |
| 5 | 10.77 | 1.69 | 10.23 | 2.00 |
| 6 | 0.40 | 4.58 | 0.54 | 4.40 |
| 7 | 1.59 | 10.07 | 2.11 | 7.44 |
| 8 | 1.20 | 0.05 | 0.39 | 0.11 |
| Other | 3.39 | 0.11 | 3.33 | 0.04 |
| Default category | 3.05 | 54.20 | 3.09 | 54.53 |
| **Total** | **100.00** | **2.17** | **100.00** | **2.21** |

As at 31 December 2022, 42.29% 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: 48.99%).

### 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 and loss or by 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 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 reflected by LGD parameters, and in case of corporate exposures it refers to individual recovery scenarios.

### 3.3.8. Repossessed collateral

The Group classifies repossessed collaterals as assets repossessed for debts and measures them in accordance with the adopted accounting policies described in the Note 2.22. Assets repossessed for debts classified as assets held for sale will 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.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Group companies urgent need and must at each time be approved by their Management Boards.

In 2022 and 2021, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2022, value of repossessed collaterals was PLN 67 046 thousand (31 December 2021: PLN 64 613 thousand) included mainly leasing assets. The value of repossessed collaterals was included in the item inventories (Note 28).

### 3.3.9. The mBank Group Forbearance Policy

Definition

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

The Group 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 agreements may be initiated by the customer or the Group entities.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. Financing entity'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 Group 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.

Instruments used

The Group 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, the Group offers concessions, starting from participating in debt standstills (abandonment of actions to which the Bank is authorised in case of violation of contractual terms or covenants) and finishing on debt restructuring agreements. Debt restructuring agreements may improve the Group's security by replacing open financing (overdraft) with factoring or invoice discount and they can waive or ease covenants (additional conditions included in the primary agreement), if it represents optimal strategy for client's business continuity.

The following list does not exhaust all possible actions 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,
- suspension, withdrawal from the implementation of activities resulting from additional conditions contained in the contract (covenant waiver),
- standstills.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Risk management

Forbearance measures have been an integral part of the Group'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 Bank's 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. All exposures to borrowers in financial difficulties with granted concessions (incl. classified as default) have the forborne status. Non-default debtors, i.e. without recognised loss event, who received the concession (forbearance measures), are subject to close monitoring (Watch List – LW) 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.

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

- the debtor financial situation's analysis showed improvement and the exposure has been recognised as performing,
- 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 borrowers,
- none of the debtor exposures is more than 30 days overdue 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.

Portfolio characteristics

| | 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 at amortised cost** | **122 584 242** | **(3 254 212)** | **119 330 030** | **119 703 485** | **(3 178 110)** | **116 525 375** |
| of which: forborne exposures | 2 839 762 | (657 473) | 2 182 289 | 1 971 957 | (419 194) | 1 552 763 |
| *of which: defaulted* | *1 505 721* | *(622 951)* | *882 770* | *1 050 880* | *(383 925)* | *666 955* |
| **Loans and advances to customers mandatorily at fair value through profit or loss** | | | **813 392** | | | **1 111 674** |
| of which: forborne exposures | | | 2 233 | | | 11 991 |
| *of which: defaulted* | | | *920* | | | *7 487* |
| **Forborne exposures, total** | | | **2 184 522** | | | **1 564 754** |
| *of which: defaulted* | | | *883 690* | | | *674 442* |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| Change of carrying value of forborne exposures | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **As at the beginning of the period** | **1 564 754** | **1 896 541** |
| Outflow from forborne exposures | (440 835) | (841 642) |
| Inflow to forborne exposures | 1 185 352 | 644 181 |
| Changes in existing exposures | (124 749) | (134 326) |
| **As at the end of the period** | **2 184 522** | **1 564 754** |

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

| Forborne exposures by client segment | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Loans and advances to customers | | |
| Loans to individuals | 1 149 903 | 861 609 |
| *including: housing and mortgage loans* | *856 714* | *562 047* |
| Loans to corporate clients | 1 034 619 | 703 145 |
| **Total** | **2 184 522** | **1 564 754** |

| Forborne exposures by type of assistance | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Refinancing | 173 479 | 123 251 |
| Modification of terms and conditions | 2 011 043 | 1 441 503 |
| **Total** | **2 184 522** | **1 564 754** |

| Forborne exposures by geographical breakdown | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Poland | 2 010 738 | 1 506 744 |
| Other countries | 173 784 | 58 010 |
| **Total** | **2 184 522** | **1 564 754** |

| Forborne exposures by days past due | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Not past due | 307 534 | 196 632 |
| Past due less than 30 days | 1 522 450 | 974 417 |
| Past due 31 - 90 days | 92 142 | 122 736 |
| Past due over 90 days | 262 396 | 270 969 |
| **Total** | **2 184 522** | **1 564 754** |

| Forborne exposures by industry | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Individual customers | 1 149 903 | 861 609 |
| Real estate | 307 810 | 222 589 |
| Construction | 262 656 | 78 525 |
| 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 industries | 79 861 | 181 905 |
| **Total** | **2 184 522** | **1 564 754** |

### 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 breakdown of mBank credit exposure of the derivatives portfolio based on client type is as follows:

| Client type | Credit exposure 2022 (PLN million) | Credit exposure 2021 (PLN million) |
|---|---|---|
| Bank CSA | 1 556 | 1 444 |
| Central counterparties | 442 | 491 |
| Corporate customers with limit | 1 568 | 1 712 |
| Non-banking financial institutions | 234 | 332 |
| Corporate customers with cash collateral and others* | (5) | 1 |

*negative exposure means overcollateralization*

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

| (PLN million) | 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 posted (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 initial margin adjustment for banks, CCPs and corporates with CSA*

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

### Geographic concentration risk

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

- 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 Group. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

### Sector concentration risk

Monitoring exposures in sectors, defined in line with Polish Classification of Economic Activities, is carried out in individual subsidiaries of the Group.

mBank 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 all the sectors in which the Bank's exposure exceeds 5% of the total amount of corporate exposures 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 limits 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 includes loans and advances at amortised cost and does not include the loans and advances measured at fair value through profit or loss.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

**31.12.2022**

| No. | Sectors | Carrying amount | Gross carrying amount | | | | % | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Stage 1 | Stage 2 | Stage 3 | POCI | | Stage 1 | Stage 2 | Stage 3 | POCI |
| 1. | Individual customers | 68 586 288 | 64 086 758 | 3 967 237 | 2 224 949 | 152 423 | 57.46% | (221 770) | (290 339) | (1 303 175) | (29 795) |
| 2. | Real estate | 6 448 613 | 5 307 400 | 713 098 | 629 903 | 41 720 | 5.46% | (29 221) | (18 305) | (200 004) | 4 022 |
| 3. | Construction | 4 943 126 | 4 216 920 | 449 131 | 527 031 | 13 881 | 4.25% | (22 610) | (13 583) | (232 226) | 4 582 |
| 4. | Food sector | 3 563 638 | 3 264 491 | 242 562 | 128 296 | 7 803 | 2.97% | (7 912) | (10 774) | (71 774) | 10 946 |
| 5. | Financial activities | 3 200 993 | 3 187 639 | 14 238 | 11 232 | 16 | 2.62% | (3 169) | (335) | (8 628) | - |
| 6. | Transport and logistics | 3 099 420 | 2 632 006 | 462 569 | 84 117 | 774 | 2.59% | (9 209) | (15 203) | (68 953) | 13 319 |
| 7. | Metals | 2 689 412 | 2 482 146 | 193 827 | 45 230 | 1 727 | 2.22% | (7 074) | (1 612) | (24 537) | (295) |
| 8. | Construction materials | 2 108 970 | 1 704 001 | 391 618 | 62 080 | 1 694 | 1.76% | (4 283) | (2 152) | (43 504) | (484) |
| 9. | Chemicals and plastic products | 2 079 293 | 1 951 744 | 107 919 | 39 045 | (4) | 1.71% | (4 359) | (932) | (16 384) | 2 264 |
| 10. | Power and heating distribution | 1 958 350 | 1 952 663 | 13 812 | 75 667 | - | 1.67% | (26 033) | (71) | (57 688) | - |
| 11. | Motorisation | 1 987 472 | 1 796 521 | 175 013 | 49 108 | 198 | 1.65% | (3 361) | (1 526) | (28 402) | (79) |
| 12. | Scientific and technical activities | 1 707 462 | 1 626 160 | 86 986 | 47 558 | 8 172 | 1.44% | (10 822) | (1 872) | (40 548) | (8 172) |
| 13. | Wholesale trade | 1 547 459 | 1 428 352 | 98 613 | 84 819 | - | 1.31% | (3 397) | (2 584) | (58 344) | - |
| 14. | Retail trade | 1 497 261 | 1 428 114 | 69 460 | 22 010 | 27 | 1.24% | (4 267) | (1 199) | (16 884) | - |
| 15. | Wood, furniture and paper products | 1 383 059 | 1 240 989 | 93 888 | 83 596 | 192 | 1.16% | (1 824) | (1 093) | (79 614) | 46 925 |
| 16. | Fuel | 1 180 621 | 1 138 306 | 33 345 | 18 420 | 943 | 0.97% | (4 256) | (339) | (5 283) | (515) |
| 17. | IT | 1 167 188 | 1 158 771 | 12 153 | 8 088 | 1 | 0.96% | (5 860) | (293) | (5 672) | - |
| 18. | Human health | 1 024 432 | 979 698 | 47 606 | 10 542 | 62 | 0.85% | (4 676) | (1 163) | (7 631) | (6) |
| 19. | Rental and leasing activities | 963 976 | 915 222 | 44 306 | 27 632 | - | 0.81% | (2 057) | (456) | (20 671) | - |
| 20. | Other | 8 192 997 | 7 033 104 | 1 094 510 | 332 712 | (318) | 6.90% | (26 456) | (22 049) | (221 280) | 2 774 |
| **Total** | | **119 330 030** | **109 531 005** | **8 311 891** | **4 512 035** | **229 311** | **100.00%** | **(402 616)** | **(385 880)** | **(2 511 202)** | **45 486** |

**31.12.2021**

| No. | Sectors | Carrying amount | Gross carrying amount | | | | % | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Stage 1 | Stage 2 | Stage 3 | POCI | | Stage 1 | Stage 2 | Stage 3 | POCI |
| 1. | Individual customers | 70 018 368 | 67 511 357 | 2 038 199 | 2 231 602 | 141 139 | 60.08% | (249 886) | (203 492) | (1 459 152) | 8 601 |
| 2. | Real estate | 6 499 531 | 5 027 958 | 1 124 407 | 501 866 | 7 333 | 5.57% | (16 973) | (55 700) | (110 731) | 21 371 |
| 3. | Construction | 4 483 192 | 4 003 701 | 344 271 | 315 379 | 13 674 | 3.91% | (13 030) | (18 371) | (160 282) | (2 150) |
| 4. | Transport and logistics | 3 132 999 | 2 679 529 | 432 355 | 96 566 | 13 692 | 2.69% | (11 133) | (17 287) | (60 543) | (180) |
| 5. | Food sector | 2 984 393 | 2 762 130 | 188 859 | 90 241 | 40 333 | 2.57% | (12 355) | (2 664) | (64 828) | (17 323) |
| 6. | Metals | 2 561 888 | 2 428 104 | 122 236 | 39 714 | 3 693 | 2.17% | (7 656) | (1 303) | (19 257) | (3 643) |
| 7. | Construction materials | 2 016 190 | 1 811 977 | 188 739 | 79 126 | 1 580 | 1.74% | (7 491) | (2 205) | (55 353) | (183) |
| 8. | Motorisation | 1 911 996 | 1 803 294 | 89 729 | 48 766 | 2 171 | 1.62% | (4 516) | (1 481) | (24 483) | (1 484) |
| 9. | Chemicals and plastic products | 1 918 967 | 1 869 358 | 52 370 | 8 514 | - | 1.61% | (6 048) | (657) | (4 570) | - |
| 10. | Financial activities | 1 864 060 | 1 852 385 | 17 295 | 10 287 | 17 | 1.57% | (6 760) | (513) | (8 651) | - |
| 11. | Power and heating distribution | 1 578 467 | 1 595 892 | 5 795 | 52 867 | - | 1.38% | (29 039) | (113) | (46 935) | - |
| 12. | Scientific and technical activities | 1 553 843 | 1 422 673 | 140 162 | 48 055 | 8 855 | 1.35% | (11 364) | (3 337) | (42 591) | (8 610) |
| 13. | Wholesale trade | 1 477 737 | 1 401 753 | 56 355 | 90 788 | - | 1.29% | (4 244) | (1 023) | (65 892) | - |
| 14. | Retail trade | 1 339 498 | 1 296 664 | 41 840 | 19 832 | 193 | 1.13% | (4 315) | (824) | (13 892) | - |
| 15. | Wood, furniture and paper products | 1 264 643 | 1 119 826 | 100 043 | 49 467 | 193 | 1.06% | (2 245) | (7 637) | (41 023) | 46 019 |
| 16. | IT | 1 130 311 | 1 123 395 | 12 891 | 6 780 | 1 | 0.95% | (6 819) | (272) | (5 665) | - |
| 17. | Fuel | 1 065 595 | 1 029 942 | 34 998 | 6 542 | 3 | 0.90% | (2 289) | (227) | (3 374) | - |
| 18. | Human health | 984 179 | 917 682 | 71 570 | 7 983 | 3 | 0.83% | (5 475) | (1 661) | (5 923) | - |
| 19. | Rental and leasing activities | 879 492 | 801 471 | 63 911 | 41 528 | - | 0.76% | (2 474) | (804) | (24 140) | - |
| 20. | Other | 7 860 026 | 6 446 490 | 1 097 857 | 593 960 | 1 279 | 6.82% | (30 760) | (26 684) | (223 216) | 1 100 |
| **Total** | | **116 525 375** | **108 905 581** | **6 223 882** | **4 339 863** | **234 159** | **100.00%** | **(434 872)** | **(346 255)** | **(2 440 501)** | **43 518** |

The table below presents the risk of limited sectors (i.e. sectors for which, as at the balance sheet date, the Group/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 mBank:

- 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 11.35% of mBank Group's Tier1.

The Credit Committee of mBank Group is responsible for the supervision over risk concentration and large exposures at the level of mBank subsidiaries.

## 3.5. Market risk

In its operations, the mBank Group is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the mBank Group'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 mBank Group 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 market risk management

In the process of organisation of the market risk management, mBank follows requirements resulting from the law and supervisory recommendations, in particular the PFSA 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 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 capital (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 mBank Group'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 mBank Group'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 Group 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 97.5% 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 the mBank Group's portfolio);
- the Management Board (with respect to mBank's portfolio);
- the Financial Markets Risk Committee (with respect to the business unit's portfolios).

### 3.5.3. Risk measurement

mBank's positions are the main source of market risk for the mBank Group.

Value at Risk

In 2022, the Bank's 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 Group's and mBank's portfolios.

| PLN 000's | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | mBank Group | | mBank | | mBank Group | | mBank | |
| | 31.12.2022 | Mean | 31.12.2022 | Mean | 31.12.2021 | Mean | 31.12.2021 | Mean |
| VaR IR | 16 300 | 15 448 | 16 102 | 15 913 | 16 199 | 10 693 | 15 825 | 11 024 |
| VaR FX | 1 051 | 1 515 | 1 104 | 1 485 | 2 096 | 3 312 | 2 095 | 3 276 |
| VaR CS | 90 321 | 89 876 | 88 835 | 87 931 | 86 724 | 63 057 | 85 154 | 61 846 |
| **VaR** | **91 139** | **91 924** | **89 048** | **90 313** | **83 808** | **59 744** | **79 934** | **59 744** |
| **Stressed VaR** | **91 415** | **110 049** | **88 261** | **108 174** | **139 372** | **155 427** | **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 interest rates and the credit spread - mainly the portfolios of Treasury debt securities (in banking and trading book) and positions resulting from interest rate exchange 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.) measures for the Group's and mBank's portfolios, broken down into banking and trading book.

| PLN 000's | IR BPV | | | | CS BPV | | | |
|---|---|---|---|---|---|---|---|---|
| | mBank Group | | mBank | | mBank Group | | mBank | |
| | 31.12.2022 | 31.12.2021 | 31.12.2022 | 31.12.2021 | 31.12.2022 | 31.12.2021 | 31.12.2022 | 31.12.2021 |
| Banking book | 129 | 1 199 | 230 | 1 302 | (7 297) | (11 709) | (7 136) | (11 499) |
| Trading book | (118) | 112 | (118) | 112 | (242) | (209) | (242) | (209) |
| **Total** | **11** | **1 311** | **112** | **1 414** | **(7 539)** | **(11 918)** | **(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 c.a. 70% from the positions in debt securities valued at amortised cost. Changes in market prices 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, insensitive to changes in interest rates.

As of the end of 2022 the economic capital for market risk for the mBank Group was PLN 1 655.7 million and for mBank was PLN 1 539.0 million. For comparison, at the end of 2021, values of this measure amounted to PLN 1 292.4 million and PLN 1 238.7 million, respectively. 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 3.6. Currency risk

The Group is exposed to changes in currency exchange rates due to other than PLN financial assets and liabilities. The following tables present the exposure of the Group to currency risk as at 31 December 2022 and 31 December 2021. They present carrying amount of assets and liabilities of the Group broken down by currency.

| 31.12.2022 | PLN | EUR | USD | CHF | CZK | Other | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and cash balances with central banks | 3 337 488 | 12 150 242 | 231 016 | 1 341 | 292 326 | 1 905 | 16 014 318 |
| Financial assets held for trading and hedging derivatives | 2 088 813 | 401 543 | 26 720 | 5 182 | 1 878 | 516 | 2 524 652 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 934 779 | 42 225 | 66 696 | - | 489 | - | 1 044 189 |
| *Equity instruments* | *183 478* | *1 821* | - | - | *489* | - | *185 788* |
| *Debt securities* | - | - | *45 009* | - | - | - | *45 009* |
| *Loans and advances to customers* | *751 301* | *40 404* | *21 687* | - | - | - | *813 392* |
| Financial assets at fair value through other comprehensive income | 34 864 893 | 18 511 | 213 774 | - | 20 272 | - | 35 117 450 |
| Financial assets at amortised cost, including: | 104 688 289 | 20 869 899 | 1 338 481 | 6 442 783 | 14 593 586 | 205 781 | 148 138 819 |
| *Debt securities* | *19 002 527* | - | - | - | - | - | *19 002 527* |
| *Loans and advances to banks* | *709 367* | *1 318 607* | *204 493* | *2 011* | *7 534 690* | *37 094* | *9 806 262* |
| *Loans and advances to customers* | *84 976 395* | *19 551 292* | *1 133 988* | *6 440 772* | *7 058 896* | *168 687* | *119 330 030* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 3 064 | - | - | - | - | - | 3 064 |
| Non-current assets and disposal groups classified as held for sale | 26 747 | - | - | - | - | - | 26 747 |
| Intangible assets | 1 389 759 | 12 | - | - | 1 936 | - | 1 391 707 |
| Tangible assets | 1 433 425 | 7 711 | - | - | 43 797 | - | 1 484 933 |
| Investment properties | 136 909 | - | - | - | - | - | 136 909 |
| Current income tax assets | - | 457 | - | - | 27 845 | - | 28 302 |
| Deferred income tax assets | 1 869 813 | 3 147 | - | - | 2 768 | - | 1 875 728 |
| Other assets | 1 654 431 | 200 743 | 13 005 | 142 | 236 849 | 125 | 2 105 295 |
| **TOTAL ASSETS** | **152 428 410** | **33 694 490** | **1 889 692** | **6 449 448** | **15 221 746** | **208 327** | **209 892 113** |
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading and hedging derivatives | 1 431 588 | 570 043 | 27 149 | 56 783 | - | 548 | 2 086 111 |
| Financial liabilities measured at amortised cost, including: | 129 673 220 | 34 078 984 | 7 799 379 | 5 570 505 | 12 112 841 | 1 332 732 | 190 567 661 |
| *Amounts due to banks* | *599 715* | *723 986* | *35 446* | *1 910 911* | - | *165* | *3 270 223* |
| *Amounts due to customers* | *125 139 916* | *26 902 115* | *7 763 933* | *933 166* | *12 081 249* | *1 310 535* | *174 130 914* |
| *Lease liabilities* | *126 129* | *780 571* | - | - | *31 592* | *22 032* | *960 324* |
| *Debt securities issued* | *2 259 760* | *5 672 312* | - | *1 533 407* | - | - | *9 465 479* |
| *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 | 752 232 | 7 431 | 654 | 595 312 | 6 629 | 1 | 1 362 259 |
| Current income tax liabilities | 511 847 | 8 160 | - | - | 51 449 | - | 571 456 |
| Other liabilities | 3 427 562 | 402 582 | 162 260 | 6 344 | 87 760 | 24 294 | 4 110 802 |
| **TOTAL LIABILITIES** | **134 275 242** | **35 067 200** | **7 989 442** | **6 228 944** | **12 258 679** | **1 357 575** | **197 177 082** |
| | | | | | | | |
| **Net on-balance sheet position** | **18 153 168** | **(1 372 710)** | **(6 099 750)** | **220 504** | **2 963 067** | **(1 149 248)** | **12 715 031** |
| Loan commitments and other commitments | 29 387 015 | 2 991 861 | 206 688 | 3 | 576 929 | 1 519 | 33 164 015 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 5 891 110 | 1 671 974 | 512 950 | 238 | 176 | 36 137 | 8 112 585 |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 31.12.2021 | PLN | EUR | USD | CHF | CZK | Other | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and cash balances with central banks | 8 472 636 | 3 356 377 | 75 411 | 1 029 | 285 356 | 11 457 | 12 202 266 |
| Financial assets held for trading and hedging derivatives | 1 277 894 | 1 293 039 | 16 052 | 2 | 1 719 | 370 | 2 589 076 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 1 264 660 | 51 449 | 100 782 | - | 300 | - | 1 417 191 |
| *Equity instruments* | *222 303* | *1 786* | - | - | *300* | - | *224 389* |
| *Debt securities* | - | - | *81 128* | - | - | - | *81 128* |
| *Loans and advances to customers* | *1 042 357* | *49 663* | *19 654* | - | - | - | *1 111 674* |
| Financial assets at fair value through other comprehensive income | 35 747 501 | 150 972 | 288 845 | - | 18 741 | - | 36 206 059 |
| Financial assets at amortised cost, including: | 98 053 043 | 18 500 801 | 1 349 298 | 9 390 545 | 12 497 646 | 127 826 | 139 919 159 |
| *Debt securities* | *16 164 103* | - | - | - | - | - | *16 164 103* |
| *Loans and advances to banks* | *286 780* | *940 640* | *209 785* | *1 727* | *5 758 863* | *31 886* | *7 229 681* |
| *Loans and advances to customers* | *81 602 160* | *17 560 161* | *1 139 513* | *9 388 818* | *6 738 783* | *95 940* | *116 525 375* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | - | - | - | - | (110 033) | - | (110 033) |
| Non-current assets and disposal groups classified as held for sale | 31 247 | - | - | - | - | - | 31 247 |
| Intangible assets | 1 282 649 | 12 | - | - | 1 292 | - | 1 283 953 |
| Tangible assets | 1 507 374 | 9 090 | - | - | 25 786 | - | 1 542 250 |
| Investment properties | 127 510 | - | - | - | - | - | 127 510 |
| Current income tax assets | 70 | - | - | - | 28 077 | - | 28 147 |
| Deferred income tax assets | 1 390 472 | - | - | - | 1 878 | - | 1 392 350 |
| Other assets | 1 538 637 | 124 808 | 2 307 | 3 716 | 74 731 | - | 1 744 199 |
| **TOTAL ASSETS** | **150 693 693** | **23 486 548** | **1 832 695** | **9 395 292** | **12 825 493** | **139 653** | **198 373 374** |
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading and hedging derivatives | 821 901 | 1 174 908 | 14 055 | - | - | 318 | 2 011 182 |
| Financial liabilities measured at amortised cost, including: | 126 408 570 | 29 595 038 | 4 947 345 | 6 477 715 | 11 062 474 | 857 783 | 179 348 925 |
| *Amounts due to banks* | *2 384 266* | *278 097* | *30 087* | *2 573 695* | - | *34* | *5 266 179* |
| *Amounts due to customers* | *119 464 918* | *20 250 208* | *4 917 258* | *530 921* | *11 050 616* | *857 749* | *157 071 670* |
| *Lease liabilities* | *120 689* | *824 291* | - | - | *11 858* | - | *956 838* |
| *Debt securities issued* | *2 926 950* | *8 242 442* | - | *2 260 390* | - | - | *13 429 782* |
| *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 | 725 737 | 4 184 | 880 | 105 109 | 985 | 5 | 836 900 |
| Current income tax liabilities | 33 288 | 1 840 | - | - | 26 782 | - | 61 910 |
| Deferred income tax liabilities | - | 89 | - | - | - | - | 89 |
| Other liabilities | 2 823 805 | 292 785 | 204 575 | 9 267 | 75 885 | 38 188 | 3 444 505 |
| **TOTAL LIABILITIES** | **129 765 248** | **31 068 844** | **5 166 855** | **6 592 091** | **11 166 126** | **896 294** | **184 655 458** |
| **Net on-balance sheet position** | **20 928 445** | **(7 582 296)** | **(3 334 160)** | **2 803 201** | **1 659 367** | **(756 641)** | **13 717 916** |
| Loan commitments and other commitments | 28 533 925 | 1 922 468 | 278 099 | 3 | 638 255 | 2 538 | 31 375 288 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 4 956 447 | 1 503 796 | 493 112 | 146 | 1 839 | 33 201 | 6 988 541 |

## 3.7. Interest rate risk

### mBank S.A.

In the process of management of interest rate risk in the banking book, the Group ensures independence of risk identification, measurement, monitoring and control functions from operational activity creating the Group's positions.

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 (PFSA), 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The basic measures of interest rate risk of 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, delta NII 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 changes 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 monthly 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 the 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) and optimisation of profit and loss and EVE changes within the accepted risk appetite.

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

| | Δ NII | |
|---|---|---|
| | 31.12.2022 | 31.12.2021 |
| Sudden parallel up by 100 bp | 117 442 | 351 795 |
| Sudden parallel down by 100 bp | (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:

| | Δ EVE | |
|---|---|---|
| | 31.12.2022 | 31.12.2021 |
| Sudden parallel up by 200 bp | (498 048) | (398 397) |
| Sudden parallel down by 200 bp | 548 877 | 425 964 |
| Parallel shock up | (588 426) | (513 194) |
| Parallel shock down | 653 462 | 552 547 |
| Steepened shock | 34 315 | 87 539 |
| Flattener shock | (144 514) | (187 360) |
| Short rates shock up | (335 028) | (349 279) |
| Short rates shock down | 348 674 | 364 488 |
| Maximum | (588 426) | (513 194) |
| Tier I Capital | 12 153 665 | 13 552 027 |

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 Hipoteczny S.A.**

Repricing date mismatch gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at mBank Hipoteczny S.A.

A sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts:

| EaR (PLN thousand) | 31.12.2022 | 31.12.2021 |
|---|---|---|
| for position in PLN | 1 975 | 5 115 |
| for position in USD | 2 | 41 |
| for position in EUR | 816 | 91 |

To calculate these values, there was assumed that the structure of financial assets and liabilities disclosed in the financial statements as at 31 December 2022 and 31 December 2021 would be fixed and the mBank Hipoteczny S.A. would not take any measures to change related exposure to interest rate change risk.

**mLeasing Sp. z o.o.**

Market risk means a potential loss caused by disadvantageous changes of market prices or parameters affected by market prices. The Company is exposed to risk arising from open currency positions and non-adjustment of products charged with the interest rate risk within the scope of maturity and/or revaluation periods.

The Company applies a global measure to measure the value of bank portfolio exposed to currency and interest rate risk, namely VaR (Value at Risk).

The sum of VaR of interest rate and VaR of exchange rate constitutes the global VaR of the Company. VaR of the interest rate risk presents the impact of interest rate changes on the value of the Company's portfolio. VaR of exchange rate risk presents the impact of changes of exchange rates on estimation of items of balance-sheet assets and liabilities until the date of their revaluation (change of interest).

Pursuant to the decision of the Risk Committee of mBank SA concerning the rules of monitoring the level of market risk in subsidiaries belonging to the mBank Group, mBank provides indicated values of risk measures for the portfolio of mLeasing.

The amount of VaR (97.5% confidence level, holding period 1 day) cannot exceed the basic VaR limit for mLeasing applied by mBank SA in a given period (PLN 0.6 million at the end of 2022 and 2021).

The table below presents VaR values as at 31 December 2022 and 31 December 2021, calculated using the parameters specified above.

| PLN thousand | VaR | |
|---|---|---|
| | 31.12.2022 | 31.12.2021 |
| Interest rate risk | 115 | 165 |
| Currency risk | 126 | 32 |
| **Total VaR** | **241** | **197** |

## mBank S.A. Group interest rate risk

The following tables present the Group's exposure to interest rate risk. The tables present the Group'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 | 13 921 633 | - | - | - | - | 2 092 685 | **16 014 318** |
| Loans and advances to banks | 9 469 469 | 97 037 | 54 929 | 50 889 | - | 133 938 | **9 806 262** |
| Debt and equity securities and investments in subsidiaries | 22 205 051 | 2 834 036 | 12 734 838 | 13 540 773 | 3 828 446 | 191 867 | **55 335 011** |
| Loans and advances to customers | 63 443 841 | 40 999 502 | 2 794 092 | 11 823 625 | 1 085 134 | 36 948 | **120 183 142** |
| Other assets and derivative financial instruments | 242 767 | 117 355 | 120 327 | 3 783 | 5 433 | 3 116 325 | **3 605 990** |
| **Total assets** | **109 282 761** | **44 047 930** | **15 704 186** | **25 419 070** | **4 919 013** | **5 571 763** | **204 944 723** |
| **LIABILITIES** | | | | | | | |
| Amounts due to banks | 1 128 281 | 26 267 | 202 824 | 1 910 721 | - | 2 130 | **3 270 223** |
| Amounts due to customers | 155 313 271 | 13 597 144 | 4 698 919 | 40 514 | 302 | 480 764 | **174 130 914** |
| Lease liabilities | 1 884 | 1 323 | 5 227 | 7 137 | - | 944 753 | **960 324** |
| Debt securities issued | 684 336 | 2 250 674 | 534 250 | 5 797 039 | 199 180 | - | **9 465 479** |
| Subordinated liabilities | 1 975 193 | - | 765 528 | - | - | - | **2 740 721** |
| Other liabilities and derivative financial instruments | 133 779 | 31 135 | 42 708 | 421 998 | 237 442 | 5 069 313 | **5 936 375** |
| **Total liabilities** | **159 236 744** | **15 906 543** | **6 249 456** | **8 177 409** | **436 924** | **6 496 960** | **196 504 036** |
| **Total interest repricing gap** | **(49 953 983)** | **28 141 387** | **9 454 730** | **17 241 661** | **4 482 089** | | |

| 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 | 3 358 985 | - | - | - | - | 8 843 281 | **12 202 266** |
| Loans and advances to banks | 7 031 001 | 84 178 | 114 497 | - | - | 5 | **7 229 681** |
| Debt and equity securities and investments in subsidiaries | 10 893 068 | 1 731 419 | 12 159 580 | 22 746 304 | 5 522 422 | 219 508 | **53 272 301** |
| Loans and advances to customers | 63 980 055 | 42 514 658 | 3 040 821 | 7 654 434 | 464 901 | 22 606 | **117 677 475** |
| Other assets and derivative financial instruments | 152 212 | 146 010 | 63 605 | 78 458 | 9 360 | 3 246 582 | **3 696 227** |
| **Total assets** | **85 415 321** | **44 476 265** | **15 378 503** | **30 479 196** | **5 996 683** | **12 331 982** | **194 077 950** |
| **LIABILITIES** | | | | | | | |
| Amounts due to banks | 2 625 925 | 559 921 | 170 353 | 1 906 621 | - | 3 359 | **5 266 179** |
| Amounts due to customers | 150 937 059 | 3 320 520 | 1 710 105 | 748 326 | 1 627 | 354 033 | **157 071 670** |
| Lease liabilities | 1 177 | 1 274 | 5 069 | 8 678 | - | 940 640 | **956 838** |
| Debt securities issued | 764 879 | 2 834 964 | 3 856 656 | 4 633 291 | 1 339 992 | - | **13 429 782** |
| Subordinated liabilities | 758 076 | 1 112 710 | 753 670 | - | - | - | **2 624 456** |
| Other liabilities and derivative financial instruments | 255 909 | 127 668 | 112 698 | 135 706 | 19 190 | 4 719 742 | **5 370 913** |
| **Total liabilities** | **155 343 025** | **7 957 057** | **6 608 551** | **7 432 622** | **1 360 809** | **6 017 774** | **184 719 838** |
| **Total interest repricing gap** | **(69 927 704)** | **36 519 208** | **8 769 952** | **23 046 574** | **4 635 874** | | |

## 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 new 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 within framework agreements 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. In the Group a centralised approach to the management of 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.

### mBank S.A.

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 clients’ groups (from whom it acquires deposits), products and currencies groups, 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 is being analysed, out of which the mismatch gap is the basic. It includes all assets, liabilities and off-balance sheet items of the Bank for all currencies in the time horizons set by the Bank. In 2022, the Bank maintained a liquidity surplus level adequate to its operating activity and current market situation in the form of a portfolio of liquid treasury bonds and bills, for which there is a possibility of pledging or selling at any time without significant loss of 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. In 2022 and in 2021, 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 stressed conditions, which may result in 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 the case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan of 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 the 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 the Group the liquidity reserves are held also by mBank Hipoteczny. Liquidity reserves of mBank Hipoteczny were composed of the Polish Government debt securities in PLN and bills issued by the National Bank of Poland in PLN and amounted to:

| Value of liquidity reserves (in PLN million) | |
|---|---|
| 31.12.2022 | 31.12.2021 |
| 1 190 | 750 |

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 in the Bank 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 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 warning 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 mBank'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 funds by selling or pledging the debt securities from 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, bucket and cumulative gap of cash flows mismatch (in PLN million) | | | | |
|---|---|---|---|---|
| Time range | gap LAB Base Case - 31.12.2022 | | gap 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 to 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 December 2022, amounted 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 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 2021 and values of regulatory measures LCR and NSFR 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 regulatory 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 the mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. From the end of 2021 to the end of 2022 the L/D ratio slightly declined from 66.3% to 62.1% for the Bank and from 74.0% to 69.0% for the Group. The Bank aims at building a stable deposit base by offering to the clients the 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 and issuances of debt securities (with maturities over 1 year) (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.

In the Group except mBank, access to external funding have only mBank Hipoteczny via issuance of mortgage covered bonds and short-term debt securities and mLeasing via short-term debt securities.

When making funding-related decisions, in order to match the term structure of its funding sources with the structure of long-term assets, the Group 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.

### mBank S.A. Group

Liquidity risk in the mBank Group is generated mainly by mBank's items. Nevertheless, liquidity risk level in the mBank Group subsidiaries, where liquidity risk was deemed significant, is also subject to monitoring. In the subsidiaries generating the greatest liquidity risk (mBank Hipoteczny and mLeasing) the Bank monitors the level of liquidity risk on a daily basis. The data provided by these companies allow for reporting contractual cash-flow mismatch as well as calculation of a realistic cash-flows mismatch based on LAB model and modelling assumptions for selected products according to risk profiles, funding possibilities and products specificity of the subsidiary.

The levels of realistic, cumulative cash-flow mismatch in the mBank Group is presented in the following table.

| Value of realistic, bucket and cumulative gap of cash flows mismatch (in PLN million) | | | | |
|---|---|---|---|---|
| Time range | gap LAB Base Case - 31.12.2022 | | gap LAB Base Case - 31.12.2021 | |
| | bucket | cumulative | bucket | cumulative |
| up to 1 working day | 42 168 | 42 168 | 35 454 | 35 454 |
| up to 3 working days | 1 714 | 43 882 | 2 335 | 37 789 |
| up to 7 calendar days | 10 | 43 892 | 580 | 38 369 |
| up to 15 calendar days | (2 109) | 41 783 | (1 616) | 36 753 |
| up to 1 month | (2 406) | 39 377 | (1 646) | 35 107 |
| up to 2 months | 756 | 40 133 | (636) | 34 471 |
| up to 3 months | (2 997) | 37 136 | (213) | 34 258 |
| up to 4 months | (504) | 36 632 | (390) | 33 868 |
| up to 5 months | (1 428) | 35 204 | (474) | 33 394 |
| up to 6 months | (956) | 34 248 | (765) | 32 629 |
| up to 7 months | (922) | 33 326 | (564) | 32 065 |
| up to 8 months | (1 094) | 32 232 | (314) | 31 751 |
| up to 9 months | (1 089) | 31 143 | (2 860) | 28 891 |
| up to 10 months | (258) | 30 885 | (711) | 28 180 |
| up to 11 months | (1 266) | 29 619 | (803) | 27 377 |
| up to 12 months | (1 273) | 28 346 | (1 077) | 26 300 |

LAB gaps mismatch in terms up to 1 month and up to 1 year within 2022 and 2021 and supervisory liquidity measure LCR on Group level are presented in the following table.

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| LAB Base Case 1M | 39 377 | 35 107 |
| LAB Base Case 1Y | 28 346 | 26 300 |
| LCR Group | 201% | 216% |
| NSFR Group | 150% | 149% |

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

For other subsidiaries, due to lower total assets and simpler products, the process of monitoring has been worked out based on two criteria: the size of the balance sheet and, if the subsidiary is covered by LCR measure for the Group in accordance with Commission Delegated Regulation (EU) No 2015/61 of 10 October 2014, amended by Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018, which has been in force since 30 April 2020, its share in total outflows. In case of exceedance of imposed thresholds, the decision is made on the possible inclusion of the subsidiary into the liquidity risk management system.

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

The table below shows cash flows the Group 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 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 | 1 011 168 | 32 891 | 215 200 | 2 047 115 | - | **3 306 374** |
| Amounts due to customers | 153 657 628 | 15 266 973 | 5 920 674 | 39 966 | 804 | **174 886 045** |
| Lease liabilities | 16 738 | 28 219 | 113 573 | 505 337 | 339 329 | **1 003 196** |
| Debt securities issued | 142 042 | 1 291 052 | 1 021 430 | 7 605 640 | 409 599 | **10 469 763** |
| Subordinated liabilities | 84 976 | 9 389 | 133 588 | 1 288 631 | 2 059 395 | **3 575 979** |
| Other liabilities | 2 544 557 | 11 131 | 122 | 270 | 2 | **2 556 082** |
| **Total liabilities** | **157 457 109** | **16 639 655** | **7 404 587** | **11 486 959** | **2 809 129** | **195 797 439** |
| **Total assets** | **47 029 399** | **10 082 173** | **31 519 556** | **97 767 147** | **90 623 206** | **277 021 481** |
| **Net liquidity gap** | **(110 427 710)** | **(6 557 482)** | **24 114 969** | **86 280 188** | **87 814 077** | **81 224 042** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 31.12.2021 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Amounts due to banks | 2 684 647 | 561 539 | 171 634 | 1 284 125 | 615 590 | **5 317 535** |
| Amounts due to customers | 151 141 376 | 3 822 057 | 1 804 041 | 296 785 | 3 663 | **157 067 922** |
| Lease liabilities | 10 075 | 15 424 | 89 642 | 478 684 | 396 929 | **990 754** |
| Debt securities issued | 208 191 | 332 061 | 4 451 285 | 9 620 700 | 324 018 | **14 936 255** |
| Subordinated liabilities | 21 385 | 5 479 | 41 832 | 948 576 | 1 931 767 | **2 949 039** |
| Other liabilities | 2 219 224 | 8 699 | 136 | 224 | - | **2 228 283** |
| **Total liabilities** | **156 284 898** | **4 745 259** | **6 558 570** | **12 629 094** | **3 271 967** | **183 489 788** |
| **Total assets** | **34 265 728** | **6 551 546** | **29 971 815** | **83 215 352** | **76 078 496** | **230 082 937** |
| **Net liquidity gap** | **(122 019 170)** | **1 806 287** | **23 413 245** | **70 586 258** | **72 806 529** | **46 593 149** |

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 within the year, will be prolonged. Moreover, a part of debt securities, were pledged as collateral for liabilities. The Group could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of assets backed securities.

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

### 3.8.2. Cash flows from derivatives

<u>Derivative financial instruments settled on a net basis</u>

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

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

In the Group financial instruments for commodities are concluded back-to-back.

The table below shows derivative financial liabilities of the Group, the valuation of which was negative as of end of 2022 and 2021. Cash flows from these instruments are grouped by appropriate remaining maturities as at the balance sheet date and are presented in undiscounted values.

| 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) | 492 025 | 1 257 164 | 4 835 098 | 7 480 858 | 719 649 | **14 784 794** |
| 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** | **515 946** | **1 279 164** | **4 878 061** | **7 571 953** | **719 962** | **14 965 086** |

| 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 | 212 177 | 1 853 907 | 6 016 108 | 339 724 | **8 455 530** |
| 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** | **252 181** | **1 899 961** | **6 006 856** | **344 367** | **8 547 441** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Derivative financial instruments settled in gross amounts

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

The table below shows derivative financial liabilities/assets of the Group, which are settled on a gross basis, grouped by appropriate remaining maturities as 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 | 10 845 587 | 7 283 157 | 3 615 017 | - | **47 848 836** |
| - inflows | 26 033 382 | 10 814 899 | 7 321 120 | 3 619 234 | - | **47 788 635** |

| 31.12.2021 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Currency derivatives:** | | | | | | |
| - outflows | 20 651 873 | 9 887 238 | 9 148 596 | 4 478 284 | - | **44 165 991** |
| - inflows | 20 627 103 | 9 854 123 | 9 155 092 | 4 420 085 | - | **44 056 403** |

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 the Note 20 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 Group'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 mBank 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 to 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.

mBank Group 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.

The mBank Group 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 Group 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 Group 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, the mBank Group faced in particular losses connected with legal risk related to the foreign currency loan portfolio, credit holidays and external fraud.

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

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.

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

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

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

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 Group'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 Group 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 the mBank Group.

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

- assurance of 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 adopted strategy,
- regular analysis of 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 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 the mBank Group.

All of the 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, the Group 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 of the Bank,
- 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 the mBank Group 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. 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 the mBank Group.

The capital management in the mBank Group 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 the mBank Group. 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 probable future developments resulting from the stress scenarios adopted for the analysis.

More information on capital adequacy of the mBank Group is provided in Note 47.

### 3.15. FX loans portfolio risk

The FX loan portfolio risk is related to mortgage and housing loans in foreign currencies, granted to individual 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 Group takes action to protect the Bank's interests in court proceedings, aimed at obtaining decisions favourable to the Bank as well as runs settlement program for customers with CHF indexed loans.

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 legal risk costs related to loans in foreign currencies,
- cooperation and communication with external institutions on indexed loans,
- organising and coordinating the settlement program.

More information on legal risk related to mortgage and housing loans granted to individual customers in CHF is included in the 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 Group 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:

- integration 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 to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either:

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

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

The approach to the valuation method used for the loans at fair value in line with IFRS 9 requirements, is described in the point 3.3.7.

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

### Financial Assets and Liabilities at amortised cost

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

| | 31.12.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets at amortised cost** | | | | |
| **Debt securities** | **19 002 527** | **16 716 128** | **16 164 103** | **14 890 079** |
| **Loans and advances to banks** | **9 806 262** | **9 808 593** | **7 229 681** | **7 227 533** |
| **Loans and advances to customers, including:** | **119 330 030** | **118 635 928** | **116 525 375** | **116 739 370** |
| **Loans and advances to individuals** | **68 586 288** | **68 379 524** | **70 018 368** | **71 256 978** |
| Current receivables | 7 334 567 | 7 776 122 | 7 252 733 | 7 488 229 |
| Term loans | 61 230 344 | 60 582 025 | 62 752 303 | 63 755 417 |
| Other | 21 377 | 21 377 | 13 332 | 13 332 |
| **Loans and advances to corporate entities** | **50 637 195** | **50 150 850** | **46 354 886** | **45 329 509** |
| Current receivables | 6 522 197 | 6 368 367 | 5 135 475 | 4 996 982 |
| Term loans, including finance lease | 39 179 352 | 38 846 942 | 37 423 062 | 36 747 140 |
| Reverse repo or buy/sell back transactions | 1 611 154 | 1 611 154 | 187 630 | 187 630 |
| Other loans and advances | 3 258 910 | 3 258 805 | 3 599 368 | 3 388 406 |
| Other | 65 582 | 65 582 | 9 351 | 9 351 |
| **Loans and advances to public sector** | **106 547** | **105 554** | **152 121** | **152 883** |
| **Financial liabilities at amortised cost** | | | | |
| **Amounts due to other banks** | **3 270 223** | **3 270 223** | **5 266 179** | **5 266 179** |
| **Amounts due to customers** | **174 130 914** | **174 126 884** | **157 071 670** | **157 054 611** |
| **Debt securities issued** | **9 465 479** | **9 216 032** | **13 429 782** | **13 518 622** |
| **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 Group 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 disclosed as the estimated value of future cash flows (including the effect of prepayments) using current interest rates, taking into account the level of the credit spread, the cost of liquidity and the cost of capital. The level of credit spread is determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Group. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments. Moreover, as the benchmark for valuation of mortgage loans in PLN fair value of mortgage loans classified as valuated through fair value in accordance with IFRS 9 was used, with an adjustment relating to credit quality of the portfolio. For exposures in mBank Hipoteczny the adjustment included also a factor relating to the gap in revenue margin between the valuated portfolio and the portfolio of similar loans in mBank.

<u>Financial liabilities</u>

Financial instruments representing liabilities for the Group include the following:

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

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

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

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

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

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

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

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 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 | 16 716 128 | 14 185 080 | - | 2 531 048 |
| Loans and advances to banks | 9 808 593 | - | - | 9 808 593 |
| Loans and advances to customers | 118 635 928 | - | - | 118 635 928 |
| **Total financial assets** | **145 160 649** | **14 185 080** | **-** | **130 975 569** |
| **Financial liabilities** | | | | |
| Amounts due to banks | 3 270 223 | - | 1 910 721 | 1 359 502 |
| Amounts due to customers | 174 126 884 | - | 222 295 | 173 904 589 |
| Debt securities issued | 9 216 032 | 4 521 025 | - | 4 695 007 |
| Subordinated liabilities | 2 631 352 | - | 2 631 352 | - |
| **Total financial liabilities** | **189 244 491** | **4 521 025** | **4 764 368** | **179 959 098** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 31.12.2021 | Including: | Level 1<br>Quoted prices in active markets | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Other valuation techniques |
|---|---|---|---|---|
| **VALUATION ONLY FOR PURPOSES OF DISCLOSURE** | | | | |
| **Financial assets** | | | | |
| Debt securities | 14 890 079 | 12 100 420 | - | 2 789 659 |
| Loans and advances to banks | 7 227 533 | - | - | 7 227 533 |
| Loans and advances to customers | 116 739 370 | - | - | 116 739 370 |
| **Total financial assets** | **138 856 982** | **12 100 420** | **-** | **126 756 562** |
| **Financial liabilities** | | | | |
| Amounts due to banks | 5 266 179 | - | 1 906 621 | 3 359 558 |
| Amounts due to customers | 157 054 611 | - | 906 078 | 156 148 533 |
| Debt securities issued | 13 518 622 | 6 673 840 | - | 6 844 782 |
| Subordinated liabilities | 2 616 703 | - | 2 616 703 | - |
| **Total financial liabilities** | **178 456 115** | **6 673 840** | **5 429 402** | **166 352 873** |

### Level 1

Level 1 of financial assets includes the value of treasury securities and EIB bonds which 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 and its subsidiary, mFinance France, acquired by the Bank in the substitution process in 2020 (Note 29). For the purpose of disclosures the Group 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 Group has presented subordinated liabilities.

The fair value of financial liabilities included in 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, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract for a loan. 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 money market rates, as well as FRA contracts and IRS contracts for appropriate currencies and maturities. For the purpose of measurement of subordinated liabilities the Bank used 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;
- the fair value of the mortgage bonds and other debt securities issued by mBank Hipoteczny. For the valuation the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument;
- liabilities due to banks and to customers with maturity up to one year, for which the Group assumed that their fair value is equal to the carrying value;
- the fair value of liabilities due to banks, liabilities due 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 at fair value and investment properties

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 31.12.2022 | Including: | Level 1<br>Quoted prices in active markets | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Other valuation techniques |
|---|---|---|---|---|
| **RECURRING FAIR VALUE MEASUREMENTS** | | | | |
| **Financial assets** | | | | |
| **Financial assets held for trading and hedging derivatives** | **2 524 652** | **676 356** | **1 468 805** | **379 491** |
| Loans and advances to customers | 39 720 | - | - | 39 720 |
| Debt securities | 978 108 | 670 227 | - | 307 881 |
| Equity instruments | 6 129 | 6 129 | - | - |
| Derivative financial instruments, including: | 1 500 695 | - | 1 468 805 | 31 890 |
| Derivative financial instruments held for trading | 1 793 401 | - | 1 793 401 | - |
| Hedging derivative financial instruments | 158 689 | - | 126 799 | 31 890 |
| Offsetting effect | (451 395) | - | (451 395) | - |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | **1 044 189** | **746** | **-** | **1 043 443** |
| Loans and advances to customers | 813 392 | - | - | 813 392 |
| Debt securities | 45 009 | - | - | 45 009 |
| Equity securities | 185 788 | 746 | - | 185 042 |
| **Financial assets at fair value through other comprehensive income** | **35 117 450** | **16 418 179** | **17 483 362** | **1 215 909** |
| Debt securities | 35 117 450 | 16 418 179 | 17 483 362 | 1 215 909 |
| **Total financial assets** | **38 686 291** | **17 095 281** | **18 952 167** | **2 638 843** |
| **Investment properties** | **136 909** | **-** | **-** | **136 909** |
| **Financial liabilities** | | | | |
| **Financial liabilities held for trading and hedging derivative financial instruments** | **2 086 111** | **260 538** | **1 825 573** | **-** |
| Derivative financial instruments, including: | 1 825 573 | - | 1 825 573 | - |
| Derivative financial instruments held for trading | 2 163 085 | - | 2 163 085 | - |
| Hedging derivative financial instruments | 2 786 104 | - | 2 786 104 | - |
| Offsetting effect | (3 123 616) | - | (3 123 616) | - |
| Liabilities from short sale of securities | 260 538 | 260 538 | - | - |
| **Total financial liabilities** | **2 086 111** | **260 538** | **1 825 573** | **-** |

| 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 | | | Debt securities at fair value through other comprehensive income | Investment properties |
|---|---|---|---|---|---|---|---|---|
| | Loans and advances | Debt securities | Derivative financial instruments | Loans and advances | Debt securities | Equity securities | | |
| **As at the beginning of the period** | **40 426** | **347 716** | **92 243** | **1 111 674** | **81 128** | **223 519** | **989 811** | **127 510** |
| **Gains and losses for the period:** | **1 419** | **17 049** | **(60 353)** | **(31 296)** | **6 095** | **(28 950)** | **(24 245)** | **9 399** |
| Recognised in profit or loss: | 1 419 | 17 049 | 59 425 | (31 296) | 6 095 | (28 950) | - | 9 399 |
| *Net trading income* | *1 419* | *17 049* | *59 425* | - | *9 299* | *34* | - | - |
| *Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss* | - | - | - | *(31 296)* | *(3 204)* | *(27 272)* | - | - |
| *Other operating income/other operating expenses* | - | - | - | - | - | *(1 712)* | - | *9 399* |
| Recognised in other comprehensive income: | - | - | (119 778) | - | - | - | (24 245) | - |
| *Financial assets at fair value through other comprehensive income* | - | - | - | - | - | - | *(24 245)* | - |
| *Cash flow hedges* | - | - | *(119 778)* | - | - | - | - | - |
| Purchases / origination | - | 857 123 | - | 42 873 | - | 2 812 | 1 168 416 | - |
| Redemptions / total repayments | (3 813) | (70 526) | - | (251 960) | - | - | (319 950) | - |
| Sales | - | (1 553 320) | - | - | - | (14 168) | (1 032 893) | - |
| Issues | - | 709 839 | - | - | - | - | 434 770 | - |
| Change in scope of consolidation | - | - | - | - | - | 2 101 | - | - |
| Other changes | 1 688 | - | - | (57 899) | (42 214) | (272) | - | - |
| **As at the end of the period** | **39 720** | **307 881** | **31 890** | **813 392** | **45 009** | **185 042** | **1 215 909** | **136 909** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 31.12.2021 | Including: | Level 1<br>Quoted prices in active markets | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Other valuation techniques |
|---|---|---|---|---|
| **RECURRING FAIR VALUE MEASUREMENTS** | | | | |
| **Financial assets** | | | | |
| **Financial assets held for trading and hedging derivatives** | **2 589 076** | **248 906** | **1 859 785** | **480 385** |
| Loans and advances to customers | 40 426 | - | - | 40 426 |
| Debt securities | 596 622 | 248 906 | - | 347 716 |
| Derivative financial instruments, including: | 1 952 028 | - | 1 859 785 | 92 243 |
| Derivative financial instruments held for trading | 2 065 733 | - | 2 065 733 | - |
| Hedging derivative financial instruments | 338 598 | - | 246 355 | 92 243 |
| Offsetting effect | (452 303) | - | (452 303) | - |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | **1 417 191** | **870** | **-** | **1 416 321** |
| Loans and advances to customers | 1 111 674 | - | - | 1 111 674 |
| Debt securities | 81 128 | - | - | 81 128 |
| Equity securities | 224 389 | 870 | - | 223 519 |
| **Financial assets at fair value through other comprehensive income** | **36 206 059** | **26 721 005** | **8 495 243** | **989 811** |
| Debt securities | 36 206 059 | 26 721 005 | 8 495 243 | 989 811 |
| **Total financial assets** | **40 212 326** | **26 970 781** | **10 355 028** | **2 886 517** |
| **Investment properties** | **127 510** | **-** | **-** | **127 510** |
| **Financial liabilities** | | | | |
| **Financial liabilities held for trading and hedging derivative financial instruments** | **2 011 182** | **84 774** | **1 926 408** | **-** |
| Derivative financial instruments, including: | 1 926 408 | - | 1 926 408 | - |
| Derivative financial instruments held for trading | 2 238 744 | - | 2 238 744 | - |
| Hedging derivative financial instruments | 1 598 547 | - | 1 598 547 | - |
| Offsetting effect | (1 910 883) | - | (1 910 883) | - |
| Liabilities from short sale of securities | 84 774 | 84 774 | - | - |
| **Total financial liabilities** | **2 011 182** | **84 774** | **1 926 408** | **-** |

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

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 the Group has presented the fair value of held for trading government bonds in the amount of PLN 670 227 thousand (Note 20) and the fair value of government bonds at fair value through other comprehensive income in the amount of PLN 15 101 553 thousand (31 December 2021: PLN 248 906 thousand and PLN 25 218 009 thousand, respectively). Level 1 includes the fair value 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 also 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**

As at 31 December 2022 Level 2 of the fair value hierarchy includes the fair value of bills issued by NBP in the amount of PLN 17 483 362 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**

As at 31 December 2022 Level 3 of the hierarchy presents the fair value of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 568 799 thousand (31 December 2021: PLN 1 384 984 thousand), including the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of Visa Inc. preferred shares.

