mBank S.A.
IFRS Financial Statements
2023

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

Selected financial data

The selected financial data are supplementary information to these financial statements of mBank S.A. for 2023.

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	Year ended 31 December		Year ended 31 December	
	2023	2022 - restated	2023	2022 - restated
I. Interest income	13 996 535	8 837 715	3 090 835	1 885 057
II. Fee and commission income	2 789 043	2 823 719	615 900	602 291
III. Net trading income	75 796	71 895	16 738	15 335
IV. Operating profit	1 381 252	782 860	305 020	166 982
V. Profit (loss) before income tax	897 642	(59 529)	198 225	(12 697)
VI. Net profit (loss)	29 322	(696 724)	6 475	(148 609)
VII. Cash flows from operating activities	18 207 845	6 325 892	4 020 812	1 349 293
VIII. Cash flows from investing activities	(506 756)	(392 988)	(111 906)	(83 823)
IX. Cash flows from financing activities	2 821 803	(2 239 579)	623 135	(477 695)
X. Net increase / decrease in cash and cash equivalents	20 522 892	3 693 325	4 532 040	787 775
XI. Basic earnings / (losses) per share (in PLN/EUR)	0.69	(16.43)	0.15	(3.50)
XII. Diluted earnings / (losses) per share (in PLN/EUR)	0.69	(16.41)	0.15	(3.50)
XIII. Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	As at		As at	
	31.12.2023	31.12.2022 - restated	31.12.2023	31.12.2022 - restated
I. Total assets	222 418 476	203 975 778	51 154 203	43 492 564
II. Amounts due to other banks	3 346 208	3 305 751	769 597	704 866
III. Amounts due to customers	185 117 139	174 000 911	42 575 239	37 101 199
IV. Equity	13 662 938	12 497 196	3 142 350	2 664 704
V. Registered share capital	169 861	169 734	39 066	36 191
VI. Number of shares	42 465 167	42 433 495	42 465 167	42 433 495
VII. Book value per share (in PLN/EUR)	321.74	294.51	74.00	62.80
VIII. Total capital ratio (%)	19.7	19.4	19.7	19.4
IX. Common Equity Tier I capital ratio (%)	17.0	16.4	17.0	16.4

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2023: EUR 1 = PLN 4.3480 and 31 December 2022: EUR 1 = PLN 4.6899;
- for items of the income statement and statement of cash flows – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2023 and 2022: EUR 1 = PLN 4.5284 and EUR 1 = PLN 4.6883, respectively.

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INCOME STATEMENT

	Note	Year ended 31 December	
		2023	**2022 - restated**
Interest income, including:	5	13 996 535	8 837 715
Interest income accounted for using the effective interest method		*13 638 349*	*8 667 715*
Income similar to interest on financial assets at fair value through profit or loss		*358 186*	*170 000*
Interest expenses	5	(5 708 501)	(3 080 107)
Net interest income		**8 288 034**	**5 757 608**
Fee and commission income	6	2 789 043	2 823 719
Fee and commission expenses	6	(975 482)	(783 433)
Net fee and commission income		**1 813 561**	**2 040 286**
Dividend income	7	4 930	48 736
Net trading income	8	75 796	71 895
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	9	33 026	(46 034)
Gains or losses on non-trading financial assets and liabilities not measured at fair value through profit or loss	10	(48 428)	(96 603)
Other operating income	11	78 068	70 319
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(946 281)	(660 887)
Result on provisions for legal risk related to foreign currency loans	34	(4 908 205)	(3 112 265)
Overhead costs	12	(2 310 934)	(2 621 691)
Depreciation		(434 273)	(402 729)
Other operating expenses	13	(264 042)	(265 775)
Operating profit (loss)		**1 381 252**	**782 860**
Tax on the Bank's balance sheet items		(719 651)	(651 954)
Share in profits (losses) of entities under the equity method	23	236 041	(190 435)
Profit (loss) before income tax		**897 642**	**(59 529)**
Income tax expense	15	(868 320)	(637 195)
Net profit (loss)		**29 322**	**(696 724)**

Earnings (losses) per share (in PLN)	**16**	**0.69**	**(16.43)**
Diluted earnings (losses) per share (in PLN)	**16**	**0.69**	**(16.41)**

Notes presented on pages 10–150 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2023 (PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2023	2022
Net profit (loss)		**29 322**	**(696 724)**
Other comprehensive income net of tax, including:	**17**	**1 125 373**	**(200 770)**
Items that may be reclassified subsequently to the income statement		**1 131 805**	**(204 249)**
Exchange differences on translation of foreign operations (net)	17	(35 990)	6 129
Cash flows hedges (net)	17	436 634	(199 646)
Share of other comprehensive income of entities under the equity method (net)	17	42 048	(92 514)
Debt instruments at fair value through other comprehensive income (net)	17	689 113	81 782
Items that will not be reclassified to the income statement		**(6 432)**	**3 479**
Actuarial gains and losses relating to post-employment benefits (net)	17	(6 432)	3 479
Total comprehensive income (net)		**1 154 695**	**(897 494)**

Notes presented on pages 10–150 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2023 (PLN thousand)

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2023	31.12.2022 - restated	01.01.2022 - restated
Cash and Cash equivalents	18	36 641 448	16 120 301	12 422 956
Financial assets held for trading and derivatives held for hedges	19	1 767 707	2 589 681	2 581 174
Non-trading financial assets mandatorily at fair value through profit or loss, including:	20	828 268	878 995	1 221 063
Equity instruments		*174 411*	*121 416*	*148 466*
Debt securities		*50 144*	*45 009*	*81 128*
Loans and advances to customers		*603 713*	*712 570*	*991 469*
Financial assets at fair value through other comprehensive income, including:	21	54 464 505	53 842 726	54 162 657
Debt securities		*36 225 947*	*34 420 653*	*35 971 403*
Loans and advances to customers		*18 238 558*	*19 422 073*	*18 191 254*
Financial assets at amortised cost, including:	22	121 056 962	123 191 484	113 614 250
Debt securities		*25 527 804*	*20 206 976*	*16 632 915*
Loans and advances to banks		*10 476 203*	*15 179 061*	10 859 568
Loans and advances to customers		*85 052 955*	*87 805 447*	*86 121 767*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19	-	-	*(110 033)*
Investments in subsidiaries	23	2 196 262	2 057 455	2 357 068
Non-current assets and disposal groups classified as held for sale	24	-	26 747	31 247
Intangible assets	25	1 513 882	1 209 722	1 111 479
Tangible assets	26	1 165 892	1 172 714	1 204 680
Investment properties	27	111 964	136 909	127 510
Current income tax assets		40 646	28 302	28 077
Deferred income tax assets	32	761 543	1 145 916	721 324
Other assets	28	1 869 397	1 574 826	1 234 856
TOTAL ASSETS		**222 418 476**	**203 975 778**	**190 708 308**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and derivatives held for hedges	19	1 458 852	2 075 013	2 044 601
Financial liabilities measured at amortised cost, including:	29	199 677 996	185 551 517	172 634 071
Amounts due to banks		*3 346 208*	*3 305 751*	*5 326 622*
Amounts due to customers		*185 117 139*	*174 000 911*	*157 045 374*
Lease liabilities		*874 242*	*955 436*	*953 996*
Debt securities issued		*7 625 479*	*4 548 698*	*6 683 623*
Subordinated liabilities		*2 714 928*	*2 740 721*	*2 624 456*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19	(565 985)	(1 528 582)	(1 055 478)
Liabilities classified as held for sale	24	-	7 375	7 425
Provisions	31	2 239 144	1 287 578	863 829
Current income tax liabilities		198 373	594 203	54 467
Deferred income tax liabilities	32	-	-	89
Other liabilities	30	5 747 158	3 491 478	2 777 481
TOTAL LIABILITIES		**208 755 538**	**191 478 582**	**177 326 485**
EQUITY				
Share capital		**3 616 185**	**3 604 778**	**3 593 944**
Registered share capital	37	169 861	169 734	169 540
Share premium	38	3 446 324	3 435 044	3 424 404
Retained earnings:	**39**	**10 583 174**	**10 554 212**	**11 248 903**
- Profit from previous years		10 553 852	11 250 936	12 464 256
- Profit (loss) for the current year		29 322	(696 724)	(1 215 353)
Other components of equity	**40**	**(536 421)**	**(1 661 794)**	**(1 461 024)**
TOTAL EQUITY		**13 662 938**	**12 497 196**	**13 381 823**
TOTAL LIABILITIES AND EQUITY		**222 418 476**	**203 975 778**	**190 708 308**

Notes presented on pages 10–150 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2023 (PLN thousand)

STATEMENT OF CHANGES IN EQUITY

Changes from 1 January to 31 December 2023

	Share capital		Retained earnings		Other components of equity	Total
	Registered share capital	Share premium	Profit from the previous years	Profit/loss for the current year		
Equity as at 1 January 2023	**169 734**	**3 435 044**	**11 250 936**	**(696 724)**	**(1 661 794)**	**12 497 196**
Transfer of profit/loss from previous year	-	-	(696 724)	696 724	-	-
Total comprehensive income	**-**	**-**	**-**	**29 322**	**1 125 373**	**1 154 695**
Issuance of ordinary shares	127	-	-	-	-	127
Stock option program for employees	**-**	**11 280**	**(360)**	**-**	**-**	**10 920**
value of services provided by the employees	-	-	*10 920*	-	-	*10 920*
settlement of exercised options	-	*11 280*	*(11 280)*	-	-	-
Equity as at 31 December 2023	**169 861**	**3 446 324**	**10 553 852**	**29 322**	**(536 421)**	**13 662 938**

Changes from 1 January to 31 December 2022

	Share capital		Retained earnings		Other components of equity	Total
	Registered share capital	Share premium	Profit from the previous years	Profit/loss for the current year		
Equity as at 1 January 2022	**169 540**	**3 424 404**	**12 464 256**	**(1 215 353)**	**(1 461 024)**	**13 381 823**
Transfer of profit/loss from previous year	-	-	(1 215 353)	1 215 353	-	**-**
Total comprehensive income	**-**	**-**	**-**	**(696 724)**	**(200 770)**	**(897 494)**
Issuance of ordinary shares	194	-	-	-	-	194
Stock option program for employees	**-**	**10 640**	**2 033**	**-**	**-**	**12 673**
value of services provided by the employees	-	-	*12 673*	-	-	*12 673*
settlement of exercised options	-	*10 640*	*(10 640)*	-	-	-
Equity as at 31 December 2022	**169 734**	**3 435 044**	**11 250 936**	**(696 724)**	**(1 661 794)**	**12 497 196**

IFRS Financial Statements 2023 (PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2023	2022 - restated
Profit (loss) before income tax		**897 642**	**(59 529)**
Adjustments:		***17 310 203***	***6 385 421***
Income taxes paid		(1 090 478)	(445 321)
Depreciation, including depreciation of fixed assets provided under operating lease	25,26	449 655	416 942
Foreign exchange (gains) losses related to financial activities		(470 217)	417 355
(Gains) losses on investing activities		(216 570)	176 147
Change of valuation of investment in subsidiaries not measured at equity method	23	1 220	16 664
Dividends received	7	(4 930)	(48 736)
Interest income (income statement)	5	(13 996 535)	(8 837 715)
Interest expense (income statement)	5	5 708 501	3 080 107
Interest received		12 541 421	8 627 821
Interest paid		(5 571 466)	(2 372 027)
Changes in loans and advances to banks		3 019 245	(4 164 983)
Changes in financial assets and liabilities held for trading and hedging derivatives		1 813 390	(1 003 109)
Changes in loans and advances to customers		6 320 748	(2 686 686)
Changes in debt securities at fair value through other comprehensive income		1 236	1 720 262
Changes in securities at amortised cost		(5 365 698)	(3 550 758)
Changes in non-trading equity securities mandatorily at fair value through profit or loss		(58 130)	63 169
Changes in other assets		(350 983)	(314 201)
Changes in amounts due to banks		79 041	(2 147 960)
Changes in amounts due to customers		11 186 406	16 565 635
Changes in lease liabilities		(22 500)	4 195
Changes in issued debt securities		183 229	(308 957)
Changes in provisions		981 240	427 216
Changes in other liabilities		2 172 378	750 361
A. Cash flows from operating activities		**18 207 845**	**6 325 892**
Disposal of shares in subsidiaries		-	122
Disposal of intangible assets and tangible fixed assets		35 192	5 251
Dividends received	7	4 930	48 736
Acquisition of shares in subsidiaries	23	(19 060)	-
Purchase of intangible assets and tangible fixed assets		(527 818)	(447 097)
B. Cash flows from investing activities		**(506 756)**	**(392 988)**
Issue of debt securities	29	4 196 675	939 230
Issue of ordinary shares		127	194
Redemption of debt securities		(1 015 716)	(2 969 117)
Payments due to lease agreements		(166 803)	(115 395)
Interest paid from financing activities		(192 480)	(94 491)
C. Cash flows from financing activities		**2 821 803**	**(2 239 579)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**20 522 892**	**3 693 325**
Effect of exchange rate changes in cash and cash equivalents		(1 745)	4 020
Cash and cash equivalents at the beginning of the reporting period		16 120 301	12 422 956
Cash and cash equivalents at the end of the reporting period	**42**	**36 641 448**	**16 120 301**

Notes presented on pages 10–150 constitute an integral part of these Financial Statements.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. Information regarding mBank S.A.