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 analysis. Models of the valuation of debt instruments and the credit spread 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 853 112 thousand (31 December 2021: PLN 1 152 100 thousand). The principles for fair value calculation for loans and advances to customers is described in Note 3.3.7.

Moreover, as at 31 December 2022 Level 3 covers mainly the fair value of equity securities amounting to PLN 185 042 thousand (31 December 2021: PLN 223 519 thousand). The equity instruments presented at level 3 have been valuated using the dividend discount model. The valuations were predominantly prepared based on selected financial figures provided by valuated entities and discounted with the cost of equity estimated using CAPM model (Capital Asset Pricing Model). At the end of 2022, the cost of equity was estimated in the range from 13.9% to 14.4% (as at the end of 2021: 7.9%).

IFRS Consolidated Financial Statements 2022 (PLN thousand)

As at 31 December 2022 Level 3 also includes fair value 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 (as at 31 December 2021: 9.28%).

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (Note 20). As at 31 December 2022, the valuation of these contracts was positive (assets) and amounted to PLN 31 890 thousand (as at 31 December 2021 the valuation was also positive and amounted to PLN 92 243 thousand).

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

| Portfolio | Fair value 31.12.2022 | Sensitivity to change of unobservable parameter | | Description |
|---|---|---|---|---|
| | | (-) | (+) | |
| Equity instruments | 185 042 | (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 | 1 215 868 | (24 761) | 24 761 | 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 | 307 881 | (5 790) | 5 790 | |
| 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 | 813 392 | (10 007) | 9 966 | |

| Portfolio | Fair value 31.12.2021 | Sensitivity to change of unobservable parameter | | Description |
|---|---|---|---|---|
| | | (-) | (+) | |
| Equity instruments | 223 519 | (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 | 989 811 | (22 043) | 22 043 | 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 | 347 716 | (7 879) | 7 879 | |
| 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 | 1 111 674 | (15 630) | 16 159 | |

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

The Group applies estimates and adopts assumptions which impact the value 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 Group

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business ventures and aid to borrowers, 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 Group recognised the impact of credit holidays in the total amount of PLN 1 334.4 million, out of which PLN 1 322.4 million decreased the interest income of the Group 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 Group estimated that customers owning 82.5% of the value of assumed eligible mortgage loan portfolio 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 81.8% of the value of the assumed eligible mortgage loan portfolio had submitted applications applying for an average of 6.8 months of credit holidays. As of 31 December 2022 the gross carrying value of the loans being subject to the credit holidays amounted to PLN 24 449.2 million.

### Impairment of loans and advances

The Group 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 (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realisation of specific scenarios) for portfolio of loans and advances which are impaired, change by +/- 10%, the estimated loans and advances impairment would either decrease by PLN 74.5 million or increase by PLN 81.3 million as at 31 December 2022, respectively (as at 31 December 2021: PLN 61.6 million and PLN 71.2 million, respectively). This estimation was performed for portfolio of loans and advances and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6.

### Actions taken in relation to the current situation in Ukraine

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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 | | | | Off-balance sheet exposure | | | | Accumulated impairment / off-balance loan loss provision | | | |
| | 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 429.5 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 | | | | Off-balance sheet exposure | | | | Accumulated impairment / off-balance loan loss provision | | | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| Ukraine | 90 038 | 6 988 | 983 | - | 110 857 | 250 | - | - | (359) | (110) | (468) | - |
| Russia | 243 812 | 26 957 | 49 673 | - | 176 745 | - | - | - | (619) | (195) | (49 491) | - |
| Belarus | 10 532 | 449 | 69 | - | 1 677 | - | - | - | (15) | (7) | (33) | - |
| **Total** | **344 382** | **34 394** | **50 725** | **-** | **289 279** | **250** | **-** | **-** | **(993)** | **(312)** | **(49 992)** | **-** |

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 Group 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 value

In the fourth quarter of 2022, the Group 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, the Group determined the ECL value separately for each of the scenarios used for the purposes of calculating the expected credit risk losses. The impact of each of the scenarios is presented 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 |
| WIBOR3M | end of the year | 7.20% | 6.20% | 9.00% | 7.00% | 5.77% | 4.77% |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 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 |
| WIBOR3M | 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 | 43 199 | 20 059 | 45 | **63 303** | **39 306** |
| base | (2 381) | (623) | - | **(3 004)** | **(6 649)** |
| pessimistic | (53 448) | (22 280) | (205) | **(75 933)** | **(68 655)** |

** 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 consumer loans are 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 in 2022 amounted to PLN 110.5 million (in 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 models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 2.7.

### 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.

The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferral over time based on the analysis of the stage of completion of the service. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

### 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 classification

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

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

## 5. Business segments

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

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

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

- The Retail Banking segment, which offers a full range of products and services to individual customers, including Private Banking customers and micro-businesses. The key products and services offered to customers in this segment include lending products (mortgage loans, overdrafts, cash loans, car loans, credit cards), deposit products (current and savings accounts, term deposits), debit cards, insurance products, brokerage services, investment advice, asset management services and leasing services. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., mFinanse CZ s.r.o., mFinanse SK s.r.o., LeaseLink Sp. z o.o. and mElements S.A., as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.
- The Corporate and Investment Banking segment, which offers financial services to small, medium and large-sized companies, public sector entities, financial institutions and banks. The key products offered to these customers include transactional banking (cash management, current accounts, term deposits, internet banking, trade finance services, letters of credit and guarantees), working capital and investment loans, project finance, structured and mezzanine finance services as well as custody, leasing and factoring services. The products of this segment include operations in foreign currencies, capital and derivatives markets, both proprietary and on behalf of customers, as well as services for arranging and financing securities issues, financial consulting and brokerage services for financial institutions. The Corporate and Investment Banking segment also generates result of foreign exchange risk management. This segment includes the results of the following subsidiaries: mFaktoring S.A., G-Invest Sp. z o.o. before its deconsolidation, Tele-Tech Investment Sp. z o.o. before its deconsolidation as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o. and mBank Hipoteczny S.A.

- The Treasury and Other segment consists primarily of treasury and money markets operations, liquidity and interest rate risks management of the Bank and its investment portfolio. The results of the segment include the result of internal settlements of fund transfer pricing, the result of items classified as hedge accounting and results not allocated to other segments. This segment also includes the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding and the results of Future Tech Fundusz Inwestycyjny Zamknięty.
- FX Mortgage Loans segment consists primarily of foreign currency mortgage loans with indexation clauses granted to individual customers. These types of loans are no longer offered to customers. The segment's assets include only the portfolio of active mortgage loans originally granted in foreign currencies (mainly in CHF, EUR and USD). The segment's liabilities do not include the financing of the portfolio of such loans, which was included in the liabilities of other segments.

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

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

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

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

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

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

Due to the allocation of part of costs related to fees to BFG to FX Mortgage Loans segment from the beginning of 2022, the comparative data for the period from 1 January to 31 December 2021 have been revised appropriately.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

| period from 1 January to 31 December 2022 | Retail Banking | Corporate and Investment Banking | Treasury and Other | FX Mortgage Loans | Total figure for the Group |
|---|---|---|---|---|---|
| Net interest income | 3 064 525 | 1 978 409 | 790 941 | 75 364 | 5 909 239 |
| - sales to external clients | 3 038 997 | 2 108 289 | 598 763 | 163 190 | 5 909 239 |
| - sales to other segments | 25 528 | (129 880) | 192 178 | (87 826) | - |
| Net fee and commission income | 1 065 848 | 1 113 352 | (43 715) | (15 408) | 2 120 077 |
| Dividend income | - | - | 5 236 | - | 5 236 |
| Trading income | 69 646 | 351 362 | (313 846) | (9 964) | 97 198 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (27 909) | (4 566) | (15 702) | (2 747) | (50 924) |
| Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | (4 548) | (6 655) | (80 345) | - | (91 548) |
| Other operating income | 101 170 | 123 380 | 40 293 | 319 | 265 162 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (575 385) | (191 652) | (33) | (36 147) | (803 217) |
| Costs of legal risk related to foreign currency loans | - | - | - | (3 112 265) | (3 112 265) |
| Overhead costs | (1 681 501) | (814 781) | (311 713) | (43 886) | (2 851 881) |
| Amortisation | (311 753) | (150 240) | (4 597) | (718) | (467 308) |
| Other operating expenses | (265 597) | (100 511) | (43 009) | (34 496) | (443 613) |
| **Operating profit** | **1 434 496** | **2 298 098** | **23 510** | **(3 179 948)** | **576 156** |
| Taxes on Group balance sheet items | (391 793) | (237 491) | (13 480) | (41 411) | (684 175) |
| **Gross profit of the segment** | **1 042 703** | **2 060 607** | **10 030** | **(3 221 359)** | **(108 019)** |
| Income tax | | | | | (594 508) |
| Net profit / (loss) attributable to Owners of mBank S.A. | | | | | (702 691) |
| Net profit / (loss) attributable to non-controlling interests | | | | | 164 |

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

| period from 1 January to 31 December 2021 - restated | Retail Banking | Corporate and Investment Banking | Treasury and Other | FX Mortgage Loans | Total figure for the Group |
|---|---|---|---|---|---|
| Net interest income | 2 741 953 | 1 114 574 | 143 963 | 125 823 | 4 126 313 |
| - sales to external clients | 2 231 595 | 1 067 040 | 688 069 | 139 609 | 4 126 313 |
| - sales to other segments | 510 358 | 47 534 | (544 106) | (13 786) | - |
| Net fee and commission income | 972 181 | 944 507 | (41 918) | (7 019) | 1 867 751 |
| Dividend income | - | - | 5 046 | - | 5 046 |
| Trading income | 42 628 | 263 800 | (169 733) | (39 805) | 96 890 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | 3 566 | (3 928) | 4 970 | - | 4 608 |
| Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | (2 492) | 3 881 | 92 301 | - | 93 690 |
| Other operating income | 84 515 | 131 902 | 15 005 | 962 | 232 384 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (450 015) | (405 781) | (4 201) | (13 229) | (873 226) |
| Costs of legal risk related to foreign currency loans | - | - | - | (2 758 079) | (2 758 079) |
| Overhead costs | (1 211 790) | (729 003) | (42 762) | (37 074) | (2 020 629) |
| Amortisation | (288 005) | (138 562) | (8 883) | (804) | (436 254) |
| Other operating expenses | (84 944) | (151 272) | (68 717) | (15 965) | (320 898) |
| **Operating profit** | **1 807 597** | **1 030 118** | **(74 929)** | **(2 745 190)** | **17 596** |
| Taxes on Group balance sheet items | (286 000) | (226 997) | (42 825) | (52 805) | (608 627) |
| **Gross profit of the segment** | **1 521 597** | **803 121** | **(117 754)** | **(2 797 995)** | **(591 031)** |
| Income tax | | | | | (587 782) |
| Net profit / (loss) attributable to Owners of mBank S.A. | | | | | (1 178 753) |
| Net profit / (loss) attributable to non-controlling interests | | | | | (60) |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

| 31.12.2022 | Retail Banking | Corporate and Investment Banking | Treasury and Other | FX Mortgage Loans | Total figure for the Group |
|---|---|---|---|---|---|
| Assets of the segment | 69 698 215 | 50 533 222 | 81 489 062 | 8 171 614 | **209 892 113** |
| Liabilities of the segment | 122 597 611 | 53 720 041 | 20 132 826 | 726 604 | **197 177 082** |

| 31.12.2021 - restated | Retail Banking | Corporate and Investment Banking | Treasury and Other | FX Mortgage Loans | Total figure for the Group |
|---|---|---|---|---|---|
| Assets of the segment | 67 223 257 | 47 369 348 | 72 477 859 | 11 302 910 | **198 373 374** |
| Liabilities of the segment | 112 159 963 | 47 507 690 | 24 561 387 | 426 418 | **184 655 458** |

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

| | from 1 January to 31 December 2022 | | | from 1 January to 31 December 2021 - restated | | |
|---|---|---|---|---|---|---|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| Net interest income | 5 483 617 | 425 622 | **5 909 239** | 3 853 229 | 273 084 | **4 126 313** |
| Net fee and commission income | 2 056 642 | 63 435 | **2 120 077** | 1 829 226 | 38 525 | **1 867 751** |
| Dividend income | 5 236 | - | **5 236** | 5 046 | - | **5 046** |
| Trading income | 92 400 | 4 798 | **97 198** | 92 713 | 4 177 | **96 890** |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (50 924) | - | **(50 924)** | 4 608 | - | **4 608** |
| Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | (91 384) | (164) | **(91 548)** | 93 715 | (25) | **93 690** |
| Other operating income | 260 932 | 4 230 | **265 162** | 228 462 | 3 922 | **232 384** |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (783 943) | (19 274) | **(803 217)** | (869 006) | (4 220) | **(873 226)** |
| Costs of legal risk related to foreign currency loans | (3 112 265) | - | **(3 112 265)** | (2 758 079) | - | **(2 758 079)** |
| Overhead costs | (2 674 684) | (177 197) | **(2 851 881)** | (1 870 907) | (149 722) | **(2 020 629)** |
| Amortisation | (453 772) | (13 536) | **(467 308)** | (423 208) | (13 046) | **(436 254)** |
| Other operating expenses | (432 018) | (11 595) | **(443 613)** | (316 765) | (4 133) | **(320 898)** |
| **Operating profit** | **299 837** | **276 319** | **576 156** | **(130 966)** | **148 562** | **17 596** |
| Taxes on Group balance sheet items | (632 381) | (51 794) | **(684 175)** | (568 132) | (40 495) | **(608 627)** |
| **Gross profit of the segment** | **(332 544)** | **224 525** | **(108 019)** | **(699 098)** | **108 067** | **(591 031)** |
| Income tax | | | **(594 508)** | | | **(587 782)** |
| Net profit / (loss) attributable to Owners of mBank S.A. | | | **(702 691)** | | | **(1 178 753)** |
| Net profit / (loss) attributable to non-controlling interests | | | **164** | | | **(60)** |

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

| | 31.12.2022 | | | 31.12.2021 - restated | | |
|---|---|---|---|---|---|---|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| **Assets of the segment, including:** | 199 392 516 | 10 499 597 | **209 892 113** | 188 653 175 | 9 720 199 | **198 373 374** |
| - tangible assets | 2 960 017 | 53 532 | **3 013 549** | 2 917 533 | 36 180 | **2 953 713** |
| - deferred income tax assets | 1 870 220 | 5 508 | **1 875 728** | 1 390 472 | 1 878 | **1 392 350** |
| **Liabilities of the segment** | 180 017 783 | 17 159 299 | **197 177 082** | 168 741 143 | 15 914 315 | **184 655 458** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 6. Net interest income

| | Year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| **Interest income** | | |
| **Interest income accounted for using the effective interest method** | **9 093 789** | **3 970 220** |
| Interest income of financial assets at amortised cost, including: | 8 251 999 | 3 778 960 |
| *- Loans and advances* | *8 572 447* | *3 471 423* |
| *- Debt securities* | *447 746* | *288 937* |
| *- Cash and short-term placements* | *380 588* | *18 997* |
| *- Gains or losses on non-substantial modification (net)* | *(1 328 932)* | *(11 328)* |
| *- Other* | *180 150* | *10 931* |
| Interest income on financial assets at fair value through other comprehensive income, including: | 841 790 | 191 260 |
| *- Debt securities* | *841 790* | *191 260* |
| **Income similar to interest on financial assets at fair value through profit or loss, including:** | **172 017** | **483 787** |
| Financial assets held for trading, including: | 46 992 | 19 962 |
| *- Loans and advances* | *3 968* | *2 849* |
| *- Debt securities* | *43 024* | *17 113* |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 125 025 | 51 598 |
| *- Loans and advances* | *125 025* | *51 598* |
| Interest income on derivatives classified into banking book | - | 94 454 |
| Interest income on derivatives concluded under the fair value hedge | - | 113 115 |
| Interest income on derivatives concluded under the cash flow hedge | - | 204 658 |
| **Total interest income** | **9 265 806** | **4 454 007** |

The items Gains or losses on non-substantial modification (net) include a loss of PLN 1 322.4 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.

Interest income on financial assets at amortised cost includes interest on leasing activities in the amount of PLN 885 866 thousand (for the period ended 31 December 2021: PLN 386 274 thousand).

| | Year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| **Interest expenses** | | |
| Financial liabilities held for trading | (13 686) | (9 371) |
| Financial liabilities measured at amortised cost, including: | (2 197 469) | (287 340) |
| *- Deposits* | *(1 742 941)* | *(65 954)* |
| *- Loans received* | *(4 515)* | *(4 623)* |
| *- Issue of debt securities* | *(285 674)* | *(155 044)* |
| *- Subordinated liabilities* | *(126 325)* | *(54 733)* |
| *- Other financial liabilities* | *(35 487)* | *(4 418)* |
| *- Lease liabilities* | *(2 527)* | *(2 568)* |
| Interest expenses on derivatives classified into banking book | (81 955) | - |
| Interest expenses on derivatives concluded under the fair value hedge | (502 506) | - |
| Interest expenses on derivatives concluded under the cash flow hedge | (537 995) | - |
| Other | (22 956) | (30 983) |
| **Total interest expense** | **(3 356 567)** | **(327 694)** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Net interest income per client groups is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Interest income** | | |
| From banking sector | 1 041 505 | 279 226 |
| From other customers, including: | 8 224 301 | 4 174 781 |
| *- individual clients* | *3 864 227* | *2 264 412* |
| *- corporate clients* | *3 604 818* | *1 564 534* |
| *- public sector* | *755 256* | *345 835* |
| **Total interest income** | **9 265 806** | **4 454 007** |

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Interest expenses** | | |
| From banking sector | (84 543) | (11 737) |
| From other customers, including: | (2 860 025) | (106 180) |
| *- individual clients* | *(954 490)* | *(74 762)* |
| *- corporate clients* | *(1 840 975)* | *(18 862)* |
| *- public sector* | *(64 560)* | *(12 556)* |
| Debt securities issued | (285 674) | (155 044) |
| Subordinated liabilities | (126 325) | (54 733) |
| **Total interest expense** | **(3 356 567)** | **(327 694)** |

## 7. Net fee and commission income

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Fee and commission income** | | |
| Payment cards-related fees | 629 823 | 485 768 |
| Credit-related fees and commissions | 612 117 | 539 335 |
| Commissions from currency transactions | 516 540 | 408 107 |
| Commissions from bank accounts | 383 770 | 361 824 |
| Commissions from money transfers | 223 895 | 191 545 |
| Fees from brokerage activity and debt securities issue | 172 374 | 240 097 |
| Commissions for agency service regarding sale of insurance products of external financial entities | 129 883 | 109 090 |
| Commissions due to guarantees granted and trade finance commissions | 109 980 | 98 780 |
| Commissions for agency service regarding sale of other products of external financial entities | 74 329 | 103 060 |
| Fees from cash services | 53 963 | 45 195 |
| 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 | 61 376 | 48 842 |
| **Total fee and commission income** | **3 026 096** | **2 692 626** |

In relation to finance leases, income relating to variable lease payments not included in the measurement of the net investment in the lease in 2022 amounted to PLN 4 718 thousand (2021: PLN 3 592 thousand). For operating leases, lease income relating to variable lease payments that do not depend on an index or a rate, in 2022 amounted to PLN 893 thousand (2021: PLN 1 692 thousand). The above-mentioned amounts are included in Credit-related fees and commissions.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Fee and commission expense** | | |
| Payment cards-related fees | (292 815) | (263 552) |
| Commissions paid to external entities for sale of the Group's products | (185 976) | (169 102) |
| Commissions of insurance products | (13 944) | (15 763) |
| Commissions paid for sale of external financial entities' products | (36 181) | (33 286) |
| Discharged brokerage fees | (36 823) | (39 046) |
| Cash services | (56 655) | (47 096) |
| Fees to NBP, KIR and GPW Benchmark | (21 785) | (18 948) |
| Other discharged fees | (261 840) | (238 082) |
| **Total fee and commission expense** | **(906 019)** | **(824 875)** |

## 8. 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 non-consolidated subsidiaries accounted for using other than the equity method | 900 | 1 064 |
| **Total dividend income** | **5 236** | **5 046** |

## 9. Net trading income

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Foreign exchange result** | **(98 533)** | **191 695** |
| Net exchange differences on translation | (243 507) | 154 554 |
| Net transaction gains/losses | 144 974 | 37 141 |
| **Gains or losses on financial assets and liabilities held for trading** | **208 879** | **(77 260)** |
| Derivatives, including: | 195 387 | (78 837) |
| *- Interest-bearing instruments* | *167 945* | *(100 809)* |
| *- Market risk instruments* | *27 442* | *21 972* |
| Equity instruments | (100) | - |
| Debt securities | 12 173 | 4 235 |
| Loans and advances | 1 419 | (2 658) |
| **Gains or losses from hedge accounting** | **(13 148)** | **(17 545)** |
| Net profit on hedged items | 1 058 283 | 1 169 372 |
| Net profit on fair value hedging instruments | (1 050 479) | (1 172 972) |
| Ineffective portion of cash flow hedge | (20 952) | (13 945) |
| **Total net trading income** | **97 198** | **96 890** |

The foreign exchange result includes profit/loss on 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, commodity futures and commodity swaps.

The Group applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting is included in Note 20 Financial assets held for trading and hedging derivatives.

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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 10. 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 | (31 296) | (5 347) |
| **Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss** | **(50 924)** | **4 608** |

In the item Equity instruments, in 2022 the Group 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 the item Equity instruments, in 2021 the Group 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.

## 11. Gains or 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: | (91 548) | 93 725 |
| *- Financial assets measured at fair value through other comprehensive income* | *(85 771)* | *93 666* |
| *- Financial assets at amortised cost* | *(5 777)* | *(14)* |
| *- Financial liabilities at amortised cost* | *-* | *73* |
| Gains less losses related to sale and revaluation of investments in subsidiaries and associates | - | (35) |
| **Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss** | **(91 548)** | **93 690** |

The item Gains less losses from derecognition, including financial assets measured at fair value through other comprehensive income also comprises the result from the sale of government bonds.

The result from derecognition of financial assets measured at amortised cost is mainly due to incidental and insignificant sales of credit exposures.

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

| | Year ended 31 December 2022 | | Year ended 31 December 2021 | |
|---|---|---|---|---|
| | Gains | Losses | Gains | Losses |
| Debt securities | 1 886 | (87 658) | 98 120 | (1 997) |
| Loans and advances | 36 293 | (42 069) | 12 149 | (14 620) |
| Debt securities issued | - | - | 7 655 | (7 582) |
| **Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss** | **38 179** | **(129 727)** | **117 924** | **(24 199)** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 12. Other operating income

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories | 63 019 | 85 023 |
| Income from services provided | 14 547 | 10 395 |
| Net income from operating lease and sublease of right-of-use assets | 9 006 | 5 081 |
| 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 | 17 637 | 12 215 |
| Income from recovering receivables designated previously as prescribed, remitted or uncollectible | 5 414 | 4 430 |
| Income from compensations, penalties and fines received | 450 | 602 |
| Gains from the sale of an organised part of the company mFinanse S.A. | 40 200 | 37 700 |
| Net revenues from the sale and revaluation of investments in subsidiaries and associates | 21 371 | - |
| Other | 80 433 | 76 933 |
| **Total other operating income** | **265 162** | **232 384** |

Revenues from the sale or liquidation of property, plant and equipment, intangible assets, assets for sale and inventories mainly include revenues of mLeasing Sp. z o.o. from the sale of leasing items.

Net revenues from the sale of an organised part of the company mFinanse S.A. relate to sale transaction in 2018 by mBank S.A. of 100% shares in Latona S.A. to Phoebe IVS based in Denmark, and subsequent sale by mFinanse S.A. of an organised part of the mFinanse S.A. to Latona S.A. The organised part of the enterprise was a separate activity under which, on the basis of agency agreements, mFinanse S.A. performed insurance intermediation activities in the field of group insurance contracts as an insurance agent.

The maximum total remuneration for the transaction will amount to approximately PLN 434.9 million. As a result of the transaction, till 31 December 2022 the Group recognised a net profit in the amount of PLN 383.8 million. Due to the nature of the transaction the recognition of the part of the remuneration in the future will depend on the performance of the business sold. This may result in the recognition of an additional gross profit of up to PLN 18.0 million in the period of approximately 1 year from the end of 2022.