The Bank operates under the name mBank S.A. with its registered office in Poland, 00-850 Warsaw, 18 Prosta Street, under the number KRS 0000025237, REGON 001254524, NIP 526-021-50-88.

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

The Bank provides services to legal and natural persons, domestic and foreign, both in PLN and in foreign currencies.

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

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

As at 31 December 2023, the headcount of mBank S.A. amounted to 6 649 FTEs (Full Time Equivalents) (31 December 2022: 6 382 FTEs).

As at 31 December 2023, the headcount of mBank S.A. amounted to 7 626 persons (31 December 2021: 7 387 persons).

The Management Board of mBank S.A. approved these financial statements on 27 February 2024.

2. Information on relevant accounting policies

Information on principal accounting policies used in the preparation of these financial statements is set forth below. These accounting policies have been applied consistently in all periods presented, except for accounting policies concerning hedge accounting. For accounting policy for hedge accounting until 30 June 2022 the Bank applied the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9. Starting 1 July 2022, the Bank applies IFRS 9 requirements in the area of hedge accounting to all hedge relations except for fair value portfolio hedges of interest rate risk where the hedged item is designated as portion that is a currency amount. The above change in accounting policy, as required by IFRS 9, was implemented prospectively from 1 July 2022 and did not have a material impact on the Bank's financial statements. In particular, no hedge relationships were discontinued as a result of this change. New accounting policies are presented in Note 2.11. In addition, the Bank changed the presentation of certain items in the statement of financial position and in the income statement. These changes are described in Note 2.27.

2.1. Accounting basis

These Financial Statements of mBank S.A. have been prepared for the 12-month period ended 31 December 2023. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2022.

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

The data for the year 2022 presented in these mBank S.A. financial statements was audited by the auditor, except for the restated data presented in Note 2.27.

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

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

The Management Board, in its assessment of the appropriateness of the going concern assumption by the Bank, took into account the fact that the profitability of the Bank's and the Group's core business model in 2023 remained at a high level, and the net result achieved in 2023 in the amount of PLN 29 322 thousand was affected primarily by the recognition of legal risk costs related to foreign currency loans in the amount of PLN 4 908 205 thousand (as detailed in Note 34).

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

Therefore, as of the date of approving these statements, no events that could indicate that the continuation of the operations by the Bank is endangered in the period of at least 12 months from the reporting date were identified.

The Bank also prepares consolidated financial statements in accordance with IFRS. mBank S.A. Group Consolidated Financial Statements for the year 2023 were approved on 27 February 2024.

2.2. Interest income and expenses

All interest income and interest expenses 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 other comprehensive income and interest income and interest expenses from financial instruments measured at fair value through profit or loss are recognised in the income statement.

The Bank calculates interest income using the effective interest rate on the gross carrying amount of the debt-based financial asset. In case of reclassification of a financial asset or a group of similar financial assets to Stage 3, the interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance) and is 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 and interest expenses on derivatives under the fair value hedge.

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

2.3. Fee and commission income

Fee and commission income is recognised in accordance with IFRS 15 using a five-step model for revenue recognition.

The Bank recognises at a point in time the fees charged at a point in time not related directly to origination of loans and advances. Fees for services delivered over time longer than 3 months are recognised by the Bank over time.

As the fee and commission income, the Bank treats also fees and commissions recognised over time on a straight line basis, related to loans and advances with not established timing of cash flows, for which effective interest rate is not possible to be determined. Straight line method for those services presents fairly the timing of transfer of services, because they are delivered evenly over time.

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

Fees charged for granting of loans which are likely to be drawn down are deferred (together with the direct costs directly attributable to them) and included in the calculation of the effective interest rate charge on the loan at the time of granting.

Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the Bank has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants.

Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the transaction. Portfolio management fees and other fees for management, advisory and other services are recognised on the basis of service contracts, usually in proportion to the passage of time. The same principle is applied in the case of management of client assets, financial planning and custody services, which are continuously provided over an extended period of time.

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

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

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

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

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

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

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

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly deferred over time based on the analysis of the stage of completion of the service, in accordance with 5-step model from IFRS 15.

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

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

2.5. Financial assets

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

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

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

Financial assets measured at fair value through profit or loss

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

The Bank presents financial assets measured at fair value through profit and loss in the following positions of the statement of financial position: Financial assets held for trading and hedging derivatives and Non-trading financial assets mandatory at fair value through profit and loss.

Significant accounting policies related to derivatives are included in Note 2.11.

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

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

Methods of fair value measurement are discussed in Note 3.18.

Financial assets measured at amortised cost

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

Financial assets measured at fair value through other comprehensive income

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

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

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.

Methods of fair value measurement are discussed in Note 3.18.

Equity instruments

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

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

Modification of contractual terms for financial assets

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

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

In case of identification of substantial modification, in the income statement the deferred income and expense related to such asset and the reversal of impairment are recognised. At the same time there is repricing of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as non-substantial modifications and the gain or loss on modification is recognised. The effect of all identified non-substantial modifications of cash flows, which do not result from financial difficulties of a borrower, 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, a new asset classified at the date of initial recognition in Stage 1 has been recognised, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

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

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

Purchased or originated credit impaired financial assets (POCI assets)

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

2.6. Offsetting of financial instruments

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

2.7. Impairment of financial assets

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

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

Derecognition of loan receivable

Derecognition of loan receivable can be partial (corporate banking) or total.

In case of retail banking, writing off receivables can be done when:

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

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

In the case of corporate portfolio, writing off receivables is carried out when:

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

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

2.8. Financial guarantee contracts

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

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

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

2.9. Cash and cash equivalents

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

2.10. Sell and repurchase agreements

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

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

When concluding a repo or sell/buy back or reverse repo or buy/sell back transaction, Bank sells or buys securities with a repurchase or resale clause specifying a contractual date and price.

Securities borrowed by the Bank under reverse repo or 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 liabilities from short sales of securities. Securities borrowed under buy/sell back transactions and then lent under sell/buy back transactions are not recognised as financial assets.

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

2.11. Derivative financial instruments and hedge accounting

Derivative financial instruments

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.

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

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

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

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

Hedge accounting

Derivative instruments that are designated and are effective hedging instruments are subject to hedge accounting policies.

Until 30 June 2022 the Bank applied the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9. Starting 1 July 2022, the Bank applies IFRS 9 requirements in the area of hedge accounting to all hedge relations except for fair value portfolio hedges of interest rate risk where the hedged item is designated as portion that is a currency amount.

The IFRS 9 also introduces the option to recognise as 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.

Above change of the accounting policies according to IFRS 9 requirements was implemented prospectively from 1 July 2022 and had no significant impact on the financial statements of the Bank. In particular, no hedge relations has been terminated as a result of these changes.

2.12. 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.

2.13. Investments in subsidiaries

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

2.14. Intangible assets

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

Computer software

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

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

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

2.15. 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.

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

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

2.16. Investment properties

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

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

Current income and expenses are recognised in other operating income or expenses. Remeasurement changes arising from changes in fair value are also shown under other operating income or expenses in the income statement for the period. As at the date of reclassification of the property occupied by the Bank to investment property, the difference between the carrying amount of the property determined in accordance with IAS 16 or IFRS 16 and its fair value is recognised by the Bank 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 in other comprehensive income, in the event of an increase in the current value above the amount of the reversed impairment loss.

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

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

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

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

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

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

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

2.18. Deferred income tax

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

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

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

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

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

2.19. Leasing

mBank S.A. Bank as a lessee

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

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

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

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

The Bank shall reassess whether it is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Bank shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The Bank shall revise the lease term if there is a change in the non-cancellable period of a lease.

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

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

At the commencement date, the Bank measures the lease liability at the present value of outstanding lease payments, discounted at the internal leasing rate or if this rate cannot be easily determined the marginal interest rate of the Bank. After initial recognition, lease liability is measured at amortised cost.

The Bank applies the marginal interest rate of lessee. As the lessee the Bank estimates the discount rate taking into account the duration and the currency of the contract.

All right-of-use assets are classified in tangible fixed assets (Note 26). Lease liabilities are presented as financial liabilities measured at amortised cost (Note 29).

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

mBank S.A. Bank as a lessor

Operating lease

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

2.20. Provisions

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

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

2.21. Post-employment benefits and other employee benefits

Post-employment benefits

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

Equity-settled share-based payment transactions

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

2.22. Equity

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

Registered share capital

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

Own shares

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

Share premium

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

Costs directly connected with the issue of new shares and options reduce the proceeds from the issue recognised in equity.

Moreover, share premium takes into account the settlements related to incentive programs based on Bank's shares.

Retained earnings

Retained earnings include:

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

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

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

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

Other components of equity

Other components of equity result from:

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

2.23. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

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

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

2.24. Trust and fiduciary activities

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

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

2.25. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards, International Financial Reporting Standards and related interpretations as endorsed by the European Union which have been issued and are binding for annual periods starting on 1 January 2023.

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Standards and interpretations endorsed by the European Union

Published Standards and Interpretations which have been issued and are 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 Bank's financial statements in the period of initial application
Amendment to IAS 8, Definition of Accounting Estimates	The amendment to IAS 8 introduces the new definition of a change in 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 had no significant impact on the financial statements.
Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies	The 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 had 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 IAS 12 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 had 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 had no significant impact on the financial statements.
Amendments to IFRS 17, Deferral of use and exclusion of certain products from the scope	The 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 had no significant impact on the financial statements.
Amendments to IFRS 17 and IFRS 9 – Comparative data	The amendments to IFRS 17 and IFRS 9 introduce 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 standards had no significant impact on the financial statements.
Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules	The amendments to IAS 12 introduce temporary exceptions to the recognition of deferred tax liabilities and assets in respect of Pillar Two of the international tax reform agreed at the OECD. In addition to the exceptions, the amendment introduces additional disclosures relating to the reform.	1 January 2023	The application of the amended standards had no significant impact on the financial statements.

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Bank's financial statements in the period of initial application
Amendments to IAS 1, Classification of liabilities as current or non-current	The 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	The 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.

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Standards and interpretations not yet endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Bank's financial statements in the period of initial application
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements	The amendments to IAS 7 and IFRS 7 introduce additional disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk.	1 January 2024	The application of the amended standards will have no significant impact on the financial statements.
Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability	The amendments to IAS 21 clarify how an entity should assess the currency exchangeability and require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.	1 January 2025	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 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 (further "IBOR reform").

In order to effectively implement the changes resulting from the IBOR reform, a project has already been launched at mBank in 2020 involving 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

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.

The 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. Wherever possible appropriated fallback clauses were introduced to customer contracts.

Due to the discontinuation of the publication of USD LIBOR index quotes as of 30 June 2023, these have been replaced by the SOFR index in contracts with corporate customers. For retail loans, from 1 July 2023 onwards, interests are calculated based on the synthetic USD LIBOR, for which quotes will be available until 30 September 2024. For retail products, mBank aims to replace the interest based on USD LIBOR with the SOFR Average by means of annexing existing agreements.

Derivative instruments based on LIBOR rates by the end of year 2023 were converted by clearing houses to instruments based on alternative reference rates or in case of derivatives not cleared centrally in accordance with methodology developed by ISDA in the course of market consultations.

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 initial decision taken by the NGR Steering Committee, the WIBOR index was to be replaced by the new WIRON index by the end of 2024. In October 2023, the NGR Steering Committee announced that it was pushing back the deadline for completing the transition from WIBOR to the new benchmark to the end of 2027.

The key risks faced by the Bank in relation to the WIBOR are:

- the risk of uncertainty regarding the transition of contracts to alternative reference rates, which could lead to an adverse change in the risk profile of these contracts,
- the risk of slow adaptation of the new WIRON reference rate by the financial markets, including the delayed development of the WIRON-based derivatives market required to manage the interest rate risk profile.

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 Bank is also working to remove products based on the WIBOR index from its current offering and replace them with products based on alternative rates.

The table below presents the Bank's exposure as at 31 December 2023 to material reference rates in scope of the interest rate benchmark reform for which the transition to the alternative reference rates was not yet 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	68 460	5 009	(15 935)
USD LIBOR	135	-	-
Other	1	-	-

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

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

2.26. Business segments

Data concerning business segments was presented in the Consolidated Financial Statements of mBank S.A. Group for the year 2023, prepared in compliance with the International Financial Reporting Standards and published on 27 February 2024.

2.27. Comparative data

- Reclassification of the valuation of liabilities due to the issue of credit linked notes (adjustment 1)

Beginning with the condensed financial statements mBank S.A. for the first half of 2023, the Bank has changed the presentation in the income statement of change of the valuation of liabilities due to the issue of credit linked notes ("CLNs") measured at amortised cost related to the synthetic securitisation transaction resulting from the change in the expected cash flows from the embedded financial guarantee. Previously, the Bank presented this change of valuation within Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. Now the Bank presents the valuation within Interest expenses due to issue of debt securities.

- Presentation of cash and cash equivalents (adjustment 2)

Beginning with the 2023 financial statements, the Bank has changed the presentation of cash and cash equivalents in the statement of financial position. Previously, the Bank presented cash and balances with central bank separately, while part of cash and cash equivalents in the form of current accounts with other banks and term deposits with other banks with an original maturity of up to three months was presented in the item Loans and advances to banks. Currently, the Bank presents all cash and cash equivalents in a single line item in the statement of financial position.

The above changes were due to the adjustment of the presentation of selected assets, liabilities, income and cost positions to the prevailing market practice and in order to better reflect the economic nature of the effects of the transactions presented. The changes did not affect equity levels and the Bank's income statements in the comparative periods presented in these financial statements. Comparative figures as of 1 January 2022 and 31 December 2022 and for the period from 1 January to 31 December 2022 have been restated accordingly.

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

Restatements in income statement for the period from 1 January to 31 December 2022

Income statement	No.	Period from 01.01.2022 till 31.12.2022 before restatement	restatement	Period from 01.01.2022 till 31.12.2022 after restatement
Interest income, including:		8 837 715	-	8 837 715
Interest income accounted for using the effective interest method		*8 667 715*	-	*8 667 715*
Income similar to interest on financial assets at fair value through profit or loss		*170 000*	-	*170 000*
Interest expenses	1	(3 094 862)	14 755	(3 080 107)
Net interest income		**5 742 853**	**14 755**	**5 757 608**
Fee and commission income		2 823 719	-	2 823 719
Fee and commission expenses		(783 433)	-	(783 433)
Net fee and commission income		**2 040 286**	**-**	**2 040 286**
Dividend income		48 736	-	48 736
Net trading income		71 895	-	71 895
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(46 034)	-	(46 034)
Gains less losses from derecognition of assets and liabilities not measured at fair value through profit or loss		(96 603)	-	(96 603)
Other operating income		70 319	-	70 319
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	1	(646 132)	(14 755)	(660 887)
Result on provisions for legal risk related to foreign currency loans		(3 112 265)	-	(3 112 265)
Overhead costs		(2 621 691)	-	(2 621 691)
Depreciation		(402 729)	-	(402 729)
Other operating expenses		(265 775)	-	(265 775)
Operating profit (loss)		**782 860**	**-**	**782 860**
Tax on the Bank's balance sheet items		(651 954)	-	(651 954)
Share in profits (losses) of entities under the equity method		(190 435)	-	(190 435)
Profit (loss) before income tax		**(59 529)**	**-**	**(59 529)**
Income tax expense		(637 195)	-	(637 195)
Net profit (loss)		**(696 724)**	**-**	**(696 724)**

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Restatements in statement of financial position at 1 January 2022

ASSETS	No.	01.01.2022 before restatement	restatement	01.01.2022 after restatement
Cash and cash equivalents (previously: Cash and cash balances with central banks)	2	12 087 608	335 348	12 422 956
Financial assets at amortised cost, including:	2	113 949 598	(335 348)	113 614 250
Debt securities		*16 632 915*	-	*16 632 915*
Loans and advances to banks	*2*	*11 194 916*	*(335 348)*	*10 859 568*
Loans and advances to customers		*86 121 767*	-	*86 121 767*
Other items		64 671 102	-	64 671 102
TOTAL ASSETS		**190 708 308**	**-**	**190 708 308**

LIABILITIES AND EQUITY		01.01.2022 before restatement	restatement	01.01.2022 after restatement
TOTAL LIABILITIES AND EQUITY		**190 708 308**	**-**	**190 708 308**

Restatements in statement of financial position at 31 December 2022

ASSETS	No.	31.12.2022 before restatement	restatement	31.12.2022 after restatement
Cash and cash equivalents (previously: Cash and cash balances with central banks)	2	15 906 492	213 809	16 120 301
Financial assets at amortised cost, including:	2	123 405 293	(213 809)	123 191 484
Debt securities		*20 206 976*	-	*20 206 976*
Loans and advances to banks	*2*	*15 392 870*	*(213 809)*	*15 179 061*
Loans and advances to customers		*87 805 447*	-	*87 805 447*
Other items		64 663 993	-	64 663 993
TOTAL ASSETS		**203 975 778**	**-**	**203 975 778**

LIABILITIES AND EQUITY		31.12.2022 before restatement	restatement	31.12.2022 after restatement
TOTAL LIABILITIES AND EQUITY		**203 975 778**	**-**	**203 975 778**

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Restatements in statement of cash flows for the period from 1 January to 31 December 2022

	No.	Period from 01.01.2022 to 31.12.2022 before restatement	restatement	Period from 01.01.2022 to 31.12.2022 after restatement
Profit (loss) before income tax		**(59 529)**	**-**	**(59 529)**
Adjustments:		***6 385 421***	**-**	***6 385 421***
Income taxes paid		(445 321)	-	(445 321)
Depreciation including depreciation of fixed assets provided under operating lease		416 942	-	416 942
Foreign exchange (gains) losses related to financial activities		417 355	-	417 355
(Gains) losses on investing activities		176 147	-	176 147
Change of valuation of investment in subsidiaries not measured at equity method		16 664	-	16 664
Dividends received		(48 736)	-	(48 736)
Interest income (income statement)		(8 837 715)	-	(8 837 715)
Interest expense (income statement)	1	3 094 862	(14 755)	3 080 107
Interest received		8 627 821	-	8 627 821
Interest paid	1	(2 386 782)	14 755	(2 372 027)
Changes in loans and advances to banks		(4 164 983)	-	(4 164 983)
Changes in financial assets and liabilities held for trading and hedging derivatives		(1 003 109)	-	(1 003 109)
Changes in loans and advances to customers		(2 686 686)	-	(2 686 686)
Changes in financial assets at fair value through other comprehensive income		1 720 262	-	1 720 262
Changes in securities at amortised cost		(3 550 758)	-	(3 550 758)
Changes in non-trading securities mandatorily at fair value through profit or loss		63 169	-	63 169
Changes in other assets		(314 201)	-	(314 201)
Changes in amounts due to banks		(2 147 960)	-	(2 147 960)
Changes in amounts due to customers		16 565 635	-	16 565 635
Changes in lease liabilities		4 195	-	4 195
Changes in issued debt securities		(308 957)	-	(308 957)
Changes in provisions		427 216	-	427 216
Changes in other liabilities		750 361	-	750 361
A. Cash flows from operating activities		**6 325 892**	**-**	**6 325 892**
B. Cash flows from investing activities		**(392 988)**	**-**	**(392 988)**
C. Cash flows from financing activities		**(2 239 579)**	**-**	**(2 239 579)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**3 693 325**	**-**	**3 693 325**
Effect of exchange rate changes in cash and cash equivalents		4 020	-	4 020
Cash and cash equivalents at the beginning of the reporting period		12 422 956	-	12 422 956
Cash and cash equivalents at the end of the reporting period		**16 120 301**	**-**	**16 120 301**

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

3. Risk Management

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

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

3.1. mBank risk management in 2023 – external environment

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

Regulatory changes resulting from the work of the Basel Committee on Banking Supervision and the draft CRR 3 regulation

The Bank monitors regulatory changes resulting from the work of the Basel Committee on Banking Supervision, in particular those related to the review and revision of the methodologies for calculating capital requirements (the so-called Basel IV) which, within EU, are implemented by the CRR 3 regulation.

On 27 October 2021, the European Commission proposed a draft amendment to the CRR/CRD IV regulatory package to implement the updated Basel standards (Basel IV), 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 January 1 2025.

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

The range of changes that banks will be required to make to comply with the new regulations will be extensive, and these changes could potentially affect mBank's capital position. Changes to the CRR Regulation involve changes to the way capital requirements are calculated in particular, in the following areas:

- An "output floor" will be gradually introduced to reduce the volatility of capital requirements generated by internal models and to limit the benefit of these models relative to banks using standardized methods.
- Significant changes will be made to the IRB method for credit risk. The advanced IRB method will not be allowed to be used for exposures to commercial banks, exposures to other financial sector entities and exposures to large companies. The formula for determining risk weights will be modified (abolition of the multiplier of 1.06); so-called input floors will be introduced, i.e. minimum values of input parameters to the formula for determining risk weights (PD, LGD, CCF).
- A number of changes will be made to the standard method for credit risk (in particular with respect to exposures secured by real estate mortgages and off-balance sheet items) so as to increase the sensitivity of this method to risk - the standard method will be mandatory for the purpose of determining the output floor requirement.
- For operational risk, a new standard method will be introduced to replace those previously used, including the internal models method.
- For market risk, binding requirements based on an alternative standard method (the so-called FRTB) will be introduced; it increases risk sensitivity in calculating RWA,
- for the credit valuation adjustment (CVA) requirement, there will be changes to the formula for calculating the requirement value using the basic method and revised risk weights assigned to counterparties.

In turn, the revised CRD also provides for additional requirements on ESG risk, in the context of risk management, measurement and monitoring, economic capital calculation, or stress scenario analyses.

AIRB models

In 2016-2023, European Banking Authority (EBA) published documents, as part of a broader regulatory initiative concerning revision of the Internal Ratings Based Approach (AIRB), which include:

- draft methodology for supervisors to assess whether banks are in compliance with regulatory requirements for the use of the Internal Ratings-Based Assessment Methodology (AIRB),
- guidelines for estimating PD, LGD risk parameters and dealing with exposures characterized by default,
- guidelines for estimating the LGD parameter for economic downturns and the standard for estimating and identifying economic downturns in IRB modeling,
- guidelines on credit risk mitigation for institutions applying the IRB approach using their own LGD estimates,
- 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 the Bank submitted the application for approval of material changes in all PD, CCF and LGD parameters models in portfolios covered by AIRB approach to banking supervisory authorities. The implementation of AIRB models adapted to the aforementioned guidelines is planned for 2024, immediately after the approval of the banking supervisory authorities.

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.

In 2023, Bank adjusted its internal procedures and policies to the rules of the amended Recommendation A, which was adopted by PFSA in 2022 and replaced Recommendation A of 2010. The amendment aims to identify good practices in the area of risk management on the derivatives market, standardize these rules and complementing European guidelines and technical standards (ESMA, EBA). Recommendation A has been implemented by the Bank within the time limit set by the PFSA.

The PFSA is working on updating Recommendation G on interest rate risk management. In connection with the publication of the final version of the EBA Guidelines for the Management of Interest Rate Risk in the Banking Book and Credit Spread Risk in the Banking Book, it is expected that the current recommendation will be updated in the coming months to take into account the new requirements under the aforementioned regulations.

In addition, in 2023, the PFSA carried out work on updating:

- Recommendation J on the principles of collecting and processing data on the real estate market by banks, the update of which will expand the scope of real estate collected by the Bank, which is used in day-to-day operational work, as well as for collateral monitoring purposes,
- Recommendation S on good practices for managing mortgage-backed credit exposures, whose update, among other things, expands the scope of the Bank’s once-a-year in-depth analysis of the sources of funding for mortgage-backed credit exposure. In addition, it affects the calculation of creditworthiness, and the main work concerns a change in the calculation of the interest rate risk buffer.
- Recommendation U on good practices in the field of bancassurance, regarding which the Bank is working to align with its updated version by 30 June 2024. The main work consists of removing from offering products that do not meet Recommendation 20, updating the Bancassurance Policy, and reviewing and completing the remaining product processes.

New PFSA requirement for long-term funding ratio

As announced by PFSA Office representatives, the banking sector is looking forward to the introduction of a long-term funding ratio (WFD), defining the requirement for structural liquidity. The indicator's pre-determined goal is to increase diversification and stability of funding sources, in particular, activities related to exposures in the form of mortgage-backed loans. In addition, the indicator is expected to have an impact in the direction of increasing the share of mortgage bonds and green issues. Arrangements for the final form of the indicator and its inclusion in the PFSA recommendations are being carried out as part of the work of a working group headed by the PFSA and are subject to change.

IBOR reform

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

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

Additional information on the impact of IBOR reform is presented in Note 2.25 and Note 19.

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

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

- revised guidelines on the interest rate risk in the banking book (IRRBB) and credit spread risk arising from banking book activities (CSRBB); they replaced EBA Guidelines issued in 2018,
- technical standards on the standardised approach and the simplified standardised approach for the assessment of IRRBB,
- technical standards on supervisory outlier testing (SOT) 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 Bank adjusted the internal principles of interest rate and credit spread risk management to the Amended Guidelines on IRRBB, effective on the date specified by the regulations, i.e. on IRRBB – 30 June 2023, and on CSRBB – on 31 December 2023.

Threats related to ESG factors

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

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

The outcomes of ESG risk analysis during the credit risk analysis process impact neither credit pricings for corporate clients nor their PD-ratings in a quantitative manner. ESG risk assessment is qualitative, considered independently from clients’ financial results and credit risk parameters. In the case of smaller exposures, the analysis is simplified and conducted on a portfolio basis while in the case of exposures exceeding PLN 8 million for K2 clients (medium-sized enterprises with an annual turnover of PLN 50 million to PLN 1 billion) and K1 (large enterprises with annual turnover exceeding PLN 1 billion and non-bank financial institutions) – on case by case basis. Having committed to the Science-Based Targets initiative (SBTi) in 2022 and considering earlier Bank’s strategic commitment to achieving net-zero emissions, preliminary analyses leading to decarbonisation pathways’ conceptualisation for the Bank have been initiated.