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

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Net income from operating lease and sublease of right-of-use assets including:** | | |
| - Income from operating lease | 29 663 | 28 252 |
| - Income from sublease of right-of-use assets | 10 736 | 9 159 |
| - Amortisation cost of assets in operating lease and subleased right-of-use assets | (31 393) | (32 330) |
| **Total net income from operating lease and sublease of right-of-use assets** | **9 006** | **5 081** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 13. Overhead costs

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Staff-related expenses | (1 226 891) | (1 070 850) |
| Material costs, including: | (729 149) | (676 395) |
| *- costs of administration and real estate services* | *(273 249)* | *(243 749)* |
| *- IT costs* | *(205 553)* | *(206 689)* |
| *- marketing costs* | *(149 107)* | *(132 744)* |
| *- consulting costs* | *(82 814)* | *(77 339)* |
| *- other material costs* | *(18 426)* | *(15 874)* |
| Taxes and fees | (35 622) | (33 419) |
| Contributions and transfers to the Bank Guarantee Fund | (247 424) | (227 432) |
| Contributions to the Borrowers Support Fund | (170 938) | - |
| Contributions to the Social Benefits Fund | (13 786) | (12 533) |
| Institutional Protection Scheme | (428 071) | - |
| **Total overhead costs** | **(2 851 881)** | **(2 020 629)** |

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 Group also recognised the cost of contributions to the Borrowers Support Fund in the amount of PLN 170 938 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 short-term leasing contracts in the amount of PLN 204 thousand (2021: PLN 234 thousand), costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 381 thousand (2021: PLN 722 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 | (985 929) | (871 419) |
| Social security expenses | (170 703) | (142 301) |
| Employee contributions related to post-employment benefits | (756) | (21) |
| Remuneration concerning share-based payments, including: | (13 014) | (11 076) |
| *- share-based payments settled in mBank S.A. shares* | *(12 673)* | *(10 487)* |
| *- cash-settled share-based payments* | *(341)* | *(589)* |
| Other staff expenses | (56 489) | (46 033) |
| **Staff-related expenses, total** | **(1 226 891)** | **(1 070 850)** |

Cash-settled share-based payments relate to the costs of incentive programmes existing in the Group entities. Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 43.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 14. Other operating expenses

| | Year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Losses arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories | (58 397) | (91 516) |
| Provisions for future commitments | (223 714) | (100 876) |
| Costs arising from provisions created for other receivables (excluding loans and advances) | (4 703) | (3 416) |
| Donations made | (6 259) | (4 858) |
| Compensation, penalties and fines paid | (3 297) | (7 755) |
| Losses from changes in fair value of investment properties | (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) | (7 935) |
| Debt collection expenses | (29 432) | (36 578) |
| Losses on sale and revaluation of investments in subsidiaries and associates | (22 961) | - |
| Other operating costs | (79 605) | (65 438) |
| **Total other operating expenses** | **(443 613)** | **(320 898)** |

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by mLeasing Sp. z o.o. from the sale of leasing items.

Moreover in 2022 the item Provisions for future commitments includes, among other things, the cost of the provision set up by mFinanse in connection with an inspection of the Social Insurance Institution in the amount of PLN 98 223 thousand (the issue is described in Note 33), as well as the cost of a 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.

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

## 15. Impairment or reversal of impairment on financial assets not measured at fair value through profit or los

| | Year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| **Financial assets at amortised cost, including:** | **(839 443)** | **(752 987)** |
| Debt securities | (885) | (1 911) |
| *Stage 1* | *(885)* | *(1 911)* |
| Loans and advances | (838 558) | (751 076) |
| *Stage 1* | *34 115* | *(125 356)* |
| *Stage 2* | *(36 695)* | *125 674* |
| *Stage 3* | *(840 476)* | *(738 735)* |
| *POCI* | *4 498* | *(12 659)* |
| **Financial assets at fair value through other comprehensive income, including:** | **239** | **(3 201)** |
| Debt securities | 239 | (3 201) |
| *Stage 1* | *(349)* | *(4 480)* |
| *Stage 2* | *588* | *1 279* |
| **Commitments and guarantees given** | **21 232** | **(117 038)** |
| *Stage 1* | *8 576* | *(2 970)* |
| *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** | **(803 217)** | **(873 226)** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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 recognized in the stage after the exposure is reclassified.

## 16. Income tax expense

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Current tax | (1 012 453) | (683 788) |
| Deferred income tax (Note 32) | 417 945 | 96 006 |
| **Total income tax** | **(594 508)** | **(587 782)** |
| **Profit / (loss) before tax** | **(108 019)** | **(591 031)** |
| Tax calculated at Polish current tax rate (19%) | 20 524 | 112 296 |
| Effect of different tax rates in other countries | (16) | - |
| Income not subject to tax | 9 594 | 30 969 |
| Costs other than tax deductible costs, thereof: | (627 470) | (732 788) |
| *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* | *(129 993)* | *(115 639)* |
| *Contributions and other mandatory payments that are not deductible (including the Bank Guarantee Fund)* | *(79 489)* | *(43 212)* |
| *Other* | *(34 482)* | *(66 203)* |
| Other positions affecting income tax | 2 860 | 1 777 |
| Inactive tax losses | - | (36) |
| **Total tax liability** | **(594 508)** | **(587 782)** |
| **Effective tax rate calculation** | | |
| Profit (loss) before income tax | (108 019) | (591 031) |
| Income tax | (594 508) | (587 782) |
| **Effective tax rate (%)** | **n/a** | **n/a** |

Since 1 January 2020 mBank S.A., mBank Hipoteczny S.A., mFinanse S.A. and mLeasing Sp. z o. o. established, based on Corporate Income Tax Act, Tax Capital Group of mBank ("TCG"). 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 break down by country is presented below.

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Poland | (952 603) | (656 859) |
| Czech Republic | (52 620) | (25 089) |
| Slovakia | (7 230) | (1 840) |
| **Total current tax** | **(1 012 453)** | **(683 788)** |

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 17. Earnings / (loss) per share

Earnings per share for 12 months

| | Year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| **Basic:** | | |
| Net profit / (loss) attributable to Owners of mBank S.A. | (702 691) | (1 178 753) |
| Weighted average number of ordinary shares | 42 403 048 | 42 369 790 |
| **Net basic profit / (loss) per share (in PLN per share)** | **(16.57)** | **(27.82)** |
| **Diluted:** | | |
| Net profit / (loss) attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share | (702 691) | (1 178 753) |
| 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 net profit / (loss) per share (in PLN per share)** | **(16.55)** | **(27.77)** |

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 described in the Note 43 of these consolidated statements. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share is 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 is calculated as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all possible ordinary shares were replaced with shares causing the dilution. The Bank has two category of potential ordinary shares causing the dilution: share options and subscription warrants, the exercise of which enables the acquisition of shares. 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.

## 18. 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** | **(390 448)** | **73 752** | **(316 696)** | **(2 261 911)** | **454 527** | **(1 807 384)** |
| Exchange differences on translation of foreign operations | 6 194 | - | 6 194 | 4 898 | - | 4 898 |
| Cash flow hedges | (366 254) | 69 588 | (296 666) | (1 134 978) | 215 646 | (919 332) |
| Cost of hedge | 33 463 | (6 358) | 27 105 | - | - | - |
| Debt instruments at fair value through other comprehensive income | (63 851) | 10 522 | (53 329) | (1 131 831) | 238 881 | (892 950) |
| **Items that will not be reclassified to the income statement** | **4 285** | **(814)** | **3 471** | **22 833** | **(4 338)** | **18 495** |
| Actuarial gains and losses relating to post-employment benefits | 4 285 | (814) | 3 471 | 8 715 | (1 656) | 7 059 |
| Reclassification to investment properties | - | - | - | 14 118 | (2 682) | 11 436 |
| **Total other comprehensive income (net)** | **(386 163)** | **72 938** | **(313 225)** | **(2 239 078)** | **450 189** | **(1 788 889)** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The table below presents detailed information concerning net 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** | **(316 696)** | **(1 807 384)** |
| **Exchange differences on translating foreign operations** | **6 194** | **4 898** |
| Gains or losses on exchange differences on translation of foreign operations included in other comprehensive income | 6 194 | 4 898 |
| *Unrealised gains (positive differences) arising during the year (net)* | *10 393* | *4 945* |
| *Unrealised losses (negative differences) arising during the year (net)* | *(4 199)* | *(47)* |
| **Cash flows hedges (effective part)** | **(296 666)** | **(919 332)** |
| Gains or losses included in other comprehensive income | (710 451) | (757 301) |
| *Unrealised gains arising during the year (net)* | *80 520* | *51 861* |
| *Unrealised losses arising during the year (net)* | *(790 971)* | *(809 162)* |
| Reclassification to the income statement (net) | 413 785 | (162 031) |
| **Cost of hedge** | **27 105** | **-** |
| Gains or losses included in other comprehensive income | 27 105 | - |
| *Unrealised gains arising during the year (net)* | *27 105* | - |
| **Valuation of debt instruments at fair value through other comprehensive income (net)** | **(53 329)** | **(892 950)** |
| Gains or losses on valuation of debt instruments included in other comprehensive income | (122 804) | (817 034) |
| *Unrealised gains on debt instruments arising during the year (net)* | *5 564* | *105 699* |
| *Unrealised losses on debt instruments arising during the year (net)* | *(128 368)* | *(922 733)* |
| Reclassification adjustments of gains (losses) on debt instruments to the income statement (net) | 69 475 | (75 916) |
| **ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS** | **3 471** | **18 495** |
| **Actuarial gains and losses relating to post-employment benefits** | **3 471** | **7 059** |
| *Actuarial gains* | *3 471* | *7 059* |
| **Reclassification to investment properties** | **-** | **11 436** |
| Gains or losses included in other comprehensive income | - | 11 436 |
| *Unrealised gains on reclassification to investment properties during the year (net)* | - | *11 436* |
| **Total other comprehensive income (net)** | **(313 225)** | **(1 788 889)** |

## 19. 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 | 14 368 461 | 10 854 379 |
| **Total cash and cash balances with central banks** | **16 014 318** | **12 202 266** |

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 31 January 2022.

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 20. Financial assets and liabilities held for trading and derivatives held for hedges

### Financial assets held for trading and hedging derivatives

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Derivatives** | **1 500 695** | **1 952 028** |
| - Derivatives held for trading classified into banking book | 593 653 | 111 404 |
| - Derivatives held for trading classified into trading book | 1 199 748 | 1 954 329 |
| - Derivatives designated as fair value hedges | 121 875 | 217 809 |
| - Derivatives designated as cash flow hedges | 36 814 | 120 789 |
| - Offsetting effect | (451 395) | (452 303) |
| **Equity instruments** | **6 129** | - |
| - Non-financial corporations | 6 129 | - |
| **Debt securities** | **978 108** | **596 622** |
| - General governments, including: | 670 227 | 248 906 |
| *pledged securities* | *278 219* | *72 888* |
| - Credit institutions | 24 212 | 27 459 |
| - Other financial corporations | 101 887 | 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** | **2 524 652** | **2 589 076** |

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 | 1 825 573 | 1 926 408 |
| - Derivatives held for trading classified into banking book | 395 883 | 352 464 |
| - Derivatives held for trading classified into trading book | 1 767 202 | 1 886 280 |
| - Derivatives designated as fair value hedges | 2 106 851 | 1 057 232 |
| - Derivatives designated as cash flow hedges | 679 253 | 541 315 |
| - Offsetting effect | (3 123 616) | (1 910 883) |
| Liabilities from short sale of securities | 260 538 | 84 774 |
| **Total financial liabilities held for trading and hedging derivatives** | **2 086 111** | **2 011 182** |

## Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

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

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

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

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

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The fair values of derivatives held by the Bank is presented in the table below.

| 31.12.2022 | Contract amount | | Fair value | |
|---|---|---|---|---|
| | Purchase | Sell | Assets | Liabilities |
| **Derivatives held for trading** | | | | |
| **Foreign exchange derivatives** | | | | |
| - Currency forwards | 16 392 618 | 16 774 537 | 126 093 | 323 682 |
| - Currency swaps | 29 898 482 | 29 463 451 | 543 867 | 257 619 |
| - 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** | **61 522 381** | **61 880 892** | **850 976** | **768 341** |
| - Currency futures | 916 806 | 921 064 | - | - |
| **Total foreign exchange derivatives** | **62 439 187** | **62 801 956** | **850 976** | **768 341** |
| **Interest rate derivatives** | | | | |
| - Interest rate swap, OIS | 253 886 494 | 253 888 028 | 580 542 | 1 045 893 |
| - 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** | **263 610 227** | **265 317 931** | **594 031** | **1 073 121** |
| **Market risk transactions** | 2 866 762 | 2 995 905 | 348 394 | 321 623 |
| **Total derivative assets / liabilities held for trading** | **328 916 176** | **331 115 792** | **1 793 401** | **2 163 085** |
| **Hedging derivatives** | | | | |
| Derivatives designated as fair value hedges | 22 248 365 | 22 248 365 | 121 875 | 2 106 851 |
| - Interest rate swap, OIS | 22 248 365 | 22 248 365 | 121 875 | 2 106 851 |
| Derivatives designated as cash flow hedges | 10 851 970 | 10 723 930 | 36 814 | 679 253 |
| - Interest rate swaps | 9 445 000 | 9 445 000 | 4 924 | 679 253 |
| - Cross-currency interest rate swaps | 1 406 970 | 1 278 930 | 31 890 | - |
| **Total hedging derivatives** | **33 100 335** | **32 972 295** | **158 689** | **2 786 104** |
| **Offsetting effect** | | | **(451 395)** | **(3 123 616)** |
| **Total** | **362 016 511** | **364 088 087** | **1 500 695** | **1 825 573** |
| Short-term (up to 1 year) | 136 153 864 | 137 603 825 | 827 417 | 914 078 |
| Long-term (over 1 year) | 225 862 647 | 226 484 262 | 673 278 | 911 495 |

| 31.12.2021 | Contract amount | | Fair value | |
|---|---|---|---|---|
| | Purchase | Sell | Assets | Liabilities |
| **Derivatives held for trading** | | | | |
| **Foreign exchange derivatives** | | | | |
| - Currency forwards | 20 995 715 | 21 102 030 | 246 761 | 121 053 |
| - Currency swaps | 22 850 622 | 22 752 959 | 101 800 | 199 124 |
| - 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** | **61 805 575** | **63 232 540** | **486 379** | **498 774** |
| - Currency futures | 1 225 607 | 1 241 309 | 3 263 | 8 |
| **Total foreign exchange derivatives** | **63 031 182** | **64 473 849** | **489 642** | **498 782** |
| **Interest rate derivatives** | | | | |
| - Interest rate swap, OIS | 278 685 256 | 278 685 256 | 434 291 | 677 643 |
| - 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** | **292 202 961** | **292 302 863** | **439 802** | **685 712** |
| **Market risk transactions** | 3 467 701 | 3 534 806 | 1 136 289 | 1 054 250 |
| **Total derivative assets / liabilities held for trading** | **358 701 844** | **360 311 518** | **2 065 733** | **2 238 744** |
| **Hedging derivatives** | | | | |
| Derivatives designated as fair value hedges | 32 390 716 | 32 390 716 | 217 809 | 1 057 232 |
| - Interest rate swaps, OIS | 32 390 716 | 32 390 716 | 217 809 | 1 057 232 |
| Derivatives designated as cash flow hedges | 18 064 820 | 17 963 930 | 120 789 | 541 315 |
| - Interest rate swaps | 16 685 000 | 16 685 000 | 28 546 | 541 315 |
| - Cross-currency interest rate swaps | 1 379 820 | 1 278 930 | 92 243 | - |
| **Total hedging derivatives** | **50 455 536** | **50 354 646** | **338 598** | **1 598 547** |
| **Offsetting effect** | | | **(452 303)** | **(1 910 883)** |
| **Total** | **409 157 380** | **410 666 164** | **1 952 028** | **1 926 408** |
| Short-term (up to 1 year) | 155 558 976 | 156 329 203 | 1 593 679 | 75 337 |
| Long-term (over 1 year) | 253 598 404 | 254 336 961 | 358 349 | 1 851 071 |

Apart from 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 (31 December 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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 | 1 322 803 | - | 745 278 | - |
| 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 | (451 395) | | (452 303) | |
| **Total** | **1 500 695** | **39 720** | **1 952 028** | **40 426** |

| Rating | 31.12.2022 | 31.12.2021 |
|---|---|---|
| | Debt securities | Debt securities |
| 1.0 – 1.2 | - | 248 906 |
| 1.8 – 2.0 | 700 410 | 27 626 |
| 2.2 – 2.8 | 240 812 | 154 751 |
| 3.0 – 3.8 | 36 886 | 165 339 |
| **Total** | **978 108** | **596 622** |

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

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

**Fair value hedge accounting**

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

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

Description of the hedging relation

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

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

Hedged items

The hedged items are:

- one tranche of fixed interest rate eurobonds issued by mFF, acquired by the Bank in the substitution process, with a total nominal value of CHF 200 000 thousand,
- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 426 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 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 portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed rate deposits,
- part of the fixed interest rate mortgage portfolio owned by mBH.

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Hedged items – fair value hedge

| 31.12.2022 | The carrying amount of the hedged item | The accumulated amount of fair value hedge adjustments on the hedged item | The line item in the statement of financial position that includes the 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) | 303 787 | Financial liabilities measured at amortised cost – Debt securities issued | 288 056 |
| 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 mortgage bonds issued by mBH | (1 899 806) | 118 228 | Financial liabilities measured at amortised cost – Debt securities issued | 185 224 |
| Fixed interest rate housing and consumer portfolio denominated 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** | | | | |
| Fixed interest rate mortgage portfolio owned by mBH | 425 515 | 3 064 | Financial assets at amortised cost – Loans and advances to customers | 3 064 |
| 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** | | | | **1 058 283** |

| 31.12.2021 | The carrying amount of the hedged item | The accumulated amount of fair value hedge adjustments on the hedged item | The line item in the statement of financial position that includes the 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) | 13 125 | Financial liabilities measured at amortised cost – Debt securities issued | 75 063 |
| 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 |
| Fixed interest rate mortgage bonds issued by mBH | (2 599 262) | (66 996) | Financial liabilities measured at amortised cost – Debt securities issued | 55 282 |
| **Hedging the fair value of a portfolio of financial assets and liabilities against interest rate risk** | | | | |
| Fixed interest rate housing and consumer portfolio denominated 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** | | | | **1 169 372** |

## The change in value of the hedging instruments used as the basis for recognising hedge ineffectiveness for the period – fair value hedge

| | 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 mortgage bonds issued by mBH | (188 833) | (62 283) |
| Instruments hedging fixed interest rate mortgage portfolio denominated in CZK | 10 922 | 79 233 |
| Instruments hedging fixed interest rate mortgage portfolio owned by mBH | 13 848 | - |
| Instruments hedging deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits | (471 950) | (1 083 145) |
| **TOTAL** | **(1 050 479)** | **(1 172 972)** |

Nominal values of hedging derivatives - fair value hedge

| | 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 | 20 444 785 | - | **22 248 365** |
| **31.12.2021** | 1 561 922 | 5 618 307 | 4 488 706 | 20 106 178 | 615 603 | **32 390 716** |

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

| | Year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Interest income/expense on derivatives concluded under the fair value hedge accounting (Note 6) | (502 506) | 113 115 |
| Net profit on hedged items (Note 9) | 1 058 283 | 1 169 372 |
| Net profit on fair value hedging instruments (Note 9) | (1 050 479) | (1 172 972) |
| **The total results of fair value hedge accounting recognised in the income statement** | **(494 702)** | **109 515** |

## Cash flow hedge accounting

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

The Group applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Group cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 9 in the position Gains or losses from hedge accounting. Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the Statement of comprehensive income as Cash flow hedges (net).

The period from January 2023 to August 2029 is the period in which the cash flows are expected, and when they are expected to have an impact on the result.

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 at a 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 instruments used as the basis for recognising hedge ineffectiveness for the period – cash flow hedge

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Instruments hedging loans and advances to customers - loans at a variable interest rate indexed to the market rate | (658 277) | (624 867) |

The nominal values of hedging derivatives - cash flow hedge

| 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 (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN** | | | | | | |
| **Nominal value (PLN '000)** | 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 (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN** | | | | | | |
| **Nominal value (PLN '000)** | 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% | |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The fair value equal to book value of derivatives hedging was presented above in this Note.

Below is given the timetable presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting were expected by the Group and their impact on the profit and loss account.

| | Up to 3 months | Period from 3 months to 1 year | Period from 1 year 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 |

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

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

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

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

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

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

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

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Group uses the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the risk being hedged in the form of a derivative. The valuation principles are analogous to the principles for the valuation of interest rate derivatives, however, as required by the IFRS 9, features that do not exist in the hedged item, such as currency basis spread, are not included in the valuation.

Due to the fact that currency basis spread needs to be included in valuation of CIRS contracts, the Group applies the option in IFRS 9 to separate this element from the fair value of hedging instruments and defers it in "Other components of equity" in the line "Cost of hedging".

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from January 2023 to September 2025.

Hedged items – cash flow hedge

| | Nominal value of hedged items | | Change in the fair value due to hedge accounting since the date of designation of the hedged instrument | |
|---|---|---|---|---|
| | **31.12.2022** | **31.12.2021** | **31.12.2022** | **31.12.2021** |
| Loans in PLN with a variable interest rate | 1 278 930 | 1 278 930 | 148 385 | 85 861 |
| Mortgage bonds issued in a convertible currency at a fixed rate | 1 406 970 | 1 379 820 | (150 199) | (181 520) |

Hedging instruments – cash flow hedge

| | Nominal value of hedging instruments | | Change in the fair value due to hedge accounting from the date of designation of the hedging instrument | | Other equity items – effective part of CIRS valuation | |
|---|---|---|---|---|---|---|
| | 31.12.2022 | 31.12.2021 | 31.12.2022 | 31.12.2021 | 31.12.2022 | 31.12.2021 |
| CIRS variable leg PLN | 1 278 930 | 1 278 930 | (146 160) | (87 331) | (147 168) | (85 861) |
| CIRS fixed leg EUR | 1 406 970 | 1 384 440 | 145 442 | 179 574 | 22 158 | 80 630 |

The nominal values of hedging derivatives - cash flow hedge

| 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 (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN** | | | | | | |
| Nominal value (PLN '000) | - | - | - | 1 278 930 | - | **1 278 930** |
| The average rate of fixed leg | - | - | - | 2.4299% | - | |
| **CURRENCY RISK** | | | | | | |
| **Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds** | | | | | | |
| Nominal value (PLN '000) | - | - | - | 1 406 970 | | **1 406 970** |
| The average rate of fixed leg | - | - | - | 0.302% | - | |

| 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 (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN** | | | | | | |
| Nominal value (PLN '000) | - | - | - | 1 278 930 | - | **1 278 930** |
| The average rate of fixed leg | - | - | - | 2.4199% | - | |
| **CURRENCY RISK** | | | | | | |
| **Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds** | | | | | | |
| Nominal value (PLN '000) | - | - | - | 1 379 820 | - | **1 379 820** |
| The average rate of fixed leg | - | - | - | 0.242% | - | |

The fair value equal to book value of derivatives hedging was presented above in this note.

Efficiency tests include the valuation of hedging transactions after deducting accrued interest and exchange differences on the nominal value of hedging transactions. Hedge effectiveness is verified by applying prospective effectiveness tests. The tests are performed on a monthly basis.

The main sources of hedge ineffectiveness are:

- taking into account the CVA / DVA correction only on the hedging instrument side,
- minimal differences in the construction method and basic parameters of hedging transactions and hedged items.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income in the portion that forms the effective portion of the hedge. The ineffective portion of the hedge is recognised in the income statement in the position Gains or losses from hedge accounting or Foreign exchange result. In addition, amounts charged directly to other comprehensive income are transferred to the profit and loss account respectively of the item Net interest income and Foreign exchange result in the same period or periods in which the inflow of the hedged transaction is referred to the profit and loss account.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| **Other gross comprehensive income from cash flow hedge and cost of hedge at the beginning of the period** | **(617 534)** | **517 444** |
| Unrealised gains/losses included in other gross comprehensive income during the reporting period | (843 636) | (934 940) |
| The amount transferred in the period from other comprehensive income to profit and loss | 510 845 | (200 038) |
| *- net interest income* | *537 995* | *(204 658)* |
| *- foreign exchange result* | *(27 150)* | *4 620* |
| **Accumulated other gross comprehensive income from cash flow hedge and cost of hedge at the end of the reporting period** | **(950 325)** | **(617 534)** |
| Income tax on accumulated other comprehensive income at the end of the reporting period | 180 562 | 117 332 |
| **Accumulated other net comprehensive income from cash flow hedge and cost of hedge at the end of the reporting period** | **(769 763)** | **(500 202)** |
| Impact on other comprehensive income in the reporting period (gross) | (332 791) | (1 134 978) |
| Tax on cash flow hedges | 63 230 | 215 646 |
| **Impact on other comprehensive income in the reporting period (net)** | **(269 561)** | **(919 332)** |

| | 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) | (332 791) | (1 134 978) |
| Results of cash flow hedge accounting recognised in the income statement | (531 797) | 186 093 |
| *- amount included as interest income in income statement during the reporting period (Note 6)* | *(537 995)* | *204 658* |
| *- ineffective portion of hedge recognised included in other net trading income in income statement (Note 9)* | *(20 952)* | *(13 945)* |
| *- foreign exchange result* | *27 150* | *(4 620)* |
| **Impact on other comprehensive income in the reporting period (gross)** | **(864 588)** | **(948 885)** |

### 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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.

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

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Equity instruments** | **185 788** | **224 389** |
| - Other financial corporations | 133 100 | 164 823 |
| - Non-financial corporations | 52 688 | 59 566 |
| **Debt securities** | **45 009** | **81 128** |
| - Other financial corporations | 45 009 | 81 128 |
| **Loans and advances to customers** | **813 392** | **1 111 674** |
| - Individual customers | 690 795 | 948 636 |
| - Corporate customers | 122 509 | 162 898 |
| - Public sector customers | 88 | 140 |
| **Total non-trading financial assets mandatorily at fair value through profit or loss** | **1 044 189** | **1 417 191** |
| Short-term (up to 1 year) gross | 692 237 | 940 089 |
| Long-term (over 1 year) gross | 351 952 | 477 102 |

### 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 | 103 220 | 100 664 |
| 3 | 120 743 | 242 807 |
| 4 | 282 694 | 337 494 |
| 5 | 210 395 | 292 284 |
| 6 | 11 404 | 28 681 |
| 7 | 47 612 | 69 635 |
| default | 37 012 | 37 996 |
| **Total** | **813 392** | **1 111 674** |

The rating system is described in Note 3.3.4.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 22. 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** | **35 117 450** | **35 126 009** | **-** | **-** | **-** | **(8 559)** | **-** | **-** | **-** |
| - Central banks | 17 483 362 | 17 486 266 | - | - | - | (2 904) | - | - | - |
| - General governments, including: | 15 101 553 | 15 104 112 | - | - | - | (2 559) | - | - | - |
| *pledged securities* | *677 551* | *677 551* | - | - | - | - | - | - | - |
| - Credit institutions | 375 548 | 375 921 | - | - | - | (373) | - | - | - |
| - Other financial institutions | 1 445 590 | 1 446 001 | - | - | - | (411) | - | - | - |
| *pledged securities* | *415 618* | *415 618* | - | - | - | - | - | - | - |
| - Non-financial corporations | 711 397 | 713 709 | - | - | - | (2 312) | - | - | - |
| **Total financial assets at fair value through other comprehensive income** | **35 117 450** | **35 126 009** | **-** | **-** | **-** | **(8 559)** | **-** | **-** | **-** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 24 366 750 |
| Long-term (over 1 year) gross | 10 759 259 |

| 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** | **36 206 059** | **36 170 934** | **43 948** | **-** | **-** | **(8 235)** | **(588)** | **-** | **-** |
| - Central banks | 8 495 243 | 8 496 392 | - | - | - | (1 149) | - | - | - |
| - General governments, including: | 25 251 680 | 25 255 273 | - | - | - | (3 593) | - | - | - |
| *pledged securities* | *644 292* | *644 292* | - | - | - | - | - | - | - |
| - Credit institutions | 230 663 | 230 836 | - | - | - | (173) | - | - | - |
| - Other financial institutions | 1 642 579 | 1 600 096 | 43 948 | - | - | (877) | (588) | - | - |
| *pledged securities* | *107 957* | *107 957* | - | - | - | - | - | - | - |
| - Non-financial corporations | 585 894 | 588 337 | - | - | - | (2 443) | - | - | - |
| **Total financial assets at fair value through other comprehensive income** | **36 206 059** | **36 170 934** | **43 948** | **-** | **-** | **(8 235)** | **(588)** | **-** | **-** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 15 609 611 |
| Long-term (over 1 year) gross | 20 605 271 |

As at 31 December 2022, the gross carrying amounts of debt securities with fixed interest rates amounted to PLN 28 665 250 thousand and debt securities with variable interest rates PLN 6 460 759 thousand (31 December 2021, respectively: PLN 24 423 596 thousand and PLN 11 791 286 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG) and 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, Deposit Guarantee Scheme and Resolution, with further amendments, as at 31 December 2022 the Group held government bonds 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, respectively: PLN 603 504 thousand and PLN 645 000 thousand).