3.2. Principles of risk management

Managing credit risk, the Bank focused on identifying factors that could significantly affect customers and the quality of the Bank's loan portfolio.

- In the corporate banking area, the Bank maintained caution approach to updating its credit risk policies. At the same time, the Bank continued projects that are expected to result in the automation and simplification of the credit process.
- In the retail banking area, the Bank takes into account the risks associated with the current economic situation. The situation of households and SMEs is subject to strong pressure caused by high volatility of macroeconomic and geopolitical factors. The Bank adapts to this situation by maintaining a conservative credit policy, particularly in the area of creditworthiness.

3.2.1. Risk management culture

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

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

- The first line of defence is business units (Business), which primarily pursue business goals. As part of achieving these goals, Business manages risk and capital. Business takes the risk and capital aspects into account when making all decisions within the boundaries of the risk appetite defined for the mBank Group. The Senior Line Management within the Business identifies threats in its own domain and is responsible for having effective control mechanisms in place. This means that Business is the owner of all types of risk associated with its operations (including risks related to outsourced activities).
- The second line of defence are primarily organizational units in the risk management area (Risk), Security, Data Protection Inspector and Compliance function, which create risk management strategies for each risk type, support and supervise the Business in their implementation and independently analyse and assess the risk. To ensure that the Business is supported and supervised in an objective manner, the second line of defence operates independently of the Business.
- The third line of defence is Internal Audit, ensuring independent assessment of activities connected with risk management performed by the first and the second line of defence.

3.2.2. Division of responsibilities in the risk management process

Supervisory Board supervises the Bank's activities with regard to the risk management system and evaluates its adequacy and effectiveness. The Supervisory Board considers regular and comprehensive information on all important matters concerning the Bank's activities provided by the Management Board, the risks associated with its activities and the ways and effectiveness of managing these risks. In particular, the Supervisory Board approves the mBank Group Risk Management Strategy and supervises its implementation.

Risk Committee of the Supervisory Board exercises constant supervision over the credit, market, liquidity and non-financial including operational risks. In particular, the Risk Committee issues recommendations regarding approval of risk management strategies, including the Risk Management Strategy, by the Supervisory Board. In addition, the Risk Committee issues recommendations in terms of individual counterparty risk, in accordance with the parameters defined 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 Risk Management Strategy. The Management Board establishes the organizational structure of the Bank and allocates tasks and responsibilities to individual organizational 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.

Chief Environmental Risk Officer (CERO) is responsible for developing the Bank's environmental risk management in the scope of setting appropriate standards, overseeing the process and methodology of carbon footprint control, overseeing the internal control rules, greenwashing risk and climate stress tests.

The Committees:

- **The Committees of the Business and Risk Forum of mBank Group** is a platform for making decisions and dialogue between organizational units in particular business lines and the risk management area in mBank and mBank and the mBank Group subsidiaries. The Business and Risk Forum is constituted by the following bodies: Retail Banking Risk Committee (KRD), Corporate and Investment Banking Risk Committee (KRK), and Financial Markets Risk Committee (KRF). The main function of the above-mentioned committees is to develop the principles of risk management and risk appetite. The Committees take decisions and make recommendations concerning in particular risk policies, processes and tools for risk assessment, risk limitation system, assessing the quality and profitability of portfolio of exposures to clients, approval of introducing new products to the offer and key aspects of selling investment products to retail banking clients.

- **Model Risk Committee** is responsible for supervising the model risk management process, performing an informative, discussion, decision-making and legislative function in this respect.
- **Capital, Assets and Liabilities Committee (CALCO)** 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 optimize financial result, as well as to shape and allocate capital in a way that maximizes return on equity of the mBank Group.
- **Sustainable Development Committee of mBank Group** is a platform for making decisions and issuing recommendations, and dialogue on sustainable development. The Committee shapes, promotes and monitors sustainable development in the mBank Group.
- **Credit Committee of the mBank Group** makes loan decisions and issues recommendations, and thus has an impact on the implementation of concentration risk management principles in particular in terms of exposures to individual clients and group of affiliated entities, including large exposures. The Committee shall also take decisions on debt conversion into shares, stocks, taking over properties in return for debts (applies to the Bank).
- **Credit Forum of the Retail Banking** is responsible, in particular, for making individual credit decisions concerning retail clients in the case when the total exposure to such a client, the value of the transaction or the values of AIRB risk parameters (PD/LGD/EL) set for the client or transaction achieve a specified threshold set for this decision-making level.
- **Investment Banking Committee** ensures proper and effective risk management in investment transactions offered by the Brokerage Bureau. The Committee is in particular responsible for the identification and management of potential risks posed by the transaction under consideration and the fast and efficient exchange of information between the Business and the risk management area on the Bank’s strategy adopted towards the customer.
- **Committee for Data Quality and Information Systems Development** ensures conditions for the creation, maintenance and development of an effective data quality management system and the development of information systems within the rules set out in the Bank's Data Governance procedures.
- **Security Committee** has the power to make decisions regarding the approval of activities significant from the Bank's point of view in the terms of banking crime, cybersecurity, information protection, including its protection in IT systems, physical protection and technical security, and ensuring the continuity of the Bank's operations.
- **IT Architecture Committee** is responsible for the effective management of IT resources in mBank and the mBank Group subsidiaries. It ensures consistency of elements and flexibility of IT solutions in the mBank Group, effective use of IT resources, optimization of the use of knowledge and experience in the field of IT and repeatability of processes carried out in the field of IT.
- **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 Vice-President of the Management Board, Chief Risk Officer.

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

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

- risk inventory in the mBank Group,
- calculation of internal capital and own funds requirements for coverage of risk,
- capital aggregation,
- stress tests,
- setting limits on the utilisation of capital resources,
- capital planning and allocation,
- monitoring consisting of 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.

<u>Material risks in mBank Group's operations</u>

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 at 31 December 2023: 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), risk of foreign currency credit portfolio and securitization risk. In addition, environmental risk is treated as a horizontal risk, i.e. one that can materialize in existing risk categories identified as part of the risk inventory process.

3.2.4. Risk appetite

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

<u>Capital and liquidity buffers</u>

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.

<u>Risk Bearing Capacity</u>

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

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

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

Risk limit system

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

3.2.5. Stress tests within ICAAP and ILAAP

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

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

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

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

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

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

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

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

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

The profitability of core business model of the Bank in 2023 remained at a high level. The result for 2023 was shaped by the recognition of additional legal risk costs associated with the foreign currency loan portfolio.

It should be emphasised that 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.

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 or PD-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

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

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

3.3.3. Collateral accepted

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

The most common collateral accepted are:

- mortgage on real estate,
- registered pledge,
- transfer of receivables (cession of rights),
- monetary deposit,
- financial pledge,
- guarantees and warranties,
- 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 collateral policies in the area of retail banking and corporate banking. The most important elements of these policies 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

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

- standard catalogue of collaterals applicable to credit risk products granted to K2 and K3 segment customers under the simple process and standard process;
- expanded catalogue of collaterals for credit risk products, which is available with the following criteria:
  - customer presence on LEW/WATCH list,
  - customer service in the K1 segment,
  - customer service in structured finance and Mezzanine,
  - collateral applies to specialized lending (SPL),
  - deviation from the "Standard Collateral Catalogue":
    - with the individual approval of the Directors of the Credit Analysis Department of Corporate Banking, the Department of Central Microregion Management, the Department of Small and Medium Enterprises, the Department of Western Microregion Management or their designees in the event that the issue of leaving the collateral from the expanded catalogue or accepting the collateral from the expanded catalogue occurs at the initiative of a credit analyst or credit counsellor. In that case, approval should be obtained before the report/transaction is sent to the Managing Director of Corporate Clients and Corporate Banking Development,
    - with the individual approval of the Head of the Large Enterprise Risk Assessment Department or the Small and Medium Enterprise Risk Assessment Department in the Corporate Risk Assessment Department (or the coordinators/leaders of these departments), when the issue of leaving a collateral from the expanded catalogue or accepting a collateral from the expanded catalogue is at the initiative of the Managing Director of Corporate Customers and Corporate Banking Development.

3.3.4. Rating system

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

- customer rating (PD-rating) – describing the probability of default (PD);
- Loss Given Default (LGD) model for non-default portfolio (for default portfolio individual method of estimating recoveries is used). Model consists of the following components: recoveries from unsecured part of the credit (based on information from financial statement, contractual and customer factors), 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.

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

The rating system used in the retail banking area is used to assess the risk of secured and non-mortgage-secured transactions against individuals and micro and small businesses (with annual revenues not exceeding PLN 10 million). The following models operate within the retail rating system:

- 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 with the specifics of the loan products held or applied for),
  - 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).

Rating systems generate probabilities of default of borrowers directly in the form of PDs expressed in percentages (continuous scale). Rating classes are created based on procedures for grouping PDs expressed in percentages on the basis of a geometric ladder (the so-called master scale). In external reporting, the Bank uses mapping of the internal PD rating scale to external ratings. Both the process of mapping probability of default into rating classes and the way in which internal ratings are translated into external ratings are the result of using a single, common rating scale (masterscale) within the Commerzbank group. The rating scale used at the Bank is used to visualize the level of credit risk to individuals, micro and small businesses, and medium and large business entities. The mapping method is shown in the table below:

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

3.3.5. Monitoring and validation of models

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

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

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

Validation

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

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

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

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

IRB Method Change Policy

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

3.3.6. Calculating expected credit losses

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

3.3.6.1 How exposures are classified to stages

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

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

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

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

The exposure may also be transferred from Stage 3 to Stage 2 or to Stage 1 if for each loss-events assigned to debtor, probation period has elapsed and, additionally in case of corporate clients, debtor's assessment carried out after probation period, has not shown that the debtor is unlikely to fully repay its obligations without recourse to realizing 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 he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank),
- threefold PD backstop indicator – at least threefold increase of current PD level estimated over a 12-month horizon in relation to PD at initial recognition date,
- 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.

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

3.3.6.1.2. Low credit risk criteria

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

3.3.6.1.3. Impairment triggers - corporate portfolio

The list of definite loss events in corporate portfolio:

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

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

3.3.6.1.4. Impairment triggers - retail receivables

The list of definite loss events in retail portfolio:

- the number of days past due of the principal, interest or fees is over 90 days. Number of days past due is calculated at the debtor level and commences when both absolute and relative materiality thresholds have been exceeded, where:
  - absolute threshold refers to the sum of all overdue amounts related to the debtor's liabilities towards the Bank and amounts to PLN 400 for Polish branch, CZK 2 500 for the foreign branch of the Bank in 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;
- 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 by insurance companies;
- occurrence of cross default.

3.3.6.2. Calculation of expected credit losses

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

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

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

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

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

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

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

3.3.6.2.1. Use of macroeconomics scenarios in ECL estimation

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

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

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

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

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

3.3.6.2.2. Significant model and methodological changes

In 2023 the Bank made the following significant changes to the models and methodologies used to determine expected credit losses:

- In the first half of 2023:
  - For the specialty lending portfolio, the following changes were made to the models used in the allowance calculation process:
    - Recalibration of the long-run default probability model consisting of re-estimation of the model parameters with the data sample expanded to include observations from the most recent periods,
    - Recalibration of the long-term loss model involving adjusting it to the most recent data available for the recovery process and taking into account updated sensitivity to the economic environment,
    - Updating the macroeconomic indicators in the above models, which consisted of determining the expected loss levels of individual portfolios based on new econometric models based on the latest macroeconomic forecasts, and incorporating these levels into estimates of default probabilities. In addition, recent realizations of macroeconomic variables and their relation to realized loss levels were taken into account in the long-term loss model.

    The aggregate impact of the above changes on the level of expected credit loss was recognized in the form of a write-down of PLN 17.6 million (negative impact on the result).
  - For remaining loan portfolio, the macroeconomic indicators used in the expected credit loss model were updated.

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The aforementioned change consisted in determining the expected loss levels of the respective portfolios on the basis of new econometric models based on the latest macroeconomic forecasts, and then including these levels in the estimates of the long-term probability of default. The values of macroeconomic factors were updated for the long-term loss model.

The impact of the aforementioned changes on the level of expected credit loss for the non-specialized loan portfolio was recognized through the deduction of allowances in the amount of PLN 53.1 million (negative impact on the result). In addition, the impact on the fair value measurement of the Group's non-mortgage portfolio amounted to PLN -4.9 million (negative impact on the result).

- In the second half of 2023:
  - The long-term loss given default (LGD) model for the retail segment of Foreign Branches was restated. The aggregate impact of the aforementioned changes on the level of expected credit loss amounted to PLN -5.4 million (positive impact on the result).
  - Due to the high dynamics of the risk profile of the retail part of the non-mortgage-secured portfolio, the expected loss level determined on the basis of an econometric model based on macroeconomic forecasts and historical portfolio loss data was updated. The above level was then included in the estimation of the long-term PD parameter. The impact of the above calibration on the level of expected credit loss was recognized in the form of a write-down of PLN 70.2 million (negative impact on the result).
  - An additional qualitative criterion for transfer to Basket 2 was introduced, related to at least a threefold increase in the current PD level estimated over a 12-month horizon from the PD level at the date of initial recognition of the exposure (Threefold PD backstop indicator). The impact of the change on the level of expected credit loss was PLN 71.7 million (negative impact on the result).

3.3.6.3. Credit risk costs coverage of individual sub-portfolios

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

<u>Portfolio measured at amortised cost</u>

Sub - portfolio	31.12.2023		31.12.2022	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	6.44	0.01	8.68	0.01
2	34.88	0.04	35.30	0.05
3	13.13	0.18	17.89	0.18
4	25.41	0.57	20.93	0.56
5	14.04	2.38	11.09	1.78
6	0.46	7.71	0.30	6.70
7	1.62	14.44	1.54	12.94
8	1.03	0.09	1.50	0.05
default	2.99	54.88	2.77	57.46
Total	**100.00**	**2.43**	**100.00**	**2.18**

As at 31 December 2023, 41.32% 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 2022: 43.98%).

<u>Portfolio measured at fair value through other comprehensive income</u>

Sub - portfolio	31.12.2023		31.12.2022	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	0.18	0.01	6.57	0.01
2	81.99	0.08	82.36	0.04
3	10.89	0.40	6.64	0.34
4	4.16	1.17	2.82	0.85
5	1.23	3.07	0.82	2.08
6	0.12	5.08	0.08	4.30
7	0.58	8.84	0.24	7.48
default	0.85	23.13	0.47	21.19
Total	**100.00**	**0.45**	**100.00**	**0.22**

As at 31 December 2023, 82.17% of the loans and advances is categorised in the top two grades of the internal rating system (31 December 2022: 88.93%).

3.3.7. Fair value for credit assets

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

3.3.7.1. Fair value valuation of non-impaired credit assets

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

Future cash flows are determined taking into account:

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

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

3.3.7.2. Fair value valuation of impaired credit assets

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

3.3.8. Repossessed collateral

Assets repossessed for debts classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified for individual types of repossessed collaterals. In 2023 and 2022, the Bank did not have any repossessed collaterals that were difficult to sell.

3.3.9. Bank Forbearance Policy

Definition

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

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

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

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

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

Instruments used

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

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

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

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

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

Risk management

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

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

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

Forborne exit conditions – corporate banking area

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

- debtor financial situation's analysis showed improvement and the exposure has been recognised as performing and it was reclassified from the nonperforming category,
- at least 24 months after exposure had been recognised as performing have passed (probation period),
- for the last 12 months of probation period, significant and regular capital or interest payments have been made by the borrower (overdue not exceeding 30 days),
- none of the debtor exposures is overdue more than 30 days at the end of probation period.

Forborne exit conditions – retail banking area

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

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

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Portfolio characteristic

	31.12.2023			31.12.2022		
	Gross carrying amount	Accumulated impairment	Net value / Fair value	Gross carrying amount	Accumulated impairment	Net value / Fair value
Loans and advances to customers measured at amortised cost	**88 023 739**	**(2 970 784)**	**85 052 955**	**90 332 309**	**(2 526 862)**	**87 805 447**
of which: forborne exposures	2 223 531	(476 679)	1 746 852	2 075 516	(510 110)	1 565 406
of which: defaulted	*1 051 647*	*(437 535)*	*614 112*	*1 045 896*	*(477 683)*	*568 213*
Loans and advances to customers measured at fair value through other comprehensive income	**18 320 266**	**(81 708)**	**18 238 558**	**19 465 324**	**(43 251)**	**19 422 073**
of which: forborne exposures	427 679	(15 655)	412 024	297 212	(11 967)	285 245
of which: defaulted	*70 329*	*(12 883)*	*57 446*	*60 214*	*(10 373)*	*49 841*
Loans and advances to customers measured at fair value through profit and loss			**603 713**			**712 570**
of which: forborne exposures			1 128			2 233
of which: defaulted			*606*			*920*
Forborne exposures, total			**2 160 004**			**1 852 884**
of which: defaulted			*672 164*			*618 974*

Change of carrying value of forborne exposures	31.12.2023	31.12.2022
As at the beginning of the period	**1 852 884**	**1 286 764**
Outflow from forborne exposures	(471 252)	(430 457)
Inflow to forborne exposures	911 270	1 082 185
Changes in existing forborne exposures	(132 898)	(85 608)
As at the end of the period	**2 160 004**	**1 852 884**

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

Forborne exposures by client segment	31.12.2023	31.12.2022
Individual customers	1 064 484	1 052 503
including: housing and mortgage loans	*794 538*	*759 314*
Corporate customers	1 095 520	800 381
Total	**2 160 004**	**1 052 503**

Forborne exposures by the type of concession	31.12.2023	31.12.2022
Refinancing	147 372	170 783
Modification of terms and conditions	2 012 632	1 682 101
Total	**2 160 004**	**1 852 884**

Forborne exposures by geographical breakdown	31.12.2023	31.12.2022
Poland	1 967 150	1 679 100
Other countries	192 854	173 784
Total	**2 160 004**	**1 852 884**

Forborne exposures by days past due	31.12.2023	31.12.2022
Not past due	-	-
Past due less than 30 days	1 741 554	1 509 189
Past due 31 – 90 days	116 950	88 712
Past due over 90 days	301 500	254 983
Total	**2 160 004**	**1 852 884**

Forborne exposures by industry	31.12.2023	31.12.2022
Individual customers	1 064 484	1 052 503
Construction	209 812	224 274
Real estate	114 698	111 954
Wood, furniture and paper products	98 162	57 602
Motorisation	97 448	20 420
Metals	89 028	66 188
Construction materials	85 526	76 298
Hotels and restaurants	80 462	4 076
Scientific and technical activities	62 584	756
Food sector	54 612	100 959
Other	203 188	137 854
Total	**2 160 004**	**1 852 884**

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:

- 41.3% banks,
- 14.6% central counterparties (CCP),
- 9.2% financial institutions,
- 34.9% corporates, private banking and others.

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

Client type	Credit exposure 2023 (PLN m)	Credit exposure 2022 (PLN m)
Banks CSA	1 410	1 556
CCP	498	442
Corporations with limit	1 196	1 568
Non-Bank Financial Institution	314	234
Corporations collateralised and other*	(2)	(5)

** negative exposure means overcollateralisation*

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

(PLN m)	Banks*		CCP*		Corporates and others			
					CSA	w/o CSA**	CSA	w/o CSA**
	2023	2022	2023	2022	2023		2022	
NPV***	92.02	34.77	35.21	14.11	5.18	167.79	14.25	150.11
Collateral received (including collateral posted to custodian)	580.04	638.32	-	-	-	15.06	-	37.02
Collateral posed (including collateral posted to custodian)	507.87	495.07	370.57	493.86	-	-	-	-

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

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

Geographic concentration risk

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

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

As at 31 December 2023 and as at 31 December 2022 there was no substantial level of geographical concentration in the credit portfolio of mBank. In terms of exposure relating to countries other than Poland there was no substantial share of impaired exposures.

Sector concentration risk

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

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

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

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

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

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

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

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

31.12.2023												
No	Sectors	Carrying value	Gross value				%	Accumulated impairment			
			Stage 1	Stage 2	Stage 3	POCI		Stage 1	Stage 2	Stage 3	POCI
1.	Individual customers	36 661 091	30 848 344	5 454 083	2 163 228	155 653	43.88%	(182 267)	(470 616)	(1 277 804)	(29 530)
2.	Rental and leasing activities	13 844 540	13 754 458	94 789	10 895	-	15.75%	(7 789)	(82)	(7 731)	-
3.	Real estate	5 234 885	4 428 714	728 267	249 738	17 680	6.16%	(32 194)	(47 024)	(129 503)	19 207
4.	Financial activities	3 965 236	3 932 008	38 146	3 326	-	4.51%	(4 539)	(411)	(3 294)	-
5.	Construction	3 359 040	2 846 134	326 022	421 409	11 709	4.10%	(19 106)	(6 013)	(228 983)	7 868
6.	Power and heating distribution	2 330 162	2 331 735	14 987	68 278	-	2.74%	(30 025)	(202)	(54 611)	-
7.	Food sector	2 324 973	1 945 488	344 403	94 187	-	2.71%	(6 263)	(13 676)	(39 166)	-
8.	Motorisation	1 732 794	1 557 212	161 280	22 294	-	1.98%	(2 655)	(606)	(5 667)	936
9.	Construction materials	1 420 879	1 027 355	388 137	25 092	10 853	1.65%	(3 217)	(1 640)	(19 551)	(6 150)
10.	Metals	1 265 898	967 893	287 394	6 597	14 077	1.45%	(3 432)	(3 068)	(3 081)	(482)
11.	Transport and logistics	1 209 825	1 156 421	40 095	9 389	832	1.37%	(2 718)	(377)	(6 997)	13 180
12.	Chemicals and plastic products	1 128 884	994 792	107 655	94 470	247	1.36%	(2 069)	(920)	(68 618)	3 327
13.	Wholesale trade	974 620	794 809	145 218	126 209	-	1.21%	(2 128)	(1 179)	(88 309)	-
14.	Retail trade	1 008 654	887 234	99 875	49 659	-	1.18%	(2 011)	(1 425)	(24 678)	-
15.	Scientific and technical activities	947 380	887 900	70 952	20 676	6 362	1.12%	(11 883)	(1 703)	(18 562)	(6 362)
16.	Fuel	784 746	651 651	147 509	-	96	0.90%	(2 031)	(19 514)	-	7 035
17.	Wood, furniture and paper products	752 064	491 293	214 666	57 665	-	0.87%	(1 082)	(1 033)	(52 949)	43 504
18.	Media	683 455	657 107	32 488	397	-	0.78%	(5 815)	(325)	(397)	-
19.	Pharmacy	642 804	636 736	9 657	1 900	-	0.74%	(3 764)	(35)	(1 690)	-
20.	Other	4 781 025	3 588 292	1 190 494	92 900	6 228	5.53%	(25 771)	(18 552)	(53 432)	866
Total		**85 052 955**	**74 385 576**	**9 896 117**	**3 518 309**	**223 737**	**100.00%**	**(350 759)**	**(588 401)**	**(2 085 023)**	**53 399**

31.12.2022												
No	Sectors	Carrying value	Gross value				%	Accumulated impairment			
			Stage 1	Stage 2	Stage 3	POCI		Koszyk 1	Stage 1	Stage 2	Stage 3
1.	Individual customers	40 129 801	37 009 696	2 682 953	2 058 035	150 554	46.39%	(209 481)	(270 118)	(1 262 306)	(29 532)
2.	Rental and leasing activities	12 881 035	12 881 619	2 727	17 943	-	14.28%	(9 319)	(17)	(11 918)	-
3.	Financial activities	4 794 658	4 796 444	4 184	3 872	-	5.32%	(5 978)	(40)	(3 824)	-
4.	Real estate	4 033 573	3 482 836	466 612	156 258	20 415	4.57%	(21 440)	(10 723)	(64 261)	3 876
5.	Construction	3 339 202	2 909 919	251 788	326 306	13 866	3.88%	(17 684)	(8 524)	(141 051)	4 582
6.	Food sector	2 599 670	2 334 248	209 467	105 767	7 762	2.94%	(5 581)	(10 153)	(52 786)	10 946
7.	Power and heating distribution	1 909 350	1 907 318	10 281	74 771	-	2.21%	(25 947)	(14)	(57 059)	-
8.	Metals	1 698 974	1 582 280	104 311	24 599	1 718	1.90%	(4 730)	(541)	(8 368)	(295)
9.	Motorisation	1 608 733	1 468 770	126 971	27 469	198	1.80%	(2 368)	(549)	(11 679)	(79)
10.	Chemicals and plastic products	1 571 072	1 509 829	51 426	24 354	(4)	1.76%	(3 666)	(318)	(12 813)	2 264
11.	Construction materials	1 534 733	1 180 280	342 868	47 622	1 694	1.74%	(3 246)	(1 499)	(32 502)	(484)
12.	Wholesale trade	1 183 811	1 089 558	75 045	73 188	-	1.37%	(2 575)	(2 234)	(49 171)	-
13.	Transport and logistics	1 175 606	1 105 626	58 354	6 819	772	1.30%	(4 125)	(260)	(4 899)	13 319
14.	Retail trade	1 115 735	1 080 232	36 588	7 091	-	1.24%	(2 837)	(298)	(5 041)	-
15.	Wood, furniture and paper products	916 441	811 217	58 227	52 893	189	1.02%	(760)	(245)	(52 005)	46 925
16.	Fuel	796 607	773 187	26 680	172	940	0.89%	(3 558)	(255)	(44)	(515)
17.	Scientific and technical activities	715 511	714 247	6 232	27 842	8 162	0.84%	(7 381)	(32)	(25 387)	(8 172)
18.	IT	608 203	610 405	1 268	1 652	-	0.68%	(4 385)	(14)	(723)	-
19.	Pharmacy	595 064	597 537	96	1 530	-	0.66%	(2 569)	-	(1 530)	-
20.	Other	4 597 668	3 857 422	717 420	151 974	(282)	5.21%	(18 090)	(9 732)	(103 812)	2 768
Total		**87 805 447**	**81 702 670**	**5 233 498**	**3 190 157**	**205 984**	**100.00%**	**(355 720)**	**(315 566)**	**(1 901 179)**	**45 603**

The table below presents the risk of limited sectors (i.e. sectors for which, as at the balance sheet date, the Bank had maximum exposure limits in relation to the corporate exposure portfolio) at the end of 2023 and at the end of 2022.