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

| 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 | Changes in credit risk | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **(8 823)** | **-** | **-** | **-** | **(11 296)** | **10 543** | **992** | **25** | **(8 559)** |
| Stage 1 | (8 235) | - | - | - | (11 296) | 9 955 | 992 | 25 | (8 559) |
| Stage 2 | (588) | - | - | - | - | 588 | - | - | - |
| **Expected credit losses allowance, total** | **(8 823)** | **-** | **-** | **-** | **(11 296)** | **10 543** | **992** | **25** | **(8 559)** |

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

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

| Change from 1 January to 31 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 movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **36 214 882** | **-** | **-** | **-** | **22 203 004** | **(23 102 699)** | **(189 178)** | **35 126 009** |
| Stage 1 | 36 170 934 | - | - | - | 22 203 004 | (23 058 751) | (189 178) | 35 126 009 |
| Stage 2 | 43 948 | - | - | - | - | (43 948) | - | - |
| **Gross carrying amount, total** | **36 214 882** | **-** | **-** | **-** | **22 203 004** | **(23 102 699)** | **(189 178)** | **35 126 009** |

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

## Credit quality of financial assets at fair value through other comprehensive income according to internal rating system

| 31.12.2022 | 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 | 1 316 783 | - | - | - | 1 316 783 |
| 1.8 – 2.0 | 32 376 604 | - | - | - | 32 376 604 |
| 2.2 – 2.8 | 822 763 | - | - | - | 822 763 |
| 3.0 – 3.8 | 396 085 | - | - | - | 396 085 |
| **Gross carrying amount** | **35 126 009** | **-** | **-** | **-** | **35 126 009** |
| Accumulated impairment | (8 559) | - | - | - | (8 559) |
| **Total carrying amount** | **35 117 450** | **-** | **-** | **-** | **35 117 450** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 31.12.2021 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Debt securities at fair value through other comprehensive income** | | | | | |
| 1.0 – 1.2 | 35 202 187 | - | - | - | 35 202 187 |
| 1.8 – 2.0 | 67 095 | - | - | - | 67 095 |
| 2.2 – 2.8 | 532 458 | - | - | - | 532 458 |
| 3.0 – 3.8 | 336 416 | - | - | - | 336 416 |
| 4.0 – 5.0 | 32 778 | 43 948 | - | - | 76 726 |
| **Gross carrying amount** | **36 170 934** | **43 948** | **-** | **-** | **36 214 882** |
| Accumulated impairment | (8 235) | (588) | - | - | (8 823) |
| **Total carrying amount** | **36 162 699** | **43 360** | **-** | **-** | **36 206 059** |

The rating system is described in Note 3.3.4.

## 23. 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** | **19 002 527** | **19 005 458** | **-** | **-** | **-** | **(2 931)** | **-** | **-** | **-** |
| - General governments, including: | 13 412 161 | 13 414 361 | - | - | - | (2 200) | - | - | - |
| *pledged securities* | *1 089 602* | *1 089 602* | - | - | - | - | - | - | - |
| - Credit institutions | 2 140 957 | 2 141 310 | - | - | - | (353) | - | - | - |
| - Other financial institutions | 3 449 409 | 3 449 787 | - | - | - | (378) | - | - | - |
| *pledged securities* | *1 041 894* | *1 041 894* | - | - | - | - | - | - | - |
| **Loans and advances to banks** | **9 806 262** | **9 805 334** | **2 431** | **-** | **-** | **(563)** | **(940)** | **-** | **-** |
| **Loans and advances to customers** | **119 330 030** | **109 531 005** | **8 311 891** | **4 512 035** | **229 311** | **(402 616)** | **(385 880)** | **(2 511 202)** | **45 486** |
| Individual customers | 68 586 288 | 64 086 758 | 3 967 237 | 2 224 949 | 152 423 | (221 770) | (290 339) | (1 303 175) | (29 795) |
| Corporate customers | 50 637 195 | 45 337 677 | 4 344 640 | 2 286 016 | 76 888 | (180 755) | (95 541) | (1 207 011) | 75 281 |
| Public sector customers | 106 547 | 106 570 | 14 | 1 070 | - | (91) | - | (1 016) | - |
| **Total financial assets at amortised cost** | **148 138 819** | **138 341 797** | **8 314 322** | **4 512 035** | **229 311** | **(406 110)** | **(386 820)** | **(2 511 202)** | **45 486** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 50 200 615 |
| Long-term (over 1 year) gross | 101 196 850 |

| 31.12.2021 | Carrying amount | Gross carrying amount | | | | Accumulated impairment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Stage 1 | Stage 2 | Stage 3 | POCI |
| **Debt securities** | **16 164 103** | **16 166 149** | **-** | **-** | **-** | **(2 046)** | **-** | **-** | **-** |
| - General governments, including: | 11 517 053 | 11 518 593 | - | - | - | (1 540) | - | - | - |
| *pledged securities* | *1 361 945* | *1 361 945* | - | - | - | - | - | - | - |
| - Credit institutions | 2 172 167 | 2 172 454 | - | - | - | (287) | - | - | - |
| - Other financial institutions | 2 474 883 | 2 475 102 | - | - | - | (219) | - | - | - |
| *pledged securities* | *462 075* | *462 075* | - | - | - | - | - | - | - |
| **Loans and advances to banks** | **7 229 681** | **7 230 664** | **-** | **-** | **-** | **(983)** | **-** | **-** | **-** |
| **Loans and advances to customers** | **116 525 375** | **108 905 581** | **6 223 882** | **4 339 863** | **234 159** | **(434 872)** | **(346 255)** | **(2 440 501)** | **43 518** |
| Individual customers | 70 018 368 | 67 511 357 | 2 038 199 | 2 231 602 | 141 139 | (249 886) | (203 492) | (1 459 152) | 8 601 |
| Corporate customers | 46 354 886 | 41 242 455 | 4 185 683 | 2 107 192 | 93 020 | (184 825) | (142 763) | (980 793) | 34 917 |
| Public sector customers | 152 121 | 151 769 | - | 1 069 | - | (161) | - | (556) | - |
| **Total financial assets at amortised cost** | **139 919 159** | **132 302 394** | **6 223 882** | **4 339 863** | **234 159** | **(437 901)** | **(346 255)** | **(2 440 501)** | **43 518** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 43 328 846 |
| Long-term (over 1 year) gross | 99 771 452 |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

In addition the Group 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 clients were also included loans granted to microenterprises serviced by mBank S.A. Retail Banking.

## Loans and advances to banks

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Current receivables | 257 672 | 308 332 |
| Placements with other banks (up to 3 months) | 20 034 | 30 001 |
| **Included in cash equivalents (Note 42)** | **277 706** | **338 333** |
| Loans and advances | 211 743 | 113 560 |
| Reverse repo or buy/sell back | 8 223 722 | 5 790 914 |
| Other receivables | 1 094 594 | 987 857 |
| **Total (gross) loans and advances to banks** | **9 807 765** | **7 230 664** |
| Accumulated impairment | (1 503) | (983) |
| **Total (net) loans and advances to banks** | **9 806 262** | **7 229 681** |
| Short-term (up to 1 year) gross | 9 751 182 | 7 227 955 |
| Long-term (over 1 year) gross | 56 583 | 2 709 |

The item Other receivables includes cash collaterals in the amount of PLN 557 138 thousand, placed by the Group under the derivative transactions (Note 36) (31 December 2021: PLN 665 320 thousand).

As at 31 December 2022, the variable rate loans to banks amounted to PLN 40 782 thousand and the fixed rate loans to banks amounted to PLN 170 961 thousand (31 December 2021: PLN 43 783 thousand and PLN 69 777 thousand, respectively).

As at 31 December 2022 and 31 December 2021 the 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% (in 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 | 688 179 | 9 119 586 | 222 197 | 7 008 467 |
| Accumulated impairment | (280) | (1 223) | (433) | (550) |
| **Loans and advances to banks, net** | **687 899** | **9 118 363** | **221 764** | **7 007 917** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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 | 14 702 210 | 8 015 011 | 6 680 908 | 6 291 |
| Term loans, including: | 89 526 212 | 62 394 979 | 27 029 870 | 101 363 |
| *- housing and mortgage loans to natural persons* | *48 094 082* | *48 094 082* | | |
| Reverse repo or buy/sell back | 1 611 154 | - | 1 611 154 | - |
| Finance leases | 13 351 537 | - | 13 351 537 | - |
| Other loans and advances | 3 301 814 | - | 3 301 814 | - |
| Other receivables | 91 315 | 21 377 | 69 938 | - |
| **Total gross carrying amount** | **122 584 242** | **70 431 367** | **52 045 221** | **107 654** |
| **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: | (1 890 949) | (1 164 635) | (725 223) | (1 091) |
| *- housing and mortgage loans to natural persons* | *(501 397)* | *(501 397)* | | |
| Finance leases | (476 832) | - | (476 832) | - |
| Other loans and advances | (42 904) | - | (42 904) | - |
| Other receivables | (4 356) | - | (4 356) | - |
| **Total accumulated impairment** | **(3 254 212)** | **(1 845 079)** | **(1 408 026)** | **(1 107)** |

| | | | | |
|---|---|---|---|---|
| **Total gross carrying amount** | **122 584 242** | **70 431 367** | **52 045 221** | **107 654** |
| Total accumulated impairment | (3 254 212) | (1 845 079) | (1 408 026) | (1 107) |
| **Total carrying amount** | **119 330 030** | **68 586 288** | **50 637 195** | **106 547** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 36 669 622 |
| Long-term (over 1 year) gross | 85 914 620 |

| Loans and advances to customers 31.12.2021 | Gross carrying amount | including: Individual customers | Corporate customers | Public sector customers |
|---|---|---|---|---|
| Current receivables | 13 231 330 | 7 922 189 | 5 307 704 | 1 437 |
| Term loans, including: | 89 597 975 | 63 986 776 | 25 459 798 | 151 401 |
| *- housing and mortgage loans to natural persons* | *49 819 031* | *49 819 031* | | |
| Reverse repo or buy/sell back | 187 630 | - | 187 630 | - |
| Finance leases | 13 002 698 | - | 13 002 698 | - |
| Other loans and advances | 3 661 169 | - | 3 661 169 | - |
| Other receivables | 22 683 | 13 332 | 9 351 | - |
| **Total gross carrying amount** | **119 703 485** | **71 922 297** | **47 628 350** | **152 838** |
| **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: | (1 849 134) | (1 234 473) | (613 948) | (713) |
| *- housing and mortgage loans to natural persons* | *(457 412)* | *(457 412)* | | |
| Finance leases | (425 486) | - | (425 486) | - |
| Other loans and advances | (61 801) | - | (61 801) | - |
| **Total accumulated impairment** | **(3 178 110)** | **(1 903 929)** | **(1 273 464)** | **(717)** |

| | | | | |
|---|---|---|---|---|
| **Total gross carrying amount** | **119 703 485** | **71 922 297** | **47 628 350** | **152 838** |
| Total accumulated impairment | (3 178 110) | (1 903 929) | (1 273 464) | (717) |
| **Total carrying amount** | **116 525 375** | **70 018 368** | **46 354 886** | **152 121** |

| | |
|---|---|
| Short-term (up to 1 year) gross | 35 511 778 |
| Long-term (over 1 year) gross | 84 191 707 |

As at 31 December 2022, gross amount of variable interest rate loans amounted to PLN 117 789 223 thousand and fixed interest rate loans amounted to PLN 4 795 019 thousand (31 December 2021: PLN 116 922 674 thousand and PLN 2 780 811 thousand, respectively). The average interest rate for loans granted to customers (excluding reverse repo) amounted to 6.00% (31 December 2021: 2.64%).

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 as at 31 December 2022 the item Other loans and advances includes cash collaterals in the amount of PLN 408 163 thousand placed by the Group under derivatives transactions (Note 36) (31 December 2021: PLN 303 531 thousand).

Loans and advances include receivables under finance leases.

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Gross investment in finance leases, receivable:** | **15 403 000** | **14 052 574** |
| - not later than 1 year | 5 719 831 | 5 148 191 |
| - later than 1 year and not later than 2 years | 4 058 682 | 3 562 109 |
| - later than 2 years and not later than 3 years | 2 606 468 | 2 647 741 |
| - later than 3 years and not later than 4 years | 1 672 376 | 1 342 043 |
| - later than 4 years and not later than 5 years | 829 890 | 861 525 |
| - later than 5 years | 515 753 | 490 965 |
| Unearned future finance income on finance leases (negative amount) | (2 051 463) | (1 049 876) |
| **Net investment in finance leases** | **13 351 537** | **13 002 698** |
| | | |
| **Net investment in finance leases, receivable:** | **13 351 537** | **13 002 698** |
| - not later than 1 year | 4 823 531 | 4 694 173 |
| - later than 1 year and not later than 2 years | 3 496 580 | 3 279 003 |
| - later than 2 years and not later than 3 years | 2 293 976 | 2 487 093 |
| - later than 3 years and not later than 4 years | 1 511 295 | 1 263 424 |
| - later than 4 years and not later than 5 years | 759 724 | 822 506 |
| - later than 5 years | 466 431 | 456 499 |
| **Net investment in finance leases** | **13 351 537** | **13 002 698** |
| **Impairment provisions for finance leases receivable** | **(476 832)** | **(425 486)** |
| **Net carrying amount of finance leases receivable** | **12 874 705** | **12 577 212** |
| | | |
| **Unguaranteed residual value accruing to the lessor** | **1 195 240** | **1 589 782** |

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

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Net housing and mortgage loans to natural persons (in PLN '000), including:** | **47 592 685** | **49 361 619** |
| - PLN | 31 930 717 | 30 388 783 |
| - CHF | 6 141 673 | 9 063 602 |
| - EUR | 4 035 996 | 4 307 671 |
| - CZK | 5 301 068 | 5 407 924 |
| - USD | 169 647 | 174 919 |
| - Other | 13 584 | 18 720 |
| **Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)** | | |
| - PLN | 31 930 717 | 30 388 783 |
| - CHF | 1 288 130 | 2 037 497 |
| - EUR | 860 572 | 936 572 |
| - CZK | 27 296 952 | 29 232 022 |
| - USD | 38 540 | 43 083 |

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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 | 2 394 663 | - | - | - | 2 394 663 |
| 1.8 – 2.0 | 16 610 795 | - | - | - | 16 610 795 |
| **Gross carrying amount** | **19 005 458** | **-** | **-** | **-** | **19 005 458** |
| Accumulated impairment | (2 931) | - | - | - | (2 931) |
| **Total carrying amount** | **19 002 527** | **-** | **-** | **-** | **19 002 527** |
| **Loans and advances to banks at amortised cost** | | | | | |
| 1 | 9 048 271 | 143 | - | - | 9 048 414 |
| 2 | 410 425 | - | - | - | 410 425 |
| 3 | 79 324 | 26 | - | - | 79 350 |
| 4 | 17 279 | 23 | - | - | 17 302 |
| 5 | 4 312 | - | - | - | 4 312 |
| 7 | - | 2 239 | - | - | 2 239 |
| 8 | 230 002 | - | - | - | 230 002 |
| other | 15 721 | - | - | - | 15 721 |
| **Gross carrying amount** | **9 805 334** | **2 431** | **-** | **-** | **9 807 765** |
| Accumulated impairment | (563) | (940) | - | - | (1 503) |
| **Total carrying amount** | **9 804 771** | **1 491** | **-** | **-** | **9 806 262** |
| **Loans and advances to customers at amortised cost** | | | | | |
| 1 | 9 350 907 | 43 940 | - | 278 | 9 395 125 |
| 2 | 42 297 570 | 871 567 | - | 19 086 | 43 188 223 |
| 3 | 17 792 963 | 979 092 | - | 5 858 | 18 777 913 |
| 4 | 22 831 076 | 1 562 249 | - | 34 331 | 24 427 656 |
| 5 | 12 023 762 | 2 634 011 | - | 10 039 | 14 667 812 |
| 6 | 314 073 | 318 652 | - | 2 917 | 635 642 |
| 7 | 659 243 | 1 799 717 | - | 19 072 | 2 478 032 |
| 8 | 1 721 435 | - | - | - | 1 721 435 |
| other | 2 539 976 | 102 663 | - | - | 2 642 639 |
| default | - | - | 4 512 035 | 137 730 | 4 649 765 |
| **Gross carrying amount** | **109 531 005** | **8 311 891** | **4 512 035** | **229 311** | **122 584 242** |
| Accumulated impairment | (402 616) | (385 880) | (2 511 202) | 45 486 | (3 254 212) |
| **Total carrying amount** | **109 128 389** | **7 926 011** | **2 000 833** | **274 797** | **119 330 030** |

| 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 |
| 1.8 – 2.0 | 2 140 461 | - | - | - | 2 140 461 |
| 2.2 – 2.8 | 1 086 133 | - | - | - | 1 086 133 |
| **Gross carrying amount** | **16 166 149** | **-** | **-** | **-** | **16 166 149** |
| Accumulated impairment | (2 046) | - | - | - | (2 046) |
| **Total carrying amount** | **16 164 103** | **-** | **-** | **-** | **16 164 103** |
| **Loans and advances to banks at amortised cost** | | | | | |
| 1 | 6 878 026 | - | - | - | 6 878 026 |
| 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 |
| other | 7 635 | - | - | - | 7 635 |
| **Gross carrying amount** | **7 230 664** | **-** | **-** | **-** | **7 230 664** |
| Accumulated impairment | (983) | - | - | - | (983) |
| **Total carrying amount** | **7 229 681** | **-** | **-** | **-** | **7 229 681** |
| **Loans and advances to customers at amortised cost** | | | | | |
| 1 | 28 678 870 | 43 128 | - | 11 320 | 28 733 318 |
| 2 | 30 431 175 | 268 050 | - | 15 975 | 30 715 200 |
| 3 | 14 691 729 | 537 648 | - | 6 539 | 15 235 916 |
| 4 | 19 345 889 | 905 742 | - | 12 069 | 20 263 700 |
| 5 | 11 189 468 | 2 135 194 | - | 7 440 | 13 332 102 |
| 6 | 439 667 | 377 784 | - | 1 033 | 818 484 |
| 7 | 688 172 | 1 880 289 | - | 13 109 | 2 581 570 |
| 8 | 359 641 | - | - | - | 359 641 |
| other | 3 080 970 | 76 047 | - | - | 3 157 017 |
| default | - | - | 4 339 863 | 166 674 | 4 506 537 |
| **Gross carrying amount** | **108 905 581** | **6 223 882** | **4 339 863** | **234 159** | **119 703 485** |
| Accumulated impairment | (434 872) | (346 255) | (2 440 501) | 43 518 | (3 178 110) |
| **Total carrying amount** | **108 470 709** | **5 877 627** | **1 899 362** | **277 677** | **116 525 375** |

The rating system is described in Note 3.3.4.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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 | Changes in credit risk | Net changes due to methodology update | Write-offs | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **(2 046)** | **-** | **-** | **-** | **(355)** | **104** | **(634)** | **-** | **-** | **-** | **(2 931)** |
| Stage 1 | (2 046) | - | - | - | (355) | 104 | (634) | - | - | - | (2 931) |
| **Loans and advances to banks** | **(983)** | **-** | **-** | **-** | **(3 835)** | **3 646** | **(1 429)** | **-** | **-** | **1 098** | **(1 503)** |
| Stage 1 | (983) | (8) | 93 | - | (2 937) | 2 087 | 104 | - | - | 1 081 | (563) |
| Stage 2 | - | 8 | (93) | - | (898) | 1 559 | (1 533) | - | - | 17 | (940) |
| **Loans and advances to customers** | **(3 178 110)** | **-** | **-** | **-** | **(542 587)** | **691 473** | **(980 807)** | **(5 019)** | **941 088** | **(180 250)** | **(3 254 212)** |
| Stage 1 | (434 872) | (324 613) | 147 430 | 13 323 | (200 888) | 153 206 | 220 455 | 25 863 | - | (2 520) | (402 616) |
| Stage 2 | (346 255) | 312 293 | (190 094) | 264 231 | (45 885) | 52 537 | (398 544) | (30 276) | - | (3 887) | (385 880) |
| Stage 3 | (2 440 501) | 12 320 | 42 664 | (277 554) | (298 937) | 485 013 | (803 983) | 1 | 914 638 | (144 863) | (2 511 202) |
| POCI | 43 518 | - | - | - | 3 123 | 717 | 1 265 | (607) | 26 450 | (28 980) | 45 486 |
| **Expected credit losses allowance, total** | **(3 181 139)** | **-** | **-** | **-** | **(546 777)** | **695 223** | **(982 870)** | **(5 019)** | **941 088** | **(179 152)** | **(3 258 646)** |

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

Movements in expected credit losses resulting from changes in models are described in the 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 movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **16 166 149** | **-** | **-** | **-** | **3 462 370** | **(557 120)** | **-** | **(65 941)** | **19 005 458** |
| Stage 1 | 16 166 149 | - | - | - | 3 462 370 | (557 120) | - | (65 941) | 19 005 458 |
| **Loans and advances to banks** | **7 230 664** | **-** | **-** | **-** | **9 001 264** | **(6 324 873)** | **-** | **(99 290)** | **9 807 765** |
| Stage 1 | 7 230 664 | - | (4 562) | - | 9 001 241 | (6 324 873) | - | (97 136) | 9 805 334 |
| Stage 2 | - | - | 4 562 | - | 23 | - | - | (2 154) | 2 431 |
| **Loans and advances to customers** | **119 703 485** | **-** | **-** | **-** | **31 677 760** | **(21 524 796)** | **(941 088)** | **(6 331 119)** | **122 584 242** |
| Stage 1 | 108 905 581 | 1 374 190 | (4 251 119) | (1 084 514) | 29 933 552 | (19 432 892) | - | (5 913 793) | 109 531 005 |
| Stage 2 | 6 223 882 | (1 332 547) | 4 406 448 | (725 066) | 1 269 963 | (1 274 134) | - | (256 655) | 8 311 891 |
| Stage 3 | 4 339 863 | (41 643) | (155 329) | 1 802 585 | 414 937 | (787 662) | (914 638) | (146 078) | 4 512 035 |
| POCI | 234 159 | - | - | 6 995 | 59 308 | (30 108) | (26 450) | (14 593) | 229 311 |
| **Financial assets at amortised cost, gross** | **143 100 298** | **-** | **-** | **-** | **44 141 394** | **(28 406 789)** | **(941 088)** | **(6 496 350)** | **151 397 465** |

| Change from 1 January to 31 December 2021 | As at the beginning of the period | Transfer to Stage 1 | Transfer to Stage 2 | Transfer to Stage 3 | New financial assets originated or purchased | Financial assets derecognised during the period | Write-offs | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| **Debt securities** | **15 952 636** | **-** | **-** | **-** | **2 371 836** | **(2 931 185)** | **-** | **772 862** | **16 166 149** |
| Stage 1 | 15 952 636 | - | - | - | 2 371 836 | (2 931 185) | - | 772 862 | 16 166 149 |
| **Loans and advances to banks** | **7 354 870** | **-** | **-** | **-** | **6 079 743** | **(6 512 056)** | **-** | **308 107** | **7 230 664** |
| Stage 1 | 7 354 870 | - | - | - | 6 079 743 | (6 512 056) | - | 308 107 | 7 230 664 |
| **Loans and advances to customers** | **110 217 579** | **-** | **-** | **-** | **35 157 870** | **(17 898 768)** | **(1 060 240)** | **(6 712 956)** | **119 703 485** |
| Stage 1 | 90 918 609 | 7 403 725 | (2 041 573) | (453 063) | 34 239 164 | (15 084 150) | - | (6 077 131) | 108 905 581 |
| Stage 2 | 14 290 332 | (7 290 703) | 2 202 804 | (971 407) | 633 176 | (2 259 321) | - | (380 999) | 6 223 882 |
| Stage 3 | 4 714 440 | (113 022) | (161 231) | 1 397 539 | 206 894 | (467 519) | (1 050 405) | (186 833) | 4 339 863 |
| POCI | 294 198 | - | - | 26 931 | 78 636 | (87 778) | (9 835) | (67 993) | 234 159 |
| **Financial assets at amortised cost, gross** | **133 525 085** | **-** | **-** | **-** | **43 609 449** | **(27 342 009)** | **(1 060 240)** | **(5 631 987)** | **143 100 298** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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 6).