No.	Sectors	31.12.2023	31.12.2022
1.	Financial sector	low	low
2.	Food sector	medium	medium
3.	Construction	high	high
4.	Metals	high	medium
5.	Power	medium	medium

Large exposures concentration risk

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

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

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

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

The Bank monitors large exposures that are subject to exposure limit i.e. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 of CRR Regulation) and exemptions (art. 390 paragraph 6, art. 400, art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of Tier 1. At the end of 2023, the Bank recorded two large exposures (after exemptions):

- for the Commerzbank Group in the amount of PLN 1 391 million, which accounted for 11.1% of mBank Group's Tier 1,
- for Bank Gospodarstwa Krajowego in the amount of PLN 1 392 million, which accounted for 11.1% of mBank Group's Tier 1.

3.5. Market risk

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

- interest rates;
- foreign exchange rates;
- stock share prices and indices;
- implied volatilities of relevant options;
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield curve and swap curve – for government bonds).

In terms of the banking book, the Bank distinguishes the interest rate risk, which is defined as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

3.5.1. Organisation of risk management

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

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

3.5.2. Tools and measures

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

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

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

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

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

- sensitivity of the economic value of equity (delta EVE);
- sensitivity of net interest income (delta NII);
- sensitivity of net interest income with changes in fair valuation (EaR);
- repricing gap.

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

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

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

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

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

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

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

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

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

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

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

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

3.5.3. Market risk profile

Value at Risk

In 2023, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level.

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

PLN thousand	2023		2022	
	31.12.2023	Mean	31.12.2022	Mean
VaR IR	14 065	15 147	16 102	15 913
VaR FX	1 243	661	1 104	1 485
VaR CS	53 394	73 608	88 835	87 931
VaR	**50 869**	**77 098**	**89 048**	**90 313**
Stressed VaR	**98 210**	**88 529**	**88 261**	**108 174**

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

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

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

Sensitivity measures

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

PLN thousand	IR BPV		CS BPV	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Banking book	(1 455)	230	(8 401)	(7 136)
Trading book	(38)	(118)	(282)	(242)
Total	**(1 493)**	**112**	**(8 683)**	**(7 378)**

The credit spread sensitivity (CS BPV) for mBank's banking book increased in 2023 due to gradual growth of the bond portfolio and results in c.a. 70% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions. Interest rate risk sensitivity (IR BPV) has increased in 2023 primarily due to change in the structure of deposit base, i.e. increase of deposits with short repricing tenor.

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3.6. Currency risk

The Bank is exposed to changes in currency exchange rates due to its financial assets and liabilities in currencies other than PLN. The following tables present the exposure of the Bank to currency risk as at 31 December 2023 and 31 December 2022. The tables below present assets and liabilities of the Bank at balance sheet carrying amount for each currency.

31.12.2023	PLN	EUR	USD	CHF	CZK	OTHER	Total
ASSETS							
Cash and cash equivalents	16 778 702	19 368 911	145 464	2 427	310 235	35 709	36 641 448
Financial assets held for trading and hedging derivatives	1 642 744	111 944	12 791	137	-	91	1 767 707
Non-trading financial assets mandatorily at fair value through profit or loss, including:	740 991	16 990	69 455	-	832	-	828 268
Equity instruments	*171 891*	*1 688*	-	-	*832*	-	*174 411*
Debt securities	-	-	*50 144*	-	-	-	*50 144*
Loans and advances to customers	*569 100*	*15 302*	*19 311*	-	-	-	*603 713*
Financial assets at fair value through other comprehensive income	54 305 063	81 448	77 994	-	-	-	54 464 505
Financial assets at amortised cost	84 268 125	21 126 743	1 117 851	2 103 464	12 304 708	136 071	121 056 962
Debt securities	*23 581 739*	*1 791 218*	*154 847*	-	-	-	*25 527 804*
Loans and advances to banks	*3 668 107*	*448 541*	*199 281*	-	*6 160 212*	*62*	*10 476 203*
Loans and advances to customers	*57 018 279*	*18 886 984*	*763 723*	*2 103 464*	*6 144 496*	*136 009*	*85 052 955*
Investments in associates	2 196 262	-	-	-	-	-	2 196 262
Intangible assets	1 511 531	127	-	-	2 224	-	1 513 882
Tangible assets	1 125 714	5 778	-	-	34 400	-	1 165 892
Investment properties	111 964	-	-	-	-	-	111 964
Current income tax assets	-	4 436	-	-	36 210	-	40 646
Deferred income tax assets	751 608	7 746	-	-	2 189	-	761 543
Other assets	1 271 001	430 853	9 674	213	157 312	344	1 869 397
TOTAL ASSETS	**164 703 705**	**41 154 976**	**1 433 229**	**2 106 241**	**12 848 110**	**172 215**	**222 418 476**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	1 170 176	245 056	24 594	18 686	-	340	1 458 852
Financial liabilities measured at amortised cost, including:	137 781 567	36 410 012	7 903 858	4 494 798	11 715 319	1 372 442	199 677 996
Amounts due to banks	*731 653*	*644 739*	*31 374*	*1 938 380*	-	*62*	*3 346 208*
Amounts due to customers	*134 033 037*	*29 343 321*	*7 872 484*	*806 677*	*11 689 240*	*1 372 380*	*185 117 139*
Lease liabilities	*130 989*	*717 174*	-	-	*26 079*	-	*874 242*
Debt securities issued	*1 343 109*	*5 704 778*	-	*577 592*	-	-	*7 625 479*
Subordinated liabilities	*1 542 779*	-	-	*1 172 149*	-	-	*2 714 928*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(638 774)	72 789	-	-	-	-	(565 985)
Provisions	630 892	15 150	11 325	1 574 685	7 067	25	2 239 144
Current income tax liabilities	127 916	19 166	-	-	51 291	-	198 373
Other liabilities	4 850 872	288 314	237 793	184 323	164 307	21 549	5 747 158
TOTAL LIABILITIES	**143 922 649**	**37 050 487**	**8 177 570**	**6 272 492**	**11 937 984**	**1 394 356**	**208 755 538**
NET ON-BALANCE SHEET POSITION	**20 781 056**	**4 104 489**	**(6 744 341)**	**(4 166 251)**	**910 126**	**(1 222 141)**	**13 662 938**
Loan commitments and other commitments	30 095 529	3 158 177	285 698	3	493 472	31 987	34 064 866
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 915 063	1 836 601	430 718	170	71	19 192	8 201 815

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31.12.2022	PLN	EUR	USD	CHF	CZK	OTHER	Total
ASSETS							
Cash and cash equivalents	3 270 254	12 252 024	245 050	3 352	315 523	34 098	16 120 301
Financial assets held for trading and hedging derivatives	2 185 732	369 653	26 720	5 182	1 878	516	2 589 681
Non-trading financial assets mandatorily at fair value through profit or loss, including:	809 989	1 821	66 696	-	489	-	878 995
Equity instruments	*119 106*	*1 821*	-	-	*489*	-	*121 416*
Debt securities	-	-	*45 009*	-	-	-	*45 009*
Loans and advances to customers	*690 883*	-	*21 687*	-	-	-	*712 570*
Financial assets at fair value through other comprehensive income	53 590 169	18 511	213 774	-	20 272	-	53 842 726
Financial assets at amortised cost	81 058 482	19 657 774	1 301 403	6 438 047	14 563 931	171 847	123 191 484
Debt securities	*20 206 976*	-	-	-	-	-	*20 206 976*
Loans and advances to banks	*5 860 911*	*1 617 739*	*190 459*	-	*7 505 035*	*4 917*	*15 179 061*
Loans and advances to customers	*54 990 595*	*18 040 035*	*1 110 944*	*6 438 047*	*7 058 896*	*166 930*	*87 805 447*
Investments in associates	2 057 455	-	-	-	-	-	2 057 455
Non-current assets and disposal groups classified as held for sale	26 747	-	-	-	-	-	26 747
Intangible assets	1 207 774	12	-	-	1 936	-	1 209 722
Tangible assets	1 121 206	7 711	-	-	43 797	-	1 172 714
Investment properties	136 909	-	-	-	-	-	136 909
Current income tax assets	-	457	-	-	27 845	-	28 302
Deferred income tax assets	1 140 409	3 020	-	-	2 487	-	1 145 916
Other assets	1 178 444	148 296	13 005	142	234 829	110	1 574 826
TOTAL ASSETS	**147 783 570**	**32 459 279**	**1 866 648**	**6 446 723**	**15 212 987**	**206 571**	**203 975 778**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	1 433 563	556 970	27 149	56 783	-	548	2 075 013
Financial liabilities measured at amortised cost, including:	128 009 171	30 755 514	7 794 021	5 569 521	12 112 841	1 310 449	185 551 517
Amounts due to banks	*648 408*	*710 618*	*35 683*	*1 910 877*	-	*165*	*3 305 751*
Amounts due to customers	*125 050 308*	*26 867 429*	*7 758 338*	*933 303*	*12 081 249*	*1 310 284*	*174 000 911*
Lease liabilities	*112 494*	*811 350*	-	-	*31 592*	-	*955 436*
Debt securities issued	*650 261*	*2 366 117*	-	*1 532 320*	-	-	*4 548 698*
Subordinated liabilities	*1 547 700*	-	-	*1 193 021*	-	-	*2 740 721*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1 528 582)	-	-	-	-	-	(1 528 582)
Liabilities classified as held for sale	7 375	-	-	-	-	-	7 375
Provisions	645 426	39 556	654	595 312	6 629	1	1 287 578
Current income tax liabilities	534 594	8 160	-	-	51 449	-	594 203
Other liabilities	2 969 372	248 219	159 580	4 580	85 433	24 294	3 491 478
TOTAL LIABILITIES	**132 070 919**	**31 608 419**	**7 981 404**	**6 226 196**	**12 256 352**	**1 335 292**	**191 478 582**
NET ON-BALANCE SHEET POSITION	**15 712 651**	**850 860**	**(6 114 756)**	**220 527**	**2 956 635**	**(1 128 721)**	**12 497 196**
Loan commitments and other commitments	28 654 365	3 205 978	213 290	3	576 929	1 519	**32 652 084**
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 957 483	2 073 963	512 950	238	176	36 137	**8 580 947**

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3.7. Interest rate risk

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

Interest rate risk of the banking book is the risk resulting from the exposure of the Bank's interest income and capital to the adverse impact of interest rates movements. Following recommendations of the Polish Financial Supervisory Authority (KNF), in particular Recommendation G, and EBA guidelines (EBA/GL/2022/14) the Bank monitors the banking book structure in terms of repricing risk, basis risk, yield curve risk and customer option risk.

The basic measures of interest rate risk in the banking book used by the Bank 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; including supervisory outlier test (SOT) and NII sensitivity plus fair value changes (EaR);
- 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 supervisory outlier test (SOT).

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

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

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

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

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

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

As at 31 December 2023 and 31 December 2022, the sensitivity of net interest income in the Bank (based on a static balance sheet over a 12-month horizon) is presented in the table below:

	Δ NII	
	31.12.2023	31.12.2022
Sudden parallel up by 100 pb	623 076	117 442
Sudden parallel down by 100 pb	(835 752)	(768 800)

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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	
	31.12.2023	31.12.2022
Sudden parallel up by 200 bp	(812 472)	(478 227)
Sudden parallel down by 200 bp	885 638	528 354
Parallel shock up	(983 638)	(563 248)
Parallel shock down	1 086 644	627 139
Steepened shock	79 277	23 270
Flattener shock	(270 169)	(128 471)
Short rates shock up	(593 330)	(311 293)
Short rates shock down	616 033	324 250
Maximum	(983 638)	(563 248)
Tier I Capital	12 817 356	12 519 047

The year-on-year increase in ΔNII measure was due to increase of short-term assets that are sensitive to changes in interest rate. The Bank kept a significant part of its assets in floating interest rate instruments, while at the same time a large share of liabilities insensitive to changes in interest rates in decline scenarios, i.e. current accounts interest rates at 0% (with a statutory floor of 0%). An additional factor in the change in the sensitivity of ΔNII, in particular in interest rate increase scenarios, was the adjustment of the future pricing policy, i.e. a change in the elasticity of deposit interest rates depending on the interest rate change scenarios. The remaining changes result from the increase in the balance sheet total, which we observe between 2022 and 2023. At the same time, in relation to annual net interest income, the sensitivity of NII decreased significantly year on year. 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.

The increase in the ΔEVE measure in absolute terms year-on-year was mainly due to the increase in the balance of loans with a fixed 5-year interest rate in PLN. Moreover, there was a change in the structure of the deposit base, i.e. an increase in funds with short revaluation periods and an increase in the bond portfolio. Additionally, the Bank returned to entering into interest rate swap transactions with the aim of stabilizing interest income. Remaining changes in ΔNII and ΔEVE levels result from the increase in the balance sheet total, which was observed between 2022 and 2023.

mBank S.A. interest rate risk

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

31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and cash equivalents	35 352 572	-	-	-	-	1 288 876	**36 641 448**
Loans and advances to banks	7 597 227	2 548 406	69 659	259 818	-	1 093	**10 476 203**
Debt and equity securities and investments in subsidiaries	21 597 449	4 567 733	15 778 901	16 631 985	3 862 766	2 381 113	**64 819 947**
Loans and advances to customers	56 704 132	30 106 732	3 383 068	12 641 300	909 851	190 641	**103 935 724**
Other assets and derivative financial instruments	129 219	17 399	73 344	54 512	34 463	2 642 290	**2 951 227**
Total assets	**121 380 599**	**37 240 270**	**19 304 972**	**29 587 615**	**4 807 080**	**6 504 013**	**218 824 549**
LIABILITIES							
Amounts due to banks	1 324 440	71 901	-	1 938 343	-	11 524	**3 346 208**
Amounts due to customers	167 652 171	14 630 697	2 523 798	99 173	22 813	188 487	**185 117 139**
Lease liabilities	-	-	-	-	-	874 242	**874 242**
Debt securities issued	878 128	751 154	577 592	5 418 605	-	-	**7 625 479**
Subordinated liabilities	1 952 597	-	762 331	-	-	-	**2 714 928**
Other liabilities and derivative financial instruments	9 130	24 774	50 657	157 107	127 952	6 678 783	**7 048 403**
Total liabilities	**171 816 466**	**15 478 526**	**3 914 378**	**7 613 228**	**150 765**	**7 753 036**	**206 726 399**
Total interest repricing gap	**(50 435 867)**	**21 761 744**	**15 390 594**	**21 974 387**	**4 656 315**		

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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 cash equivalents	14 027 616	-	-	-	-	2 092 685	**16 120 301**
Loans and advances to banks	12 373 061	2 465 480	54 809	50 889	-	234 822	**15 179 061**
Debt and equity securities and investments in subsidiaries	21 526 878	2 867 785	13 065 949	14 455 672	3 828 446	2 185 000	**57 929 730**
Loans and advances to customers	62 244 065	31 048 557	2 329 433	11 243 803	1 077 004	36 948	**107 979 810**
Other assets and derivative financial instruments	226 592	86 688	116 687	3 783	5 433	2 607 383	**3 046 566**
Total assets	**110 398 212**	**36 468 510**	**15 566 878**	**25 754 147**	**4 910 883**	**7 156 838**	**200 255 468**
LIABILITIES							
Amounts due to banks	1 158 260	32 605	202 035	1 910 721	-	2 130	**3 305 751**
Amounts due to customers	155 515 984	13 597 144	4 698 919	40 514	302	148 048	**174 000 911**
Lease liabilities	-	-	-	-	-	955 436	**955 436**
Debt securities issued	625 076	981 938	297 333	2 644 351	-	-	**4 548 698**
Subordinated liabilities	1 975 193	-	765 528	-	-	-	**2 740 721**
Other liabilities and derivative financial instruments	19 210	56 554	37 527	421 998	237 442	4 533 222	**5 305 953**
Total liabilities	**159 293 723**	**14 668 241**	**6 001 342**	**5 017 584**	**237 744**	**5 638 836**	**190 857 470**
Total interest repricing gap	**(48 895 511)**	**21 800 269**	**9 565 536**	**20 736 563**	**4 673 139**		

3.8. Liquidity risk

Sources of liquidity risk

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

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

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

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

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

Materialisation of risks arising from both balance sheet and off-balance sheet items may be experienced as severe especially in the case of high concentrations. mBank's strategy assumes diversification of sources and terms of financing, as well as assets in which excess liquidity is invested.

Regarding ESG risks, the Bank assesses it as immaterial from the perspective of liquidity risk, but takes into account indirectly in relation to other types of risk: credit, market, operational, reputational, as well as in selected processes.

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

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

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

Organisation of risk management

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

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

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

In 2023, mBank operated amid a tense geopolitical and market situation. Throughout the year, Russia continued hostilities in Ukraine, and in October another conflict began – Israel's war with Hamas. Although there was no direct impact of these actions on mBank, the ongoing wars increased uncertainty in the markets, causing fluctuations in currency exchange rates and commodity prices, and their potential further consequences remain difficult to predict.

The first quarter of 2023 saw uncertainty in the banking sector due to the collapse of US-based Sillicon Valley Bank and the problems of Credit Suisse, which was eventually acquired by UBS bank. Despite temporary uncertainty in the financial markets, the effect of shock transmission was halted, and the events of early 2023 did not affect mBank's liquidity position.

In 2023 the European Central Bank raised interest rates, justifying its decisions with persistent inflation in the eurozone. At the same time, the NBP, after a series of increases in 2022, lowered interest rates at meetings in September and October 2023. The drop in interest rates resulted in an increase in the prices of securities held by mBank and a partial return of funds placed in margin deposits. As a result of the reduction in interest rates, and the over-liquidity that accompanied banks in 2023, the banks gradually reduced deposit rates.

Despite such volatile market conditions, mBank's liquidity measures throughout the reporting period were well above minimum regulatory levels and internal levels that determine risk appetite.

The internal liquidity adequacy assessment process (ILAAP)

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

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

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

Tools and measures used in measuring liquidity risk

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure is mismatch gap. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. In 2023, the Bank held liquidity surplus, adequate to the Bank's business activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value.

In accordance with Commission Delegated Regulation (EU) No 2015/61 of 10 October 2014 amended by the Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018, effective since 30 April 2020 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 the Bank calculates the supervisory liquidity measures. In 2023 and 2022 the supervisory limits were not exceeded. Moreover the

Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets. Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally, the Bank analyses the volatility of balance sheet and off-balance sheet items, in particular open credit line facilities and current accounts and overdrafts limits utilisation.

The ongoing analysis covers liquidity under normal and stress conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and/or behavioural events relative to the Bank's clients. For this purpose stress test scenarios are regularly calculated in the short- and long-term, in the bank stress, market stress and combined scenarios. In addition a reverse stress test for liquidity risk is performed in the Bank on annual basis and an intraday liquidity crisis scenario on a monthly basis. Liquidity stress tests are used in the Bank for operational management of liquidity risk.

The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss. Base on severity of risk factors and the degree of the threat of financial loss relevant actions are defined either in the Contingency Plan in case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan mBank Group (Recovery Plan). Scenarios used in both plans are consistent with the above stress tests. In 2023, as part of the conclusions drawn from the analysis of market events, the Contingency Plan has been extended to include an additional scenario, including a simplified action plan in the event of a dynamic outflow of our clients' funds.

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

Value of liquidity reserves (in PLN million)	
31.12.2023	**31.12.2022**
58 876	60 147

In addition, mBank also maintains cash surpluses placed on accounts with central banks in Poland, the Czech Republic and Slovakia. As of December 31, 2023 the Bank accumulated a total of approximately PLN 35.2 billion on nostro accounts and interbank deposits. In order to support the process of liquidity risk management, a system of early warnings indicators and recovery indicators was developed in the Bank. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet structure. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan.

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

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

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

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

The measurement, limiting and reporting the liquidity risk

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

Daily reporting covers:

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

The following measures are reported weekly:

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

Monthly reporting covers:

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

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

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

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

Value of realistic cumulative gap of cash flows mismatch (in PLN million)				
Time bucket	LAB Base Case - 31.12.2023		LAB Base Case - 31.12.2022	
	bucket	cumulative	bucket	cumulative
up to 1 working day	57 129	57 129	40 223	40 223
up to 3 working days	(123)	57 006	1 441	41 664
up to 7 calendar days	1 613	58 619	8	41 672
up to 15 calendar days	(3 125)	55 494	(2 092)	39 580
up to 1 month	(5 021)	50 473	(2 619)	36 961
up to 2 months	(409)	50 064	786	37 747
up to 3 months	(2 605)	47 459	(3 163)	34 584
up to 4 months	(1 168)	46 291	(507)	34 077
up to 5 months	(1 962)	44 329	(1 572)	32 505
up to 6 months	(976)	43 353	(874)	31 631
up to 7 months	(1 640)	41 713	(1 101)	30 530
up to 8 months	(1 558)	40 155	(1 225)	29 305
up to 9 months	(1 328)	38 827	65	29 370
up to 10 months	(1 048)	37 779	33	29 403
up to 11 months	(1 664)	36 115	(1 434)	27 969
up to 12 months	(1 561)	34 554	(1 399)	26 570

The above values should be interpreted as liquidity surplus or deficit in relevant time buckets. In 2023, the growth in the deposit base and the low growth in lending had a direct impact on strengthening the liquidity position.

The Bank has a limited number of transactions with rating downgrade trigger clauses, which require the Bank to provide additional security or prepay outstanding obligations if Banks's credit rating deteriorates. The amount of the maximum liability resulting therefrom, in the event that the Bank's rating is downgraded to BB+ or lower by two rating agencies, as at the 31 of December 2023, amounts to CHF 314 million (CHF 314 million as of 31 December 2022). 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 2023 the Bank's liquidity remained at a high and safe level which was reflected in surplus of liquid assets over short-term liabilities according to LAB in various scenarios and supervisory liquidity measures.

LAB cash flows gaps mismatch in terms up to 1 month and up to 1 year within 2023 and values of regulatory measures LCR and NSFR at the end of 2023 and 2022 are presented in the following table.

	31.12.2023	31.12.2022
LAB Base Case 1M	50 473	36 961
LAB Base Case 1Y	34 554	26 570
LCR	217%	186%
NSFR	157%	150%

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

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

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of mBank defined by selected measures, e.g. L/D ratio (Loans to Deposits). It measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2023, L/D ratio slightly declined from 62.1% at the end of 2022 to 56.2% at the end of 2023. The Bank aims at building a stable deposit base by offering to clients deposit and investment products, regular and specific-purpose savings offerings. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks (with maturities over 1 year) and issuance of debt securities (Note 29). The loans and issuances together with subordinated loans (Note 29) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF and an increase in level of provisions for legal risk related to loans denominated in this currency, the Bank's receivables and obligations in this currency have been decreasing successively.

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

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

The Financing Strategy is based on the following assumptions:

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

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

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

31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	1 278 052	36 213	41 944	2 005 981	-	**3 362 190**
Amounts due to customers	168 666 873	14 306 224	2 612 274	16 741	1 738	**185 603 850**
Lease liabilities	15 633	26 269	119 774	507 065	233 838	**902 579**
Debt securities issued	320 515	33 456	1 551 829	7 206 208	-	**9 112 008**
Subordinated liabilities	78 621	13 180	128 915	2 898 873	230 121	**3 349 710**
Other liabilities	4 397 055	1 118 765	11	457	-	**5 516 288**
Total liabilities	**174 756 749**	**15 534 107**	**4 454 747**	**12 635 325**	**465 697**	**207 846 625**
Total assets	**71 776 761**	**8 254 195**	**32 315 614**	**89 961 672**	**73 408 033**	**275 716 275**
Net liquidity gap	**(102 979 988)**	**(7 279 912)**	**27 860 867**	**77 326 347**	**72 942 336**	**67 869 650**

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

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

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

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

3.8.2. Cash flows from derivatives

<u>Derivatives settled in a net basis</u>

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

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

The table below shows derivative financial liabilities of the Bank, which valuation as of end of 2023 and 2022 was negative, grouped by appropriate remaining maturities as at the balance sheet date and are presented as contractual maturities apart from Other up to 1 month and Futures contracts which are presented as net present value (NPV). The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the balance sheet date.

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31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	1 766	1 175	10 414	771	-	**14 126**
Overnight Index Swap (OIS)	7 172	8 667	32 843	38 773	(1 171)	**86 284**
Interest Rate Swaps (IRS)	282 888	690 024	1 903 466	2 303 095	264 394	**5 443 867**
Cross Currency Interest Rate Swaps (CIRS)	758	(6 324)	(16 160)	5 929	-	**(15 797)**
Options	46 399	153 063	276 391	162 316	87	**638 256**
Other	59 166	3 994	10 294	2 440	-	**75 894**
Total derivatives settled on a net basis	**398 149**	**850 599**	**2 217 248**	**2 513 324**	**263 310**	**6 242 630**

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

<u>Derivative financial instruments settled in gross amounts</u>

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

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

31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives						
- outflows	33 178 757	11 410 965	6 436 030	1 276 568	-	**52 302 320**
- inflows	33 148 127	11 460 244	6 525 559	1 231 977	-	**52 365 907**

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

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

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

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

3.9. Operational risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operational losses

In 2023, as part of operational risk management, Bank faced in particular losses connected with legal risk related to the foreign currency loan portfolio.

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

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

Detailed information on the amount of operational losses incurred in 2023 and 2022 is presented in the Management Board Report on the Performance of mBank S.A. Group in 2023, in Chapter 9.2. Main risks of mBank Group's business (section on operational risk).

3.10. Compliance risk

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

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

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

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

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

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

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

Compliance of the Bank's internal regulations with the law (both local and international) and market standards as well as their observance by the employees guarantees the achievement of the internal control system objectives in this scope. In particular, it mitigates or eliminates legal risk, reputation risk, risk of administrative sanctions and penalties, risk of financial losses resulting from materialisation of compliance risk.