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 434.5 million from the Stage 2 to the Stage 1, and PLN 672.6 million PLN from the Stage 1 to the Stage 2.
- Recalibration of the transfer logic model in connection with the implementation of the new behavioural rating model in Bank's 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 | 9 807 765 | (1 503) | (3 991) | 2 488 |
| Loans and advances to customers | 122 584 242 | (3 254 212) | (4 261 020) | 1 006 808 |
| Individual customers | 70 431 367 | (1 845 079) | (1 970 947) | 125 868 |
| *- housing and mortgage loans to natural persons* | *48 094 082* | *(501 397)* | *(592 344)* | *90 947* |
| Corporate customers | 52 045 221 | (1 408 026) | (2 288 570) | 880 544 |
| Public sector customers | 107 654 | (1 107) | (1 503) | 396 |
| **Total balance sheet data** | **132 392 007** | **(3 255 715)** | **(4 265 011)** | **1 009 296** |
| **Off-balance sheet data** | | | | |
| Loan commitments and other commitments | 33 164 015 | (78 091) | (96 073) | 17 982 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 8 112 585 | (223 501) | (278 874) | 55 373 |
| **Total off-balance sheet data** | **41 276 600** | **(301 592)** | **(374 947)** | **73 355** |

| 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 | 7 230 664 | (983) | (3 790) | 2 807 |
| Loans and advances to customers | 119 703 485 | (3 178 110) | (4 385 050) | 1 206 940 |
| Individual customers | 71 922 297 | (1 903 929) | (2 053 476) | 149 547 |
| *- housing and mortgage loans to natural persons* | *49 819 031* | *(457 412)* | *(584 905)* | *127 493* |
| Corporate customers | 47 628 350 | (1 273 464) | (2 330 835) | 1 057 371 |
| Public sector customers | 152 838 | (717) | (739) | 22 |
| **Total balance sheet data** | **126 934 149** | **(3 179 093)** | **(4 388 840)** | **1 209 747** |
| **Off-balance sheet data** | | | | |
| Loan commitments and other commitments | 31 375 288 | (89 439) | (109 741) | 20 302 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 6 988 541 | (228 939) | (267 657) | 38 718 |
| **Total off-balance sheet data** | **38 363 829** | **(318 378)** | **(377 398)** | **59 020** |

As at 31 December 2022 the carrying amount of loans and advances to customers for which the Group has not recognised a loss allowance because of the collateral amounted to PLN 1 910 672 thousand (31 December 2021: PLN 2 500 050 thousand).

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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 2.20, 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 regarding 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 |
|---|---|---|
| Goodwill | 24 228 | 24 228 |
| Patents, licences and similar assets, including: | 1 093 558 | 959 664 |
| *- computer software* | *975 468* | *791 473* |
| Other intangible assets | 15 770 | 7 457 |
| Intangible assets under development | 258 151 | 292 604 |
| **Total intangible assets** | **1 391 707** | **1 283 953** |

In 2022 and 2021, the Group performed impairment tests of intangible assets under development and goodwill. As a result of the tests, as of 31 December 2022 the Group wrote off goodwill in the amount of PLN 3 532 thousand.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Movements in intangible assets

| Movements in intangible assets from 1 January to 31 December 2022 | Patents, licences and other similar assets | | Other intangible assets | Intangible assets under development | Goodwill | Total intangible assets |
|---|---|---|---|---|---|---|
| | | Computer software | | | | |
| **Gross value of intangible assets as at the beginning of the period** | **1 787 577** | **1 444 981** | **24 400** | **292 604** | **24 228** | **2 128 809** |
| **Increase (due to):** | **341 561** | **322 071** | **10 835** | **313 319** | **-** | **665 715** |
| - purchase | 34 511 | 16 544 | - | 248 947 | - | 283 458 |
| - transfer from intangible assets under development | 305 381 | 305 381 | 5 044 | - | - | 310 425 |
| - development costs | - | - | - | 43 587 | - | 43 587 |
| - other increases | 1 669 | 146 | 5 791 | 20 785 | - | 28 245 |
| **Decrease (due to):** | **(115 572)** | **(70 093)** | **-** | **(347 772)** | **-** | **(463 344)** |
| - liquidation | (115 495) | (70 093) | - | - | - | (115 495) |
| - transfer to intangible assets given to use | - | - | - | (310 425) | - | (310 425) |
| - other decreases | (77) | - | - | (37 347) | - | (37 424) |
| **Gross value of intangible assets as at the end of the period** | **2 013 566** | **1 696 959** | **35 235** | **258 151** | **24 228** | **2 331 180** |
| **Accumulated amortisation as at the beginning of the period** | **(824 249)** | **(651 675)** | **(16 943)** | **-** | **-** | **(841 192)** |
| **Amortisation for the period (due to):** | **(92 243)** | **(66 300)** | **(2 522)** | **-** | **-** | **(94 765)** |
| - amortisation | (200 565) | (129 275) | (2 366) | - | - | (202 931) |
| - other increases | (182) | (127) | (156) | - | - | (338) |
| - liquidation | 108 504 | 63 102 | - | - | - | 108 504 |
| **Accumulated amortisation as at the end of the period** | **(916 492)** | **(717 975)** | **(19 465)** | **-** | **-** | **(935 957)** |
| **Impairment losses as at the beginning of the period** | **(3 664)** | **(1 833)** | **-** | **-** | **-** | **(3 664)** |
| - increase | (3 516) | (3 516) | - | - | - | (3 516) |
| - decrease | 3 664 | 1 833 | - | - | - | 3 664 |
| **Impairment losses as at the end of the period** | **(3 516)** | **(3 516)** | **-** | **-** | **-** | **(3 516)** |
| **Net value of intangible assets as at the end of the period** | **1 093 558** | **975 468** | **15 770** | **258 151** | **24 228** | **1 391 707** |

| Movements in intangible assets from 1 January to 31 December 2021 | Patents, licences and other similar assets | | Other intangible assets | Intangible assets under development | Goodwill | Total intangible assets |
|---|---|---|---|---|---|---|
| | | Computer software | | | | |
| **Gross value of intangible assets as at the beginning of the period** | **1 758 468** | **1 394 470** | **24 139** | **244 843** | **28 956** | **2 056 406** |
| **Increase (due to):** | **241 714** | **180 473** | **261** | **316 191** | **-** | **558 166** |
| - purchase | 42 873 | 4 849 | - | 237 486 | - | 280 359 |
| - transfer from intangible assets under development | 198 556 | 175 512 | 261 | - | - | 198 817 |
| - development costs | - | - | - | 37 913 | - | 37 913 |
| - other increases | 285 | 112 | - | 40 792 | - | 41 077 |
| **Decrease (due to):** | **(212 605)** | **(129 962)** | **-** | **(268 430)** | **(4 728)** | **(485 763)** |
| - liquidation | (212 599) | (129 958) | - | (8) | - | (212 607) |
| - transfer to intangible assets given to use | - | - | - | (198 817) | - | (198 817) |
| - other decreases | (6) | (4) | - | (69 605) | (4 728) | (74 339) |
| **Gross value of intangible assets as at the end of the period** | **1 787 577** | **1 444 981** | **24 400** | **292 604** | **24 228** | **2 128 809** |
| **Accumulated amortisation as at the beginning of the period** | **(861 185)** | **(671 782)** | **(15 327)** | **-** | **-** | **(876 512)** |
| **Amortisation for the period (due to):** | **36 936** | **20 107** | **(1 616)** | **-** | **-** | **35 320** |
| - amortisation | (166 100) | (100 355) | (1 610) | - | - | (167 710) |
| - other increases | (179) | (112) | (6) | - | - | (185) |
| - liquidation | 203 215 | 120 574 | - | - | - | 203 215 |
| **Accumulated amortisation as at the end of the period** | **(824 249)** | **(651 675)** | **(16 943)** | **-** | **-** | **(841 192)** |
| **Impairment losses as at the beginning of the period** | **-** | **-** | **-** | **-** | **(1 196)** | **(1 196)** |
| - increase | (3 664) | (1 833) | - | - | (3 532) | (7 196) |
| - decrease | - | - | - | - | 4 728 | 4 728 |
| **Impairment losses as at the end of the period** | **(3 664)** | **(1 833)** | **-** | **-** | **-** | **(3 664)** |
| **Net value of intangible assets as at the end of the period** | **959 664** | **791 473** | **7 457** | **292 604** | **24 228** | **1 283 953** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

# 26. Tangible assets

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Fixed assets, including:** | **651 403** | **659 831** |
| - land | 653 | 653 |
| - buildings and structures | 42 885 | 45 649 |
| - equipment | 218 885 | 186 222 |
| - vehicles | 175 851 | 200 557 |
| - other fixed assets | 213 129 | 226 750 |
| **Fixed assets under construction** | **47 091** | **66 452** |
| **The right-of-use, including:** | **786 439** | **815 967** |
| - real estate | 781 408 | 811 837 |
| - perpetual usufruct of land | 2 146 | 2 177 |
| - cars | 1 924 | 1 712 |
| - other | 961 | 241 |
| **Total tangible assets** | **1 484 933** | **1 542 250** |

## Movements in fixed assets

| Movements in fixed 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** | **105 130** | **666 751** | **261 638** | **477 053** | **66 452** | **1 577 677** |
| **Increase (due to):** | **-** | **1 035** | **120 979** | **53 136** | **31 096** | **66 382** | **272 628** |
| - purchase | - | - | 71 011 | 53 136 | 6 214 | 59 017 | 189 378 |
| - transfer from fixed assets under construction | - | 1 035 | 49 369 | - | 23 858 | - | 74 262 |
| - other increases | - | - | 599 | - | 1 024 | 7 365 | 8 988 |
| **Decrease (due to):** | **-** | **(768)** | **(139 524)** | **(70 447)** | **(36 923)** | **(85 719)** | **(333 381)** |
| - sale | - | (287) | (45 297) | (70 332) | (5 269) | (12) | (121 197) |
| - liquidation | - | (481) | (17 282) | (115) | (16 402) | (60) | (34 340) |
| - transfer to fixed assets | - | - | - | - | - | (74 262) | (74 262) |
| - other decreases | - | - | (76 945) | - | (15 252) | (11 385) | (103 582) |
| **Gross value of fixed assets as at the end of the period** | **653** | **105 397** | **648 206** | **244 327** | **471 226** | **47 115** | **1 516 924** |
| **Accumulated depreciation as at the beginning of the period** | **-** | **(38 701)** | **(480 529)** | **(61 081)** | **(250 131)** | **-** | **(830 442)** |
| **Depreciation for the period (due to):** | **-** | **(3 031)** | **51 208** | **(7 395)** | **(7 743)** | **-** | **33 039** |
| - depreciation charge | - | (3 493) | (86 782) | (28 983) | (42 781) | - | (162 039) |
| - other increases | - | - | (410) | - | (760) | - | (1 170) |
| - sale | - | 267 | 45 047 | 21 496 | 5 032 | - | 71 842 |
| - liquidation | - | 195 | 16 894 | 92 | 15 554 | - | 32 735 |
| - other decreases | - | - | 76 459 | - | 15 212 | - | 91 671 |
| **Accumulated depreciation as at the end of the period** | **-** | **(41 732)** | **(429 321)** | **(68 476)** | **(257 874)** | **-** | **(797 403)** |
| **Impairment losses as at the beginning of the period** | **-** | **(20 780)** | **-** | **-** | **(172)** | **-** | **(20 952)** |
| - increase | - | - | - | - | (223) | (36) | (259) |
| - decrease | - | - | - | - | 172 | 12 | 184 |
| **Impairment losses as at the end of the period** | **-** | **(20 780)** | **-** | **-** | **(223)** | **(24)** | **(21 027)** |
| **Net value of fixed assets as at the end of the period** | **653** | **42 885** | **218 885** | **175 851** | **213 129** | **47 091** | **698 494** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 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** | **328 131** | **642 861** | **259 034** | **360 313** | **183 142** | **1 774 134** |
| **Increase (due to):** | **-** | **859** | **107 526** | **113 994** | **174 098** | **197 027** | **593 504** |
| - purchase | - | - | 40 199 | 106 865 | 1 747 | 131 560 | 280 371 |
| - transfer from fixed assets under construction | - | 859 | 66 773 | - | 171 191 | - | 238 823 |
| - other increases | - | - | 554 | 7 129 | 1 160 | 65 467 | 74 310 |
| **Decrease (due to):** | **-** | **(223 860)** | **(83 636)** | **(111 390)** | **(57 358)** | **(313 717)** | **(789 961)** |
| - sale | - | (11) | (9 503) | (107 595) | (22 082) | (2) | (139 193) |
| - liquidation | - | (440) | (36 788) | (1 383) | (34 623) | - | (73 234) |
| - transfer to fixed assets | - | - | - | - | - | (238 823) | (238 823) |
| - 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) | (2 412) | (73) | (74 892) | (78 922) |
| **Gross value of fixed assets as at the end of the period** | **653** | **105 130** | **666 751** | **261 638** | **477 053** | **66 452** | **1 577 677** |
| **Accumulated depreciation as at the beginning of the period** | **-** | **(125 319)** | **(476 052)** | **(59 459)** | **(265 555)** | **-** | **(926 385)** |
| **Depreciation for the period (due to):** | **-** | **86 618** | **(4 477)** | **(1 622)** | **15 424** | **-** | **95 943** |
| - depreciation charge | - | (6 511) | (86 780) | (31 720) | (37 698) | - | (162 709) |
| - other increases | - | (1) | (359) | (5 450) | (905) | - | (6 715) |
| - sale | - | 8 | 9 100 | 34 537 | 20 365 | - | 64 010 |
| - liquidation | - | 157 | 36 387 | 1 011 | 33 009 | - | 70 564 |
| - 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 | - | 73 | - | 1 452 |
| **Accumulated depreciation as at the end of the period** | **-** | **(38 701)** | **(480 529)** | **(61 081)** | **(250 131)** | **-** | **(830 442)** |
| **Impairment losses as at the beginning of the period** | **-** | **(49 409)** | **(50)** | **-** | **(802)** | **-** | **(50 261)** |
| - increase | - | (2 400) | - | - | (172) | - | (2 572) |
| - decrease | - | 31 029 | 50 | - | 802 | - | 31 881 |
| **Impairment losses as at the end of the period** | **-** | **(20 780)** | **-** | **-** | **(172)** | **-** | **(20 952)** |
| **Net value of fixed assets as at the end of the period** | **653** | **45 649** | **186 222** | **200 557** | **226 750** | **66 452** | **726 283** |

The recoverable value of impaired fixed assets is the net selling price determined on the basis of market prices for similar assets.

As part of its activities as a lessor, the mBank Group presents within fixed assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Minimum lease payments under non-cancellable operating lease** | | |
| Up to 1 year | 24 141 | 27 033 |
| Over 1 year up to 2 years | 11 665 | 15 666 |
| Over 2 years up to 3 years | 6 344 | 6 292 |
| Over 3 years up to 4 years | 2 685 | 2 201 |
| Over 4 years up to 5 years | 547 | 655 |
| **Total** | **45 382** | **51 847** |

The Group presents depreciation of fixed assets leased under operating lease and sublease agreements as net income from operating lease (Note 12).

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Movements in right-of-use assets

| Movements in rights-of-use from 1 January to 31 December 2022 | Real estate | Perpetual usufruct of land | Vehicles | Other | Total |
|---|---|---|---|---|---|
| **Gross value of rights-of-use as at the beginning of the period** | **1 140 766** | **2 271** | **20 460** | **1 007** | **1 164 504** |
| **Increase (due to):** | **147 719** | **-** | **19 869** | **1 100** | **168 688** |
| - new contract | 27 162 | - | 4 211 | - | 31 373 |
| - modification of contract | 90 372 | - | 2 246 | 1 100 | 93 718 |
| - other increases | 30 185 | - | 13 412 | - | 43 597 |
| **Decrease (due to):** | **(53 369)** | **-** | **(36 620)** | **(74)** | **(90 063)** |
| - termination of contract | (16 567) | - | (1 874) | (74) | (18 515) |
| - modification of contract | (36 802) | - | (34 683) | - | (71 485) |
| - other decreases | - | - | (63) | - | (63) |
| **Gross value of rights-of-use as at the end of the period** | **1 235 116** | **2 271** | **3 709** | **2 033** | **1 243 129** |
| **Accumulated depreciation as at the beginning of the period** | **(328 929)** | **(94)** | **(18 748)** | **(766)** | **(348 537)** |
| **Depreciation for the period (due to):** | **(124 779)** | **(31)** | **16 963** | **(306)** | **(108 153)** |
| - depreciation charge | (132 287) | (31) | (1 038) | (375) | (133 731) |
| - other increases | (8 716) | - | (31) | (3) | (8 750) |
| - modification of contract | (5 618) | - | 697 | - | (4 921) |
| - termination of contract | 21 842 | - | 17 281 | 72 | 39 195 |
| - other decreases | - | - | 54 | - | 54 |
| **Accumulated depreciation as at the end of the period** | **(453 708)** | **(125)** | **(1 785)** | **(1 072)** | **(456 690)** |
| **Net value of rights-of-use as at the end of the period** | **781 408** | **2 146** | **1 924** | **961** | **786 439** |

| Movements in rights-of-use from 1 January to 31 December 2021 | Real estate | Perpetual usufruct of land | Vehicles | Other | Total |
|---|---|---|---|---|---|
| **Gross value of rights-of-use as at the beginning of the period** | **884 001** | **49 046** | **2 816** | **2 015** | **937 878** |
| **Increase (due to):** | **428 664** | **-** | **22 418** | **455** | **451 537** |
| - new contract | 343 753 | - | 2 473 | 205 | 346 431 |
| - modification of contract | 59 092 | - | 309 | 233 | 59 634 |
| - other increases | 25 819 | - | 19 636 | 17 | 45 472 |
| **Decrease (due to):** | **(171 899)** | **(46 775)** | **(4 774)** | **(1 463)** | **(224 911)** |
| - termination of contract | (41 080) | - | (2 149) | (1 313) | (44 542) |
| - modification of contract | (123 231) | - | (13) | - | (123 244) |
| - other decreases | (7 588) | (46 775) | (2 612) | (150) | (57 125) |
| **Gross value of rights-of-use as at the end of the period** | **1 140 766** | **2 271** | **20 460** | **1 007** | **1 164 504** |
| **Accumulated depreciation as at the beginning of the period** | **(216 614)** | **(1 376)** | **(1 269)** | **(1 530)** | **(220 789)** |
| **Depreciation for the period (due to):** | **(112 315)** | **1 282** | **(17 479)** | **764** | **(127 748)** |
| - depreciation charge | (128 520) | (412) | (8 879) | (354) | (138 165) |
| - other increases | (6 774) | - | (11 937) | (7) | (18 718) |
| - modification of contract | 823 | - | 7 | - | 830 |
| - termination of contract | 20 527 | - | 1 383 | 975 | 22 885 |
| - other decreases | 1 629 | 1 694 | 1 947 | 150 | 5 420 |
| **Accumulated depreciation as at the end of the period** | **(328 929)** | **(94)** | **(18 748)** | **(766)** | **(348 537)** |
| **Net value of rights-of-use as at the end of the period** | **811 837** | **2 177** | **1 712** | **241** | **815 967** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 27. Investment properties

Due to the change of the Bank's head office, in 2021 the Group reclassified its building at ul. Królewska 14 in Warsaw, previously recognised as a fixed asset with a total carrying amount of PLN 75 645 thousand and the right of perpetual usufruct of land recognised as the right-of-use in the amount of PLN 37 747 thousand to the item Investment property. The difference in the revaluation of these components to fair value amounting to PLN 14 118 thousand was recognised in other comprehensive income (Note 18). 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 |
| - revaluation gains from fair value adjustments | 12 862 | 14 118 |
| **Decrease (due to):** | **(3 463)** | **-** |
| - revaluation losses from fair value adjustments | (3 463) | - |
| **As at the end of the period** | **136 909** | **127 510** |

## 28. Other assets

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Other financial assets, including:** | **1 192 404** | **1 225 710** |
| - debtors, including: | 1 005 845 | 1 087 729 |
| *- settlements of cash deposit machines and cash sorting companies* | *484 463* | *377 379* |
| *- settlements of payment cards* | *54 543* | *47 398* |
| - accrued income | 117 741 | 89 021 |
| - interbank balances | 40 694 | 22 867 |
| - settlements of securities transactions | 28 124 | 26 093 |
| **Other non-financial assets, including:** | **912 891** | **518 489** |
| - other accruals | 139 038 | 155 933 |
| - inventories | 312 614 | 306 585 |
| - non-financial receivables due to final verdicts in legal proceedings relating to loans in foreign currencies | 388 832 | - |
| - other | 72 407 | 55 971 |
| **Total other assets** | **2 105 295** | **1 744 199** |
| | | |
| Short-term (up to 1 year) | 1 993 481 | 1 660 683 |
| Long-term (over 1 year) | 111 814 | 83 516 |

In 2022 and in 2021, the item Settlements of securities transactions is connected in its entirety with the Brokerage Office activity.

As at 31 December 2022 and as at 31 December 2021, the value of inventories primarily results from the business of the company mLeasing.

Throughout the year 2022 and 2021, the Group did not capitalise borrowing costs.

### Financial assets included in other assets

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Gross financial assets, including:** | **1 096 007** | **1 153 770** |
| - Not past due | 1 087 427 | 1 131 795 |
| - Past due from 1 to 90 days | 948 | 12 427 |
| - Past due over 90 days | 7 632 | 9 548 |
| Provisions for impaired assets (negative amount) | (21 344) | (17 081) |
| **Net financial assets** | **1 074 663** | **1 136 689** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

### Movements of impairment allowance for financial assets

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **As at the beginning of the period** | **(17 081)** | **(16 551)** |
| **Change in the period (due to)** | **(4 263)** | **(530)** |
| - increase of provisions | (4 652) | (3 138) |
| - release of provisions | 12 | 479 |
| - write-offs | 378 | 2 233 |
| - foreign exchange differences | (1) | - |
| - other | - | (104) |
| **As at the end of the period** | **(21 344)** | **(17 081)** |

## 29. Financial liabilities measured at amortised cost

### Amounts due to banks and customers

| 31.12.2022 | Amount due to banks | Amount due to customers | including: | | |
|---|---|---|---|---|---|
| | | | Individual customers | Corporate customers | Public sector customers |
| **Deposits** | **546 654** | **172 979 819** | **122 669 186** | **49 050 409** | **1 260 224** |
| Current accounts | 273 832 | 133 712 049 | 95 642 108 | 37 626 052 | 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** | **812 848** | **1 151 095** | **220 848** | **930 238** | **9** |
| Liabilities in respect of cash collaterals | 715 959 | 509 204 | 39 715 | 469 489 | - |
| Other | 96 889 | 641 891 | 181 133 | 460 749 | 9 |
| **Total financial liabilities measured at amortised cost** | **3 270 223** | **174 130 914** | **122 890 034** | **49 980 647** | **1 260 233** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 1 704 002 | 173 908 352 |
| Long-term (over 1 year) | 1 566 221 | 222 562 |

| 31.12.2021 | Amount due to banks | Amount due to customers | including: | | |
|---|---|---|---|---|---|
| | | | Individual customers | Corporate customers | Public sector customers |
| **Deposits** | **2 111 811** | **155 904 661** | **112 225 674** | **43 071 577** | **607 410** |
| Current accounts | 653 061 | 147 022 632 | 103 992 478 | 42 436 923 | 593 231 |
| Term deposits | 770 328 | 8 794 207 | 8 233 196 | 546 832 | 14 179 |
| Repo or sell/buy back transactions | 688 422 | 87 822 | - | 87 822 | - |
| **Loans and advances received** | **1 907 123** | **-** | **-** | **-** | **-** |
| **Other financial liabilities** | **1 247 245** | **1 167 009** | **220 450** | **946 526** | **33** |
| Liabilities in respect of cash collaterals | 1 077 483 | 706 268 | 75 263 | 631 005 | - |
| Other | 169 762 | 460 741 | 145 187 | 315 521 | 33 |
| **Total financial liabilities measured at amortised cost** | **5 266 179** | **157 071 670** | **112 446 124** | **44 018 103** | **607 443** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 3 363 167 | 156 194 891 |
| Long-term (over 1 year) | 1 903 012 | 876 779 |

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

The average interest rate for deposits and loans received from other banks in 2022 amounted to 2.84% (31 December 2021: 0.10%).

The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

As at 31 December 2022 and as at 31 December 2021, the majority of the deposits of retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repo transactions) amounted to 0.99% (31 December 2021: 0.04%).

As at 31 December 2022, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 1 910 721 thousand (31 December 2021: PLN 1 906 621 thousand). The loan was collateralised with treasury bonds, which have been presented as pledged assets under Note 23 and Note 36.

## Lease liabilities

Undiscounted lease liabilities by maturity dates are presented in Note 3.8.1.

## Debt securities issued

| 31.12.2022 Debt securities issued by type | Nominal value (currency of issue) | Carrying value of the liability according to the maturity date | | | | | Total carrying value of the liability |
|---|---|---|---|---|---|---|---|
| | | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | |
| **Bonds, including:** | | **141 995** | **1 015 795** | **-** | **3 417 085** | **119 753** | **4 694 628** |
| - PLN | 847 500 | 125 740 | 65 223 | - | 512 922 | 91 219 | 795 104 |
| - EUR | 564 000 | 7 521 | - | - | 2 330 062 | 28 534 | 2 366 117 |
| - CHF | 325 000 | 8 734 | 950 572 | - | 574 101 | - | 1 533 407 |
| **Mortgage bonds (public), including:** | | **-** | **201 786** | **856 835** | **3 458 349** | **253 881** | **4 770 851** |
| - PLN | 1 452 002 | - | 201 786 | 856 835 | 345 795 | 60 240 | 1 464 656 |
| - EUR | 726 900 | - | - | - | 3 112 554 | 193 641 | 3 306 195 |
| **Total** | | **141 995** | **1 217 581** | **856 835** | **6 875 434** | **373 634** | **9 465 479** |

| 31.12.2021 Debt securities issued by type | Nominal value (currency of issue) | Carrying value of the liability according to the maturity date | | | | | Total carrying value of the liability |
|---|---|---|---|---|---|---|---|
| | | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | |
| **Bonds, including:** | | **162 208** | **199 679** | **2 913 146** | **1 455 918** | **2 299 700** | **7 030 651** |
| - PLN | 367 000 | 162 208 | 199 679 | - | 5 008 | - | 366 895 |
| - EUR | 954 442 | - | - | 2 103 666 | - | 2 299 700 | 4 403 366 |
| - CHF | 505 000 | - | - | 809 480 | 1 450 910 | - | 2 260 390 |
| **Mortgage bonds (public), including:** | | **-** | **92 998** | **1 252 059** | **4 751 180** | **302 894** | **6 399 131** |
| - PLN | 2 555 143 | - | - | 928 136 | 1 557 104 | 74 815 | 2 560 055 |
| - EUR | 816 900 | - | 92 998 | 323 923 | 3 194 076 | 228 079 | 3 839 076 |
| **Total** | | **162 208** | **292 677** | **4 165 205** | **6 207 098** | **2 602 594** | **13 429 782** |

Detailed information on the issue of mortgage bonds is provided below in this note.

The Group did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

## Movements in debt securities issued

| Movements from 1 January to 31 December | 2022 | 2021 |
|---|---|---|
| **As at the beginning of the period** | **13 429 782** | **13 996 317** |
| Additions (issue) | 1 792 187 | 3 497 354 |
| Disposals (redemption) | (5 366 177) | (3 959 595) |
| Exchange differences | 272 067 | 98 075 |
| Other changes | (662 380) | (202 369) |
| **Debt securities issued as at the end of the period** | **9 465 479** | **13 429 782** |

**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. On 24 March 2022, 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 and 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.

- mLeasing Sp. z o.o. issued 9 series of short-term discount bonds in amount of PLN 900 000 thousand.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

### Redemption 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.
- mLeasing Sp. z o.o. redeemed short-term discount bonds with a total value of PLN 1 000 000 thousand.
- mBank Hipoteczny S.A. redeemed variable rate short-term bonds with a nominal value of PLN 62 000 thousand, redeemed fixed rate mortgage bonds with a value of EUR 90 000 thousand and redeemed variable rate mortgage bonds with a value of PLN 925 000 thousand.

### 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.
- mBank Hipoteczny S.A. issued mortgage bonds with a nominal value of PLN 100 000 thousand.
- mLeasing Sp. z o.o. issued 11 series of short-term discount bonds with a nominal value of PLN 1 100 000 thousand.

### Redemption 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.
- mBank Hipoteczny S.A. redeemed mortgage bonds with a nominal value of PLN 782 210 thousand and bonds with a nominal value of PLN 100 000 thousand.
- mLeasing Sp. z o.o. redeemed short-term discount bonds with a nominal value of PLN 1 100 000 thousand.

The tables below show data related to the issuance of mortgage bonds by mBank Hipoteczny.

| | | Mortgage bonds | |
|---|---|---|---|
| | | 31.12.2022 | 31.12.2021 |
| 1. | Mortgage bonds listed on the market | 6 569 088 | 7 355 232 |
| 2. | Core assets from assets used as collateral | 8 130 326 | 9 737 408 |
| 3. | Substitute assets from assets used as collateral | 270 000 | 98 732 |
| 4. | Derivatives from assets used as collateral | 128 040 | 100 890 |
| 5. | Level of collateral for mortgage bonds from assets used as collateral (2/1) | 123.77% | 132.39% |
| 6. | Total mortgage bonds collateral level (2+3+4) / 1 | 129.83% | 135.10% |
| 7. | The value of receivables as collateral issue of mortgage bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate | - | 1 507 424 |
| 8. | The value of receivables as collateral issue of mortgage bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property | 7 838 621 | 7 719 429 |

| | | Mortgage bonds | |
|---|---|---|---|
| | | 31.12.2022 | 31.12.2021 |
| 1. | Cash listed in Article 18 (3) of the Law entered in the collateral register of mortgage bonds (in nominal value) | 270 000 | 170 000 |
| 2. | Maximum cumulative net liquidity outflow over the next 180 days in accordance with Article 18 (3a) of the Law (Surplus) | - | 71 268 |
| 3. | Permissible value of substitute collateral (1-2) | 270 000 | 98 732 |

Transactions regarding Bank's bonds included in subordinated liabilities have been described under this Note below.

IFRS Consolidated Financial Statements 2022 (PLN 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 | 550 000 | PLN | 6M WIBOR + 1.8% | 9.29 | 10.10.2028 [1)] | 561 338 |
| Investors not associated with mBank | 200 000 | PLN | 6M WIBOR + 1.95% | 9.44 | 10.10.2030 [1)] | 204 189 |
| Investors not associated with mBank | 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 | 550 000 | PLN | 6M WIBOR + 1.8% | 2.14 | 10.10.2028 [1)] | 552 643 |
| Investors not associated with mBank | 200 000 | PLN | 6M WIBOR + 1.95% | 2.29 | 10.10.2030 [1)] | 201 028 |
| Investors not associated with mBank | 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

| Change 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 a consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand received on 21 March 2018 as instruments in the Bank's Tier 2 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.

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 be included in the supplementary capital of the Bank, in accordance with art. 127 par. 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 2 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 Group 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 30. Other liabilities

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Other financial liabilities, including:** | **3 047 748** | **2 554 772** |
| Interbank settlements | 1 514 812 | 1 042 600 |
| Creditors, including: | 1 254 578 | 1 213 238 |
| *- settlements of payment cards* | *45 202* | *47 543* |
| *- liabilities to pay to BFG* | *321 453* | *251 044* |
| Accrued expenses | 278 358 | 298 934 |
| **Other non-financial liabilities, including:** | **1 063 054** | **889 733** |
| Tax liabilities | 134 948 | 294 611 |
| Deferred income | 351 133 | 396 532 |
| Provisions for holiday equivalents | 33 112 | 26 335 |
| Provisions for other liabilities to employees | 177 287 | 157 961 |
| Non-financial liabilities due to final verdicts in legal proceedings relating to loans in foreign currencies | 345 126 | - |
| Other | 21 448 | 14 294 |
| **Total other liabilities** | **4 110 802** | **3 444 505** |

Cash flows resulting from financial liabilities are presented in 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: | 767 508 | 395 889 |
| *- provisions for legal proceedings relating to loans in foreign currencies* | *718 128* | *358 807* |
| *- provisions for remaining legal proceedings* | *49 380* | *37 082* |
| Provisions for commitments and guarantees given | 301 592 | 318 378 |
| Provisions for post-employment benefits | 21 331 | 25 445 |
| Other provisions | 271 828 | 97 188 |
| **Provisions, total** | **1 362 259** | **836 900** |

Estimated dates of granted contingent liabilities realisation are presented in Note 35.

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

The description regarding legal risk provisions related to mortgage and housing loans granted to individual customers in CHF is presented in Note 34.

The position Other provisions includes 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, the provision set up by mFinanse in connection with the inspection of the Social Insurance Institution 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 described in Note 4.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Movements in the provisions

| Change from 1 January to 31 December 2022 | Provisions for other legal proceedings relating to loans in foreign currencies | Provisions for remaining legal proceedings | Other provisions |
|---|---|---|---|
| **Provisions as at the beginning of the period** | **358 807** | **37 082** | **97 188** |
| **Change in the period, due to:** | **359 321** | **12 298** | **174 640** |
| - increase of provisions | 292 945 | 19 065 | 392 655 |
| - release of provisions | (1 784) | (5 500) | (4 322) |
| - utilisation | (143 728) | (1 392) | (214 965) |
| - reclassification to other positions | 227 553 | - | 1 242 |
| - foreign exchange differences | (15 665) | 125 | 30 |
| **Provisions as at the end of the period** | **718 128** | **49 380** | **271 828** |

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

## Movements in provisions for loan commitments and guarantees

| 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 | Increases due to granting and takeover | Decreased results of derecognised from balance sheet | Changes in credit risk | Changes due to methodology update | Other movements | As at the end of the period |
|---|---|---|---|---|---|---|---|---|---|---|
| **Loan commitments** | **89 439** | **-** | **-** | **-** | **46 243** | **(39 494)** | **(22 435)** | **187** | **4 151** | **78 091** |
| Stage 1 | 49 142 | 18 509 | (4 861) | (146) | 35 966 | (23 249) | (36 635) | 487 | 131 | 39 344 |
| 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** | **228 939** | **-** | **-** | **-** | **53 082** | **(36 738)** | **(22 077)** | **-** | **295** | **223 501** |
| Stage 1 | 3 433 | (334) | 198 | - | 11 784 | (5 339) | (4 956) | - | - | 4 786 |
| 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** | **318 378** | **-** | **-** | **-** | **99 325** | **(76 232)** | **(44 512)** | **187** | **4 446** | **301 592** |

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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** | | | | |
| **Provisions as at the beginning of the period** | **14 041** | **3 065** | **8 339** | **25 445** |
| **Change in the period, due to:** | **(584)** | **(140)** | **(3 390)** | **(4 114)** |
| Provision created | 626 | 138 | 922 | 1 686 |
| Interest expense | 458 | 107 | 286 | 851 |
| Actuarial gains and losses recognised in other comprehensive income (Note 18), due to: | (651) | (349) | (3 285) | (4 285) |
| *- Change in financing assumptions* | *(3 658)* | *(771)* | *(4 574)* | *(9 003)* |
| *- Change in demographic assumptions* | *169* | *298* | *(556)* | *(89)* |
| *- Other changes* | *2 838* | *124* | *1 845* | *4 807* |
| Benefits paid | (1 017) | (36) | (1 313) | (2 366) |
| **Provisions as at the end of the period** | **13 457** | **2 925** | **4 949** | **21 331** |
| Short-term (up to 1 year) | 2 324 | 280 | 332 | 2 936 |
| Long-term (over 1 year) | 11 133 | 2 645 | 4 617 | 18 395 |

| 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** | | | | |
| **Provisions as at the beginning of the period** | **15 052** | **6 143** | **12 293** | **33 488** |
| **Change in the period, due to:** | **(1 011)** | **(3 078)** | **(3 954)** | **(8 043)** |
| Provision created | 876 | 166 | 1 111 | 2 153 |
| Interest expense | 183 | 83 | 164 | 430 |
| Actuarial gains and losses recognised in other comprehensive income (Note 18), due to: | (1 300) | (3 327) | (4 086) | (8 713) |
| *- Change in financing assumptions* | *(2 838)* | *(674)* | *(5 359)* | *(8 871)* |
| *- Change in demographic assumptions* | *418* | *(2 686)* | *516* | *(1 752)* |
| *- Other changes* | *1 120* | *33* | *757* | *1 910* |
| Benefits paid | (770) | - | (1 143) | (1 913) |
| **Provisions as at the end of the period** | **14 041** | **3 065** | **8 339** | **25 445** |
| Short-term (up to 1 year) | 1 868 | 215 | 253 | 2 336 |
| Long-term (over 1 year) | 12 173 | 2 850 | 8 086 | 23 109 |

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 (as at 31 December 2021: PLN 1 682 thousand and PLN 1 498 thousand, respectively).

## 32. Assets and liabilities for deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an income tax rate, which will be in force in the year when the tax obligation arises (2022 and 2021: 19%).

Assets and liabilities for deferred income tax are not recognised as short term assets and liabilities.

Changes in assets and liabilities for deferred income tax are presented below.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| 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 | 115 348 | 88 690 | - | - | 204 038 |
| Valuation of derivative financial instruments | 114 796 | 141 439 | 58 478 | - | 314 713 |
| Valuation of securities | 299 668 | 59 527 | 12 648 | (8) | 371 835 |
| Provisions for impairment of loans and advances | 583 712 | 23 701 | - | - | 607 413 |
| Provisions for employee benefits | 39 061 | 7 078 | (814) | - | 45 325 |
| Other provisions | 70 993 | 226 693 | - | (5 624) | 292 062 |
| Prepayments/accruals | 36 592 | (10 948) | - | (12) | 25 632 |
| Tax losses carried forward | 1 907 | (1 009) | - | - | 898 |
| Differences between book and tax value of lease | 402 449 | (50 978) | - | - | 351 471 |
| Difference between book and tax value of tangible and intangible assets | 207 433 | 6 628 | - | 388 | 214 449 |
| Other negative temporary differences | 61 104 | 5 785 | - | (2 410) | 64 479 |
| **Total deferred income tax assets** | **1 933 063** | **496 606** | **70 312** | **(7 666)** | **2 492 315** |
| Offsetting effect | (540 713) | | | | (616 587) |
| **Total deferred income tax assets, net** | **1 392 350** | | | | **1 875 728** |

| 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 | (65 391) | (52 565) | - | 18 | (117 938) |
| Valuation of derivative financial instruments | (27 291) | (13 641) | 4 752 | - | (36 180) |
| Valuation of securities | (98 822) | (63 373) | (2 126) | - | (164 321) |
| Interest and fees received in advance | (48 261) | 42 848 | - | - | (5 413) |
| Difference between book and tax value of tangible and intangible assets | (238 963) | (3 932) | - | - | (242 895) |
| Prepayments regarding amortisation of applied investment relief | (9 163) | - | - | - | (9 163) |
| Other positive temporary differences | (52 911) | 12 002 | - | 232 | (40 677) |
| **Total deferred income tax liabilities** | **(540 802)** | **(78 661)** | **2 626** | **250** | **(616 587)** |
| Offsetting effect | 540 713 | | | | 616 587 |
| **Total deferred income tax liabilities, 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 | 133 787 | (18 439) | - | - | 115 348 |
| Valuation of derivative financial instruments | 10 361 | (18 415) | 122 850 | - | 114 796 |
| Valuation of securities | 110 868 | 20 658 | 168 142 | - | 299 668 |
| Provisions for impairment of loans and advances | 610 500 | (26 788) | - | - | 583 712 |
| Provisions for employee benefits | 29 072 | 11 643 | (1 654) | - | 39 061 |
| Other provisions | 51 630 | 19 363 | - | - | 70 993 |
| Prepayments/accruals | 34 059 | 2 533 | - | - | 36 592 |
| Tax losses carried forward | 2 523 | (616) | - | - | 1 907 |
| Differences between book and tax value of lease | 416 198 | (13 749) | - | - | 402 449 |
| Difference between book and tax value of tangible and intangible assets | 155 784 | 51 649 | - | - | 207 433 |
| Other negative temporary differences | 81 033 | (12 875) | - | (7 054) | 61 104 |
| **Total deferred income tax assets** | **1 635 815** | **14 964** | **289 338** | **(7 054)** | **1 933 063** |
| Offsetting effect | (781 935) | | | | (540 713) |
| **Total deferred income tax assets, net** | **853 880** | | | | **1 392 350** |

| 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 | (84 150) | 18 759 | - | - | (65 391) |
| Valuation of derivative financial instruments | (209 994) | 89 907 | 92 796 | - | (27 291) |
| Valuation of securities | (197 997) | 28 436 | 70 739 | | (98 822) |
| Interest and fees received in advance | (26 022) | (22 239) | - | - | (48 261) |
| Difference between book and tax value of tangible and intangible assets | (188 137) | (50 826) | - | - | (238 963) |
| Prepayments regarding amortisation of applied investment relief | (18 657) | 9 494 | - | - | (9 163) |
| Other positive temporary differences | (57 668) | 7 511 | (2 682) | (72) | (52 911) |
| **Total deferred income tax liabilities** | **(782 625)** | **81 042** | **160 853** | **(72)** | **(540 802)** |
| Offsetting effect | 781 935 | | | | 540 713 |
| **Total deferred income tax liabilities, net** | **(690)** | | | | **(89)** |

The item Difference between book and tax value of tangible and intangible assets includes the impact of IFRS 16 on deferred tax.

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Interest accrued | 36 125 | 320 |
| Valuation of derivative financial instruments | 127 798 | 71 492 |
| Valuation of securities | (3 846) | 49 094 |
| Provisions for impairment of loans and advances | 23 701 | (26 788) |
| Provisions for employee benefits | 7 078 | 11 643 |
| Other provisions | 226 693 | 19 363 |
| Prepayments/accruals | (10 948) | 2 533 |
| Interest and fees received in advance | 42 848 | (22 239) |
| Prepayments regarding amortisation of applied investment relief | - | 9 494 |
| Difference between book and tax value of tangible and intangible assets | 2 696 | 823 |
| Differences between book and tax value of lease | (50 978) | (13 749) |
| Deferred tax losses carried forward | (1 009) | (616) |
| Other temporary differences | 17 787 | (5 364) |
| **Total deferred income tax included in the profit and loss account (Note 16)** | **417 945** | **96 006** |

The item Other positive temporary differences includes the impact of the creation of deferred tax provision in the amount of PLN 7 510 thousand at the end of 2022 (PLN 11 265 thousand at the end of 2021) resulting from the implementation of IFRS 9 in respect of tax-deductible costs recognised in previous years from the provision for incurred undocumented credit risk. 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.

The Group evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29 the Group recognised deferred tax assets to the extent that it is probable that the Group 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).

The Group 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 the Group and it is probable that in the foreseeable future, these differences will not be reversed. At the end of 2022, the Group 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 and PLN 1 607 289 thousand at the end of 2021.

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

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

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

The value of provisions for litigations as at 31 December 2022 amounted to PLN 767 508 thousand of which PLN 718 128 thousand concerns to provisions for legal proceedings relating to loans in foreign currencies (as at 31 December 2021, respectively PLN 395 889 thousand and PLN 358 807 thousand). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Group.

## Information on the most important court proceedings

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 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 Social Insurance Institution (ZUS)

mFinanse S.A., a subsidiary of the Bank, is currently under inspection by the Social Insurance Institution (ZUS). On 16 May 2022, the Company received a notice of intent to initiate an inspection by the Social Insurance Institution Branch in Warsaw regarding the correctness and reliability of calculating social insurance contributions and other contributions that the Institution is required to collect, as well as reporting for social insurance and health insurance for the years 2018 - 2021. As of the date of publishing these financial statements, the inspection has not been completed.

The company is in dispute with the Social Security Institution over the interpretation of the application of social security regulation in the area of the cooperation model involving the simultaneous employment of intermediaries on a part-time basis and a civil law contract. There are currently 8 cases at the court stage in the area of the cooperation model used by the company. The Group's position is that the cooperation model used by the Company complies with the provisions of the law, including the Banking Law in terms of providing credit intermediaries with access to data covered by bank secrecy.

In connection with the above issue, as of 31 December 2022, the Group had a provision in the amount of PLN 99 346 thousand.

### 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 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 48 Events after the balance sheet date. 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 voluntary settlement program**

The Group 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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

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

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

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

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

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

The 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 and settlement program related to active loans 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% 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 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 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Group comprise loan commitments, guarantees and other financial facilities and other commitments.

The amounts and deadlines by which the Group will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

### 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 | 32 411 508 | 675 546 | 74 062 | 2 899 | 39 344 | 14 026 | 24 276 | 445 |
| Guarantees and other financial facilities | 7 383 407 | 460 520 | 266 455 | 2 203 | 4 786 | 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-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 | 30 887 817 | 425 000 | 51 020 | 8 910 | 49 142 | 14 576 | 24 555 | 1 166 |
| Guarantees and other financial facilities | 6 430 572 | 245 546 | 309 900 | 2 523 | 3 433 | 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 impaired in accordance with IFRS 9** | | | | | |
| 1 | 4 756 581 | 1 847 | - | - | **4 758 428** |
| 2 | 11 891 625 | 59 227 | - | 2 | **11 950 854** |
| 3 | 9 606 095 | 371 468 | - | 279 | **9 977 842** |
| 4 | 7 608 715 | 338 620 | - | 277 | **7 947 612** |
| 5 | 2 716 126 | 267 307 | - | 125 | **2 983 558** |
| 6 | 12 319 | 14 506 | - | 2 | **26 827** |
| 7 | 49 880 | 83 091 | - | 14 | **132 985** |
| 8 | 249 787 | - | - | - | **249 787** |
| other | 2 903 787 | - | - | - | **2 903 787** |
| default | - | - | 340 517 | 4 403 | **344 920** |
| **Total nominal value** | **39 794 915** | **1 136 066** | **340 517** | **5 102** | **41 276 600** |
| **Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments impaired in accordance with IFRS 9** | | | | | |
| **Total provisions** | **44 130** | **15 110** | **243 504** | **(1 152)** | **301 592** |

| 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 impaired in accordance with IFRS 9** | | | | | |
| 1 | 3 222 846 | 179 | - | - | **3 223 025** |
| 2 | 14 752 163 | 3 588 | - | 106 | **14 755 857** |
| 3 | 7 123 209 | 17 593 | - | 273 | **7 141 075** |
| 4 | 6 621 638 | 243 531 | - | 201 | **6 865 370** |
| 5 | 2 563 646 | 279 699 | - | 95 | **2 843 440** |
| 6 | 17 287 | 22 112 | - | 4 | **39 403** |
| 7 | 649 278 | 103 844 | - | 4 | **753 126** |
| 8 | 257 292 | - | - | - | **257 292** |
| other | 2 113 571 | - | - | - | **2 113 571** |
| default | - | - | 360 920 | 10 750 | **371 670** |
| **Total nominal value** | **37 320 930** | **670 546** | **360 920** | **11 433** | **38 363 829** |
| **Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments impaired in accordance with IFRS 9** | | | | | |
| **Total provisions** | **52 575** | **15 729** | **250 415** | **(341)** | **318 378** |

The rating system is described in Note 3.3.4.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The following table presents the Group'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 | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|
| **Contingent liabilities granted and received** | **30 704 164** | **15 067 380** | **5 007 205** | **50 778 749** |
| **Commitments granted** | **27 257 222** | **10 001 914** | **4 017 464** | **41 276 600** |
| Financing | 23 296 728 | 7 143 090 | 2 724 197 | 33 164 015 |
| *- Loan commitments* | *23 296 728* | *7 143 090* | *2 724 197* | *33 164 015* |
| Guarantees and other financial facilities | 3 960 494 | 2 858 824 | 1 293 267 | 8 112 585 |
| *- Guarantees and standby letters of credit* | *3 960 494* | *2 858 824* | *1 293 267* | *8 112 585* |
| **Commitments received** | **3 446 942** | **5 065 466** | **989 741** | **9 502 149** |
| Financial commitments received | 773 790 | - | - | 773 790 |
| Guarantees received | 2 673 152 | 5 065 466 | 989 741 | 8 728 359 |
| **Derivative financial instruments (nominal value of contracts)** | **273 757 689** | **410 332 909** | **42 014 000** | **726 104 598** |
| Interest rate derivatives | 158 128 185 | 392 265 521 | 41 921 182 | 592 314 888 |
| Currency derivatives | 110 595 312 | 17 289 913 | 41 818 | 127 927 043 |
| Market risk derivatives | 5 034 192 | 777 475 | 51 000 | 5 862 667 |
| **Total off-balance sheet items** | **304 461 853** | **425 400 289** | **47 021 205** | **776 883 347** |

| 31.12.2021 | Up to 1 year | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|
| **Contingent liabilities granted and received** | **29 540 987** | **12 135 369** | **4 815 055** | **46 491 411** |
| **Commitments granted** | **25 116 860** | **8 817 534** | **4 429 435** | **38 363 829** |
| Financing | 21 861 902 | 6 149 614 | 3 361 231 | 31 372 747 |
| *- Loan commitments* | *21 861 902* | *6 149 614* | *3 361 231* | *31 372 747* |
| Guarantees and other financial facilities | 3 252 417 | 2 667 920 | 1 068 204 | 6 988 541 |
| *- Guarantees and standby letters of credit* | *3 252 417* | *2 667 920* | *1 068 204* | *6 988 541* |
| Other liabilities | 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)** | **311 888 179** | **457 913 190** | **50 022 175** | **819 823 544** |
| Interest rate derivatives | 200 350 190 | 433 237 256 | 49 069 810 | 682 657 256 |
| Currency derivatives | 104 653 117 | 24 593 479 | 917 185 | 130 163 781 |
| Market risk derivatives | 6 884 872 | 82 455 | 35 180 | 7 002 507 |
| **Total off-balance sheet items** | **341 429 166** | **470 048 559** | **54 837 230** | **866 314 955** |

The carrying amounts of derivatives are presented in Note 20.

As at 31 December 2022, apart from financial commitments granted by the Bank, the largest impact on the total amount of financial commitments granted was attributed to commitments granted by mFaktoring and mBank Hipoteczny in the amount of PLN 2 903 787 thousand and PLN 3 615 thousand respectively (31 December 2021: PLN 2 113 571 thousand and PLN 9 700 thousand).

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 36. Pledged assets

Assets may be pledged as collateral for repo/sell/buy back transactions or derivatives contracts with other banks. Collateral may be also required in relation 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 Group. 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 Group accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like mortgage loans, credit lines, banking guarantees.

The tables below present the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank Group. Treasury securities are the main component of the Group's liquidity collateral for the purpose of pledge.

| 31.12.2022 | Assets | | | Fair value of the collateral received in the form of securities related to 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 20, 21, 22 and 23), including: | 55 143 094 | 3 502 884 | 49 085 844 | 9 310 924 | 562 338 | 8 748 586 | 57 834 430 |
| *- NBP bills* | *17 483 362* | - | *17 483 362* | - | - | - | *17 483 362* |
| *- Government bonds* | *29 183 941* | *2 045 372* | *27 138 569* | *9 310 924* | *562 338* | *8 748 586* | *35 887 155* |
| *- Mortgage bonds* | *116 709* | - | - | - | - | - | - |
| *- Other non-treasury securities* | *8 359 082* | *1 457 512* | *4 463 913* | - | - | - | *4 463 913* |
| Cash collaterals (due to derivatives transactions) (Note 23) | 965 301 | 965 301 | - | - | - | - | - |
| Loans and advances to customers | 120 183 142 | 8 179 977 | - | - | - | - | - |
| Other assets | 33 600 576 | - | - | - | - | - | - |
| **Total** | **209 892 113** | **12 648 162** | **49 085 844** | **9 310 924** | **562 338** | **8 748 586** | **57 834 430** |

| 31.12.2021 | Assets | | | Fair value of the collateral received in the form of securities related to 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 20, 21, 22 and 23), including: | 53 047 912 | 2 649 157 | 48 733 544 | 5 941 696 | 128 964 | 5 812 732 | 54 546 276 |
| *- NBP bills* | *8 495 243* | - | *8 495 243* | - | - | - | *8 495 243* |
| *- Government bonds* | *36 768 733* | *2 079 126* | *34 689 607* | *5 941 696* | *128 964* | *5 812 732* | *40 502 339* |
| *- Mortgage bonds* | *43 266* | - | - | - | - | - | - |
| *- Other non-treasury securities* | *7 740 670* | *570 031* | *5 548 694* | - | - | - | *5 548 694* |
| Cash collaterals (due to derivatives transactions) (Note 23) | 968 851 | 968 851 | - | - | - | - | - |
| Loans and advances to customers | 117 677 475 | 9 877 444 | - | - | - | - | - |
| Other assets | 26 679 136 | - | - | - | - | - | - |
| **Total** | **198 373 374** | **13 495 452** | **48 733 544** | **5 941 696** | **128 964** | **5 812 732** | **54 546 276** |

mBank Hipoteczny S.A. secures issued covered and public bonds with receivables obtained from loans and advances. As at 31 December 2022, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 8 179 977 thousand (31 December 2021: PLN 9 877 444 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes collateral of liabilities due to the loan received from the European Investment Bank (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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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) at 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

### 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 issue of shares above its nominal value and is 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 from previous years and profit for the current year.

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

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Other supplementary capital | 8 740 349 | 9 916 912 |
| Other reserve capital | 107 008 | 104 975 |
| General banking risk reserve | 1 153 753 | 1 153 753 |
| Profit from previous years | 1 327 417 | 1 329 607 |
| Profit for the current year | (702 691) | (1 178 753) |
| **Total retained earnings** | **10 625 836** | **11 326 494** |

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

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

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 40. Other components of equity

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Exchange differences on translating foreign operations** | **8 700** | **2 506** |
| Unrealised gains (foreign exchange gains) | 30 133 | 34 267 |
| Unrealised losses (foreign exchange losses) | (21 433) | (31 761) |
| **Cash flow hedges** | **(796 868)** | **(500 202)** |
| Unrealised gains | 38 796 | 80 630 |
| Unrealised losses | (1 022 584) | (698 164) |
| Deferred income tax | 186 920 | 117 332 |
| **Cost of hedging** | **27 105** | **-** |
| Unrealised gains | 33 463 | - |
| Deferred income tax | (6 358) | - |
| **Valuation of debt instruments at fair value through other comprehensive income** | **(760 946)** | **(707 617)** |
| Unrealised gains on debt instruments | 15 155 | 12 191 |
| Unrealised losses on debt instruments | (954 552) | (887 737) |
| Deferred income tax | 178 451 | 167 929 |
| **Actuarial gains and losses relating to post-employment benefits** | **(7 040)** | **(10 511)** |
| Actuarial gains | 1 499 | 1 157 |
| Actuarial losses | (10 191) | (14 134) |
| Deferred income tax | 1 652 | 2 466 |
| **Reclassification to investment properties** | **11 436** | **11 436** |
| Unrealised gains on reclassification to investment properties | 14 118 | 14 118 |
| Deferred income tax | (2 682) | (2 682) |
| **Total other components of equity** | **(1 517 613)** | **(1 204 388)** |

## 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. suffered 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 perform the division of the undivided profits from previous years, amounting to PLN 2 098 480 869.01.

## 42. Explanatory notes to the statement of cash flow

### Cash and cash equivalents

For the purpose of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than three months.

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Cash and balances with the Central Bank (Note 19) | 16 014 318 | 12 202 266 |
| Loans and advances to banks (Note 23) | 277 706 | 338 333 |
| **Total cash and cash equivalents** | **16 292 024** | **12 540 599** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 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** | **(2 576 581)** | **124 587** |
| The difference between the interest accrued and paid in cash in the period | 150 551 | (86 142) |
| Exclusion of a change in the balance of cash and cash equivalents | (60 627) | 57 978 |
| **Total change in loans and advances to banks** | **(2 486 657)** | **96 423** |
| **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** | **(446 848)** | **(334 806)** |
| The difference between the interest accrued and paid in cash in the period | (174 457) | 17 653 |
| Valuation included in other comprehensive income | (332 791) | (1 134 978) |
| **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** | **(954 096)** | **(1 452 131)** |
| **Loans and advances to customers - change in the balance of the statement of financial position** | **(2 506 373)** | **(9 553 978)** |
| The difference between the interest accrued and paid in cash in the period | (383 916) | 105 860 |
| **Total change in loans and advances to customers** | **(2 890 289)** | **(9 448 118)** |
| **Financial assets at fair value through other comprehensive income - change in the balance of the statement of financial position** | **1 088 609** | **(707 998)** |
| Valuation included in other comprehensive income | (63 851) | (1 131 831) |
| The difference between the interest accrued and paid in cash in the period | 237 180 | (214 184) |
| **Total change in financial assets at fair value through other comprehensive income** | **1 261 938** | **(2 054 013)** |
| **Debt securities measured at amortised cost - change in the balance of the statement of financial position** | **(2 838 424)** | **(211 602)** |
| The difference between the interest accrued and paid in cash in the period | 32 109 | (72 445) |
| **Total change in debt securities measured at amortised cost** | **(2 806 315)** | **(284 047)** |
| **Non-trading financial assets mandatorily at fair value through profit or loss - change in the balance of the statement of financial position** | **74 720** | **(27 145)** |
| Acquisition of shares in subsidiaries not included in the consolidation | - | 14 597 |
| Disposals of shares in subsidiaries | (122) | (5 147) |
| Valuation change | (16 664) | 78 |
| **Total change non-trading financial assets mandatorily at fair value through profit or loss** | **57 934** | **(17 617)** |
| **Other assets (including non-current assets held for sale) - change in the balance of the statement of financial position** | **(356 596)** | **(196 626)** |
| Exclusion of assets classified as held for sale | - | 31 247 |
| Other changes | (26 015) | 23 323 |
| **Total change in other assets** | **(382 611)** | **(142 056)** |
| **Amounts due to other banks - change in the balance of the statement of financial position** | **(1 995 956)** | **(388 152)** |
| 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 | 1 363 406 |
| **Total change in amounts due to other banks** | **(2 123 045)** | **949 944** |
| **Amounts due to customers - change in the balance of the statement of financial position** | **17 059 244** | **23 399 528** |
| The difference between the interest accrued and paid in cash in the reporting period | (389 433) | 6 377 |
| **Total change in amounts due to customers** | **16 669 811** | **23 405 905** |
| **Lease liabilities - change in the balance of the statement of financial position** | **3 486** | **184 903** |
| Exclusion of changes in cash from financial activities | 115 590 | 93 616 |
| Exclusion of increase in lease liabilities | (112 640) | (320 745) |
| **Total change in lease liabilities** | **6 436** | **(42 226)** |
| **Debt securities issued - change in the balance of the statement of financial position** | **(3 964 303)** | **(566 535)** |
| The difference between the interest accrued and paid in cash in the reporting period | (10 319) | (74 855) |
| Exchange differences | (261 442) | (114 185) |
| Exclusion of change in cash flows from financing activity | 3 573 990 | 509 056 |
| **Total change in debt securities issued** | **(662 074)** | **(246 519)** |
| **Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position** | **1 191 606** | **390 006** |
| Valuation of incentive programmes recognised in income statement (Note 13) | 12 673 | 10 487 |
| Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 18) | 4 285 | 8 715 |
| Exclusion of change in cash flows from investing activity | 59 832 | 44 116 |
| Exclusion of liabilities classified as held for sale | - | (7 425) |
| **Total change in other liabilities (including liabilities classified as held for sale) and provisions** | **1 268 396** | **445 899** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Interest received and paid reported in 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 | 7 232 099 | 3 411 798 |
| Debt securities | 1 020 247 | 783 725 |
| Derivative instruments | - | 397 423 |
| Other interest income | 47 336 | 214 |
| **Total interest income** | **9 227 748** | **4 698 299** |
| **Interest expense, including:** | | |
| Settlements with banks due to deposits received | (69 244) | (31 482) |
| Settlements with customers due to deposits received | (1 291 801) | (83 653) |
| From debt securities issued | (275 354) | (88 709) |
| Derivative instruments | (948 570) | - |
| Other interest expense | (72 473) | (30 567) |
| **Total interest expense** | **(2 657 442)** | **(234 411)** |

## 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 related to subordinated liabilities.

The table below presents the changes in liabilities from financing activities.

| | As at 01.01.2022 | Cash flows | Change not connected with cash flows | As at 31.12.2022 |
|---|---|---|---|---|
| Loans and advances from banks (Note 29) | 1 907 123 | (4 700) | 8 298 | 1 910 721 |
| Leasing liabilities (Note 29) | 956 838 | (115 629) | 119 115 | 960 324 |
| Liabilities due to security deposits received in relation to granted guarantees (Note 29) | 13 429 782 | (3 573 990) | (390 313) | 9 465 479 |
| Subordinated liabilities (Note 29) | 2 624 456 | (89 791) | 206 056 | 2 740 721 |
| **Total liabilities from financing activities** | **18 918 199** | **(3 784 110)** | **(56 844)** | **15 077 245** |

| | As at 01.01.2021 | Cash flows | Change not connected with cash flows | As at 31.12.2021 |
|---|---|---|---|---|
| Loans and advances from banks (Note 29) | 3 255 091 | (1 363 406) | 15 438 | 1 907 123 |
| Leasing liabilities (Note 29) | 771 935 | (93 616) | 278 519 | 956 838 |
| Liabilities due to security deposits received in relation to granted guarantees (Note 29) | 13 996 317 | (483 241) | (83 294) | 13 429 782 |
| Subordinated liabilities (Note 29) | 2 578 327 | (54 535) | 100 664 | 2 624 456 |
| **Total liabilities from financing activities** | **20 601 670** | **(1 994 798)** | **311 327** | **18 918 199** |

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 121 642 thousand (PLN 96 602 thousand in 2021).

## 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 Remuneration Regulations and 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, a 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 said 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 fully 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 and weighted average exercise prices of share warrants related to the 2018 incentive programme for Management Board Members of the Bank and for key managers of mBank Group.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| | 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 13.

## 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 Group 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 comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

The table below presents the values of transactions between the Bank and companies of mBank Group 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 Commerzbank AG Group entities. The amounts of transactions include assets and liabilities and related costs and income as at 31 December 2022 and as at 31 December 2021.

| | 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 companies and persons * | | mBank's subsidiaries ** | | Commerzbank AG | | Other companies of the Commerzbank AG Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 2 390 | 23 877 | 684 577 | 1 255 004 | 37 | 37 |
| Liabilities | 18 382 | 18 585 | 3 447 | 4 156 | 24 752 | 28 048 | 2 598 059 | 3 151 867 | 77 829 | 73 658 |
| **Income Statement** | | | | | | | | | | |
| Interest income | 175 | 52 | 103 | 41 | 37 | 345 | 65 212 | 33 504 | 28 | 138 |
| Interest expense | (104) | (2) | (8) | - | (186) | - | (43 685) | (23 658) | (1 416) | (20) |
| Fee and commission income | 38 | 56 | 89 | 9 | 168 | 178 | 4 991 | 6 101 | 176 | 258 |
| Fee and commission expense | - | - | - | - | (14 981) | (11 968) | - | - | - | - |
| Other operating income | - | - | 14 | 15 | 1 674 | 1 078 | 3 846 | 3 522 | - | - |
| Overhead costs, amortisation and other operating expenses | - | - | - | - | - | - | (11 408) | (5 192) | - | - |
| **Contingent liabilities granted and received** | | | | | | | | | | |
| Liabilities granted | 755 | 669 | 158 | 145 | 410 882 | 380 145 | 2 101 314 | 1 564 733 | 1 608 | 3 514 |
| Liabilities 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.*
*** Applies to non-consolidated subsidiaries.*

## 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

<u>Changes in the Supervisory Board of mBank S.A.</u>

- On 14 October 2022 Mr. Arno Walter handed over the resignation from the function of a member of the Bank's Supervisory Board with the effective date of 30 March 2023.
- On 7 December 2022 Mr. Armin Barthel handed over the resignation from the function of a member of the Bank's Supervisory Board with the effective date of 31 December 2022.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Remuneration of the Management Board and Supervisory Board Members

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.

| Remuneration paid out 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 amount of 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 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 performed 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 other information about the former Members of Management Board is presented in the Management Board Report on the Performance of mBank S.A. Group 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, six Members of the Management Board held the Bank's shares: 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, four Members of the Management Board held the Bank's shares: Mr. Cezary Stypułkowski – 25 230 shares, Mr. Andreas Böger – 1 646 shares, Mr. Krzysztof Dąbrowski – 892 shares, Mr. Cezary Kocik – 256 shares.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## 45. Acquisitions and disposals

Sale of 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.

Due to the substitution of obligations of mFinance France S.A. (mFF), the consolidation of this company was discontinued as of December 2020. The substitution process was formally completed in October 2020. In November 2020, the liquidation of the company began. On 22 April 2021, the Ordinary General Shareholders' Meeting of the subsidiary decided to end the liquidation of the subsidiary on 22 April 2021 and thus to submit an application for the removal of the subsidiary from the French register of enterprises. On 4 June 2021, the subsidiary was removed from the register of enterprises.

## 46. Prudential consolidation

According to 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"), mBank is a large subsidiary of EU parent institution, responsible for the preparation of the prudentially consolidated financial data.

Financial information presented below does not represent the International Financial Reporting Standards ("IFRS") measures as defined by the standards.

mBank S.A. Group ("the Group") consists of entities defined in accordance with the rules of prudential consolidation, specified by the CRR Regulation.

### Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended on 31 December 2022 and for the 12-month period ended on 31 December 2021.

The consolidated profit presented in the prudentially consolidated financial data may be included in consolidated Common Equity Tier I for the purpose of the calculation of consolidated Common Equity Tier I capital ratio, consolidated Tier I capital ratio and consolidated total capital ratio with the prior permission of the PFSA or after approval by the General Meeting of shareholders.

The accounting policies applied for the preparation of the Group prudentially consolidated financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for year 2022, prepared in compliance with IFRS, except for the consolidation standards presented below.

The prudentially consolidated financial data includes the Bank and the following entities:

| Company | 31.12.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method |
| mBank Hipoteczny S.A. | 100% | full | 100% | full |
| mLeasing Sp. z o.o. | 100% | full | 100% | full |
| mFinanse S.A. | 100% | full | 100% | full |
| mFaktoring S.A. | 100% | full | 100% | full |
| Future Tech Fundusz Inwestycyjny Zamknięty | 98,04% | full | 98,04% | full |
| mElements S.A. | 100% | full | 100% | full |
| Asekum Sp. z o.o. | 100% | full | 100% | full |
| LeaseLink Sp. z o.o. | 100% | full | 100% | full |
| mFinanse CZ s.r.o. | 100% | full | 100% | - |
| mFinanse SK s.r.o. | 100% | full | 100% | - |

Information on both of the above-mentioned companies is included in Note 1.

Entities included in the scope of prudential consolidation are defined in the Regulation CRR – institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held, except for entities in which the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the following two amounts:

IFRS Consolidated Financial Statements 2022 (PLN thousand)

- EUR 10 million;
- 1 % of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.

The consolidated financial data combine items of assets, liabilities, equity, income and expenses of the parent with those of its subsidiaries eliminating the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Any related goodwill, if goodwill has negative value, it is recognised directly in the income statement. The profit or loss and each component of other comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. If the Group loses control of a subsidiary, it shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Intra-group transactions, balances and unrealised gains on transactions between companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Prudentially consolidated income statement

| | Year ended 31 December | |
|---|---|---|
| | **2022** | **2021 - restated** |
| Interest income, including: | 9 265 806 | 4 453 774 |
| *Interest income accounted for using the effective interest method* | *9 093 789* | *3 969 987* |
| *Income similar to interest on financial assets at fair value through profit or loss* | *172 017* | *483 787* |
| Interest expenses | (3 356 567) | (327 694) |
| **Net interest income** | **5 909 239** | **4 126 080** |
| Fee and commission income | 3 026 096 | 2 692 626 |
| Fee and commission expenses | (906 019) | (824 871) |
| **Net fee and commission income** | **2 120 077** | **1 867 755** |
| Dividend income | 5 236 | 5 046 |
| Net trading income | 97 198 | 96 890 |
| Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss | (50 924) | 4 608 |
| Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss | (91 548) | 93 728 |
| Other operating income | 265 162 | 232 384 |
| Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss | (803 217) | (873 234) |
| Result on provisions for legal risk related to foreign currency loans | (3 112 265) | (2 758 079) |
| Overhead costs | (2 851 881) | (2 020 477) |
| Depreciation | (467 308) | (436 254) |
| Other operating expenses | (443 613) | (320 898) |
| **Operating profit** | **576 156** | **17 549** |
| Taxes on the Group balance sheet items | (684 175) | (608 627) |
| **Profit / (loss) before income tax** | **(108 019)** | **(591 078)** |
| Income tax expense | (594 508) | (587 735) |
| **Net profit / (loss)** | **(702 527)** | **(1 178 813)** |
| **Net profit / (loss) attributable to:** | | |
| - Owners of mBank S.A. | (702 691) | (1 178 753) |
| - Non-controlling interests | 164 | (60) |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

## Prudentially consolidated statement of financial position

| ASSETS | 31.12.2022 | 31.12.2021 - restated |
|---|---|---|
| Cash and balances with the Central Bank | 16 014 318 | 12 202 266 |
| Financial assets held for trading and hedging derivatives | 2 524 652 | 2 589 076 |
| Non-trading financial assets mandatorily at fair value through profit or loss, including: | 1 044 189 | 1 423 822 |
| *Equity instruments* | *185 788* | *231 020* |
| *Debt securities* | *45 009* | *81 128* |
| *Loans and advances to customers* | *813 392* | *1 111 674* |
| Financial assets at fair value through other comprehensive income | 35 117 450 | 36 200 110 |
| Financial assets at amortised cost, including: | 148 138 819 | 139 919 119 |
| *Debt securities* | *19 002 527* | *16 164 103* |
| *Loans and advances to banks* | *9 806 262* | *7 229 681* |
| *Loans and advances to customers* | *119 330 030* | *116 525 335* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 3 064 | (110 033) |
| Non-current assets and disposal groups classified as held for sale | 26 747 | 31 247 |
| Intangible assets | 1 391 707 | 1 283 953 |
| Tangible assets | 1 484 933 | 1 542 250 |
| Investment properties | 136 909 | 127 510 |
| Current income tax assets | 28 302 | 28 147 |
| Deferred income tax assets | 1 875 728 | 1 392 344 |
| Other assets | 2 105 295 | 1 744 183 |
| **TOTAL ASSETS** | **209 892 113** | **198 373 994** |
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| Financial liabilities held for trading and hedging derivatives | 2 086 111 | 2 011 182 |
| Financial liabilities measured at amortised cost, including: | 190 567 661 | 179 349 604 |
| *Amounts due to banks* | *3 270 223* | *5 266 179* |
| *Amounts due to customers* | *174 130 914* | *157 072 349* |
| *Lease liabilities* | *960 324* | *956 838* |
| *Debt securities issued* | *9 465 479* | *13 429 782* |
| *Subordinated liabilities* | *2 740 721* | *2 624 456* |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | (1 528 582) | (1 055 478) |
| Liabilities held for sale | 7 375 | 7 425 |
| Provisions | 1 362 259 | 836 900 |
| Current income tax liabilities | 571 456 | 61 901 |
| Deferred income tax liabilities | - | 89 |
| Other liabilities | 4 110 802 | 3 444 455 |
| **TOTAL LIABILITIES** | **197 177 082** | **184 656 078** |
| **EQUITY** | | |
| **Equity attributable to Owners of mBank S.A.** | **12 713 001** | **13 716 050** |
| **Share capital:** | **3 604 778** | **3 593 944** |
| Registered share capital | 169 734 | 169 540 |
| Share premium | 3 435 044 | 3 424 404 |
| **Retained earnings:** | **10 625 836** | **11 326 494** |
| - Profit from the previous years | 11 328 527 | 12 505 247 |
| - Profit for the current year | (702 691) | (1 178 753) |
| **Other components of equity** | **(1 517 613)** | **(1 204 388)** |
| **Non-controlling interests** | **2 030** | **1 866** |
| **TOTAL EQUITY** | **12 715 031** | **13 717 916** |
| **TOTAL LIABILITIES AND EQUITY** | **209 892 113** | **198 373 994** |

## 47. Capital adequacy

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management strategy of mBank Group, 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, which render 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 Group 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 Group'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 the mBank Group 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 Macro-prudential Supervision of the Financial System and Crisis Management of 5 August 2015 (Dz.U. 2015 item 1513);
- Regulation of the Minister of Development and Finance of 25 May 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property;
- Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer.

The entities included in the scope of prudential consolidation according to the rules of the CRR Regulation are taken into account in the process of calculating consolidated own funds and the own funds requirements.

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 the mBank Group is obliged to ensure adequate own funds to meet conservation capital buffer designated under the provisions of the Act of 2.5% of total risk exposure amount (31 December 2021: 2.5%).

As of the end of 2022 and 2021 the countercyclical capital buffer rate set for relevant exposures in Poland according to the article 83 of the Act amounted to 0%. mBank Group 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 Group are located, amounted to 10 bps as of 31 December 2022 (5 bps as of 31 December 2021). 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% (at the of 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.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

Pursuant to the PFSA decision of 29 October 2020 the Bank was obliged to maintain the capital buffer of 0.5% 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 all-in-one combined buffer requirement set for the mBank Group as of the end of 2022 amounted to 3.10% of the total risk exposure amount (2021: 3.05%).

Additionally, as a result of risk assessment carried out in 2022 by the PFSA within the supervisory review and evaluation process (BION), in particular with regard to the evaluation of the risk related to the portfolio of foreign exchange retail mortgage loans, the mBank Group received on the consolidated level an individual recommendation to maintain own funds to cover additional capital requirement of 1.76% for total capital ratio and 1.32% for Tier I capital ratio (in 2021: 2.12% and 1.59% respectively). Additional capital requirement in Pillar II set by the 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 both on the individual and consolidated level were above the required values taking into account the components described above.

| mBank Group | 31.12.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| **Capital ratio** | **Required level** | **Reported level** | **Required level** | **Reported level** |
| Total capital ratio | 12.86% | 16.36% | 13.17% | 16.58% |
| Tier I ratio | 10.42% | 13.81% | 10.64% | 14.16% |

The consolidated leverage ratio calculated in accordance with the provisions of 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, amounted to 5.44% at the end of 2022 (6.32% at the end of 2021).

## Own Funds

In accordance with the CRR Regulation, the consolidated own funds consist of consolidated Common Equity Tier I capital, consolidated Additional Tier I capital and consolidated Tier II capital, however, items that could be treated as Additional Tier I capital are not identified in the Group.

Common Equity Tier I capital of mBank Group 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 Group 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 consolidated own funds of mBank Group as of 31 December 2022 amounted to PLN 14 403 163 thousand while the consolidated Common Equity Tier I capital of mBank Group amounted to PLN 12 153 665 thousand (as of 31 December 2021 it was PLN 15 871 711 thousand and PLN 13 552 027 thousand respectively).

## Total risk exposure amount (TREA)

The total risk exposure amount of mBank Group contains:

- risk weighted exposure amounts for credit risk, counterparty credit risk, securitisation transactions, dilution risk and free deliveries,
- risk exposure amount for market risk, including position risk, foreign exchange risk and commodities risk,
- risk exposure amount for operational risk,
- risk exposure amount for credit valuation adjustment,
- other risk exposure.

IFRS Consolidated Financial Statements 2022 (PLN thousand)

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 exposures (IRB slotting approach),
- mBank retail non-mortgage exposures,
- mBank retail microenterprises mortgage loan portfolio,
- other commercial banks exposures,
- mLeasing Sp. z.o.o. credit exposure,
- mBank Hipoteczny S.A. specialised lending exposures (IRB slotting approach).

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 they will apply until further notice.

The total risk exposure amount of mBank Group as at 31 December 2022 amounted to PLN 88 034 372 thousand, including PLN 76 769 209 thousand of risk exposure amount for credit risk, counterparty credit risk (31 December 2021: PLN 95 738 983 thousand and PLN 84 639 266 thousand respectively).

### ICAAP process and Internal capital

The ICAAP (Internal Capital Adequacy Assessment Process) implemented in mBank Group aims at adjusting capital resources to the level and the risk profile arising from mBank Group's operations.

These resources are at a safe level. In the regulatory approach, the value of the Group's own funds is above the value required to cover the Group's total capital requirement determined pursuant to the CRR Regulation. Similarly, in the economic approach, capital resources in the form of own funds or risk coverage potential are higher than the value of internal capital estimated for the Group pursuant to the 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 mBank Group as at 31 December 2022 amounted to PLN 7 729 689 thousand (as at 31 December 2021: PLN 7 363 168 thousand).

| CAPITAL ADEQUACY | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Common Equity Tier I Capital** | **12 153 665** | **13 552 027** |
| **Total Own Funds** | **14 403 163** | **15 871 711** |
| Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries, including: | 76 769 209 | 84 639 266 |
| *- under standardised approach* | *24 358 501* | *24 649 286* |
| *- under AIRB approach* | *50 845 791* | *59 985 177* |
| *- 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 | 785 855 | 1 116 585 |
| Total risk exposure amount for operational risks | 10 150 954 | 9 502 228 |
| Total risk exposure amount for credit valuation adjustments | 328 354 | 480 904 |
| **Total risk exposure amount** | **88 034 372** | **95 738 983** |
| **Common Equity Tier I capital ratio** | **13.8%** | **14.2%** |
| **Total capital ratio** | **16.4%** | **16.6%** |
| **Internal capital** | **7 729 689** | **7 363 168** |

IFRS Consolidated Financial Statements 2022 (PLN thousand)

| OWN FUNDS | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **13 927 757** | **14 894 738** |
| Capital instruments and the related share premium accounts | 3 604 519 | 3 593 879 |
| Retained earnings, including: | 1 839 741 | 1 329 607 |
| *- profit from the previous years* | *1 327 417* | *1 329 607* |
| *- eligible net profit of mBank Group for the first quarter of the year 2022* | *512 324* | - |
| Accumulated other comprehensive income (and other reserves) | 7 329 744 | 8 817 499 |
| Funds for general banking risk | 1 153 753 | 1 153 753 |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | **(1 774 092)** | **(1 342 711)** |
| Additional value adjustments (negative amount) | (45 879) | (45 753) |
| Intangible assets (net of related tax liability) (negative amount) | (879 985) | (798 007) |
| Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | 769 763 | 500 202 |
| Negative amounts resulting from the calculation of expected loss amounts | (174 277) | (214 366) |
| Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | (442 138) | (68 090) |
| Losses for the current financial year (negative amount) | (1 215 015) | (1 178 753) |
| Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | (14 306) | (5 472) |
| Other regulatory adjustments | 227 745 | 467 528 |
| **Common Equity Tier 1 (CET1) capital** | **12 153 665** | **13 552 027** |
| **Additional Tier 1 (AT1) capital** | - | - |
| **Tier 1 capital (T1 = CET1 + AT1)** | **12 153 665** | **13 552 027** |
| | | |
| **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)** | **14 403 163** | **15 871 711** |

As of 31 December 2022 and as of 31 December 2021 mBank Group 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 | 12 153 665 | 11 807 391 | 13 552 027 | 13 037 746 |
| Tier I capital | 12 153 665 | 11 807 391 | 13 552 027 | 13 037 746 |
| Own funds | 14 403 163 | 14 056 888 | 15 871 711 | 15 357 430 |
| Common Equity Tier I ratio (%) | 13.8 | 13.4 | 14.2 | 13.6 |
| Tier I capital ratio (%) | 13.8 | 13.4 | 14.2 | 13.6 |
| Total capital ratio (%) | 16.4 | 16.0 | 16.6 | 16.0 |
| Leverage ratio (%) | 5.44 | 5.29 | 6.32 | 6.10 |

## 48. Events after the balance sheet date

- Resignations 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 detail 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.