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

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

3.11. Business risk

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

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

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

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

3.12. Model risk

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

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

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

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

3.13. Reputational risk

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

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

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

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

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

3.14. Capital risk

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

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

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

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

3.15. FX loans portfolio risk

The FX loan portfolio risk is related to housing and mortgage loans in foreign currencies, granted to 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 Bank takes action to protect its interests in court proceedings, aimed at obtaining decisions favourable to the Bank and runs the settlement program addressed to clients with loans indexed to the CHF exchange rate.

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

- preparation of materials used in court proceedings,
- coordinating the activities of legal representatives,
- cooperation and communication with external institutions on indexed loans,
- organising and coordinating the settlement program.

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

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

3.16. Securitisation risk

The Bank carried out securitisation transactions in order to reduce the credit risks incurred and to free up some capital. The risks involved include, in case of mBank, the risks that arise from the Bank's role as a transaction originator and servicer (monitoring of the underlying transactions, reporting, vindication). The Bank analyses on an ongoing basis the risks that may both materialize after the conclusion of securitization transactions and the risks that may materialize in connection with the planned execution of the subsequent securitization transactions.

3.17. Environmental (E), social (S) and governance (G) risks

Changes in the environment, the rapid pace of technological change, social changes, and the legal changes forced by these phenomena are having an increasing impact on the activities of the various economic sectors. This also causes for the Bank and for many customers the need to change or adjust their business profile The effects of reorganizing or adjusting the business profile of customers translate into their relationship with the mBank Group. Therefore, the Bank has defined environmental, social and corporate governance risks.

Environmental risk (E)

Environmental risk is the risk of negative financial impact resulting from current or future environmental factors on invested assets, customers, counterparties or balance sheet items. From the point of view of classification and the practical approach to managing this risk, the Bank does not treat it as a separate type, but as a so-called horizontal risk, which affects the risks identified and managed in the Bank to date to varying degrees and through varying channels of transmission. In addition, the Bank distinguishes two major subcategories of environmental risk:

- transformation risk understood as the risk of unforeseen financial costs for institutions that may result, directly or indirectly, from the process of adapting these institutions to a low-carbon and more environmentally sustainable economy;
- physical risk understood as the risk of negative financial effects of a changing climate, including more frequent extreme weather events and gradual climate change, as well as environmental degradation such as air, water and soil pollution, water stress, biodiversity loss and deforestation.

The Bank's operations do not have a significant direct impact on the climate. The industry in which the Bank operates is not one of the sectors with high greenhouse gas emissions. The Bank takes care to ensure that its activities do not lead to the destruction of natural ecosystems and biodiversity. According to the Bank, this impact manifests itself primarily indirectly, through the financing provided to customers. The Bank has an impact on the climate through its decisions related to providing financing to customers in specific industries. The Bank can reduce our impact mainly by limiting financing to customers in carbon-intensive industries through credit policies that is taken into account the EU's climate policy. The Bank has completely excluded financing for entities operating in the mining, coal-fired power and fossil-fuel-based heating sectors.

The Bank’s preferred areas of financing include projects supporting biodiversity and water management in energy-intensive industries, and targeted projects involving the construction of electric vehicle charging stations.

The Bank uses tools that analyse and quantifies environmental, social and corporate governance risks at the industry level based on a standardized set of criteria. This assessment is a mandatory part of the lending process, allowing the conscious building of exposure and monitoring the ESG profile of the corporate portfolio and better determining directions in the clients' transformation.

Social risk (S)

Social risk, included in ESG risk, is the risk of negative, including financial, consequences caused by the actions of the Bank or its employees that violate the norms and rules of social relations between the Bank's employees, the Bank's relations with its counterparties, legal entities with which the Bank cooperates or customers.

Within the framework of social risks, the following aspects can be distinguished:

- cyber threats, hacking attacks on both the Bank's systems and its customers,
- consequences resulting from violations of human rights (including violations of labor rights, rights or freedoms of individuals in terms of personal data protection, bullying, discrimination),
- disputes with the Bank's customers,
- handling controversial areas and industries,
- customer expectations that do not arise directly from contractual relationships or laws,
- public expectations of the Bank as a public trust institution that the Bank cannot meet,
- complicated and complex offerings of the Bank that may create misunderstanding on the part of customers,
- social impact of natural disasters and pandemics.

Governance risk (G)

Governance risk is the risk of negative consequences in the financial and non-financial areas caused by the bank’s violation of the principles of corporate governance, broadly defined, arising from external and internal regulations.

Governance risk may include:

- operational risk – in light of governance risk within operational risk, legal risk, risk of money laundering, terrorist financing and violation of sanctions are particularly relevant,
- compliance risk – resulting in the bank’s failure to timely comply with new corporate governance regulations,
- reputational risk – the occurrence of this type of risk can materialize through the occurrence of events that affect the Bank’s stakeholders’ perception of the Bank.

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For effective management of governance risk, the Bank ensures that its operations comply with a transparent system of internal regulations, in accordance with the Internal Governance Policy. In managing this risk the Bank also ensures universal and equal access to information and makes effort to ensure that the information made available is up-to-date, reliable and presented in a transparent way for key stakeholders, in accordance with the adopted Information Policy.

3.18. Fair value of assets and liabilities

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

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

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

The approach to the method used for the loans that are fair valued in line of IFRS 9 requirements, is described in the point 3.3.7.

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

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

Financial assets and liabilities measured at amortised cost

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

	31.12.2023		31.12.2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**25 527 804**	**24 475 440**	**20 206 976**	**17 923 102**
Loans and advances to banks	**10 476 203**	**10 484 017**	**15 179 061**	**15 181 392**
Loans and advances to customers, including:	**85 052 955**	**84 988 845**	**87 805 447**	**87 273 053**
Individuals customers	**36 661 091**	**37 295 489**	**40 129 801**	**40 077 630**
Current receivables	7 182 778	7 568 606	7 334 567	7 776 122
Term loans	29 312 506	29 561 076	32 773 857	32 280 131
Other	165 807	165 807	21 377	21 377
Corporate customers	**48 267 016**	**47 595 253**	**47 622 759**	**47 143 353**
Current receivables	6 493 390	6 213 579	6 908 655	6 754 825
Term loans	40 145 143	39 753 191	38 531 877	38 206 301
Reverse repo or buy/sell back transactions	884 216	884 216	1 611 154	1 611 154
Other loans and advances	719 359	719 359	555 475	555 475
Other	24 908	24 908	15 598	15 598
Public sector customers	**124 848**	**98 103**	**52 887**	**52 070**
Financial liabilities at amortised cost				
Amounts due to banks	**3 346 208**	**3 346 208**	**3 305 751**	**3 305 751**
Amounts due to customers	**185 117 139**	**185 114 770**	**174 000 911**	**173 996 881**
Debt securities issued	**7 625 479**	**7 617 849**	**4 548 698**	**4 545 899**
Subordinated liabilities	**2 714 928**	**2 559 783**	**2 740 721**	**2 631 352**

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

Loans and advances to banks and loans and advances to customers

The fair value for loans and advances to banks and loans and advances to customers is calculated as the estimated value of future cash flows (adjusted by prepayments) using current interest rates, including credit spread, cost of liquidity and cost of capital margin. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Bank. To reflect the fact that the Bank's exposures are in major part collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments. Moreover, valuation of mortgage loans in PLN is calculated with the benchmark of fair value of mortgage loans classified as valuated through fair value in accordance with IFRS 9, with an adjustment relating to credit quality of the portfolio.

The fair value of term loans to individual customers takes into account the possible impact of the Act on crowdfunding for business ventures and aid to borrowers, in view of the ongoing discussions on the potential extension of the credit holidays to 2024.

Financial liabilities

Financial instruments representing liabilities include the following:

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

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

In the case of deposits, the Bank has applied the curve constructed on the basis of quotations of interbank market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of subordinated liabilities, the valuation is based on discounted cash flows using market swap curves (depending on the terms of issue) adjusted for the issuer's credit risk.

In the case of the valuation of bonds related to credit risk (Credit Link Note) the Bank uses the method of discounting the expected cash flows from bonds. In the part related to the discounting factor, the valuation also includes a component that takes into account mBank's credit spread and a liquidity margin. Due to the fact that the bondholders are secured in terms of the issuer's credit risk with the deposited securities, an assumption was made that these parameters would remain unchanged during the life of the bond.

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

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

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

The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions and methods described above, exclusively for disclosure as at 31 December 2023 and as at 31 December 2022.

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31.12.2023	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	24 475 440	18 199 454	-	6 275 986
Loans and advances to banks	10 484 017	-	-	10 484 017
Loans and advances to customers	84 988 845	-	-	84 988 845
Total financial assets	**119 948 302**	**18 199 454**	**-**	**101 748 848**
Financial liabilities				
Amounts due to banks	3 346 208	-	1 938 343	1 407 865
Amounts due to customers	185 114 770	-	231 230	184 883 540
Debt securities issued	7 617 849	5 996 197	-	1 621 652
Subordinated liabilities	2 559 783	-	-	2 559 783
Total financial liabilities	**198 638 610**	**5 996 197**	**2 169 573**	**190 472 840**

31.12.2022	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
Financial assets				
Debt securities	17 923 102	14 185 080	-	3 738 022
Loans and advances to banks	15 181 392	-	-	15 181 392
Loans and advances to customers	87 273 053	-	-	87 273 053
Total financial assets	**120 377 547**	**14 185 080**	**-**	**106 192 467**
Financial liabilities				
Amounts due to banks	3 305 751	-	1 910 721	1 395 030
Amounts due to customers	173 996 881	-	222 295	173 774 586
Debt securities issued	4 545 899	3 601 103	-	944 796
Subordinated liabilities	2 631 352	-	-	2 631 352
Total financial liabilities	**184 479 883**	**3 601 103**	**2 133 016**	**178 745 764**

Level 1

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

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

Level 2

Level 2 includes the fair value of long-term loans received from banks, the fair value of long-term deposits placed by customers and the fair value of the loans received from the EIB (Note 29).

The fair value of financial liabilities included at Level 2 with more than 1 year to maturity is based on cash flows discounted using interest rates. In case of the loans received from European Investment Bank in EUR, the Bank used EIB yield curve and the value of margin which was agreed upon the last contract. Based on that assumption, the spread of the Bank to market swap curve was estimated. In case of deposits the Bank used the curve based on overnight rates, term cash rates, as well as FRA contracts for appropriate currencies and maturities.

Level 3

Level 3 includes:

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

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Financial assets and liabilities measured at fair value and investment properties

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

31.12.2023	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
Financial assets				
Financial assets held for trading and hedging derivatives	**1 767 707**	**407 773**	**1 081 830**	**278 104**
Loans and advances to customers	40 498	-	-	40 498
Debt securities	634 939	397 333	-	237 606
Equity instruments	10 440	10 440	-	-
Derivative financial instruments, including:	1 081 830	-	1 081 830	-
Derivative financial instruments held for trading	1 257 353	-	1 257 353	-
Hedging derivative financial instruments	243 047	-	243 047	-
Offsetting effect	(418 570)	-	(418 570)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**828 268**	**893**	**-**	**827 375**
Loans and advances to customers	603 713	-	-	603 713
Debt securities	50 144	-	-	50 144
Equity securities	174 411	893	-	173 518
Financial assets at fair value through other comprehensive income	**54 464 505**	**16 431 196**	**18 382 180**	**19 651 129**
Loans and advances to customers	18 238 558	-	-	18 238 558
Debt securities	36 225 947	16 431 196	18 382 180	1 412 571
Total financial assets	**57 060 480**	**16 839 862**	**19 464 010**	**20 756 608**
Investment properties	**111 964**	**-**	**-**	**111 964**
Financial liabilities				
Financial liabilities held for trading and derivatives held for hedges	**1 458 852**	**157 607**	**1 301 245**	**-**
Derivative financial instruments, including:	1 301 245	-	1 301 245	-
Derivative financial instruments held for trading	1 450 696	-	1 450 696	-
Hedging derivative financial instruments	1 119 296	-	1 119 296	-
Offsetting effect	(1 268 747)	-	(1 268 747)	-
Liabilities from short sale of securities	157 607	157 607	-	-
Total financial liabilities	**1 458 852**	**157 607**	**1 301 245**	**-**

Financial assets measured at fair value and investment properties at Level 3 - changes from 1 January to 31 December 2023	Financial assets held for trading and hedging derivatives		Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Investment properties
	Loans and advances	Debt securities	Loans and advances	Debt securities	Equity securities	Loans and advances	Debt securities	
As at the beginning of the period	**39 720**	**401 865**	**712 570**	**45 009**	**120 670**	**19 422 073**	**1 719 371**	**136 909**
Gains and losses for the period:	**308**	**42 321**	**(29 828)**	**5 135**	**52 505**	**138 332**	**2 929**	**(24 945)**
Recognised in profit or loss:	308	42 321	(29 828)	5 135	52 505	2 674	-	(24 945)
Net trading income	*308*	*42 321*	-	*(4 934)*	*(133)*	-	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*(29 828)*	*10 069*	*52 638*	-	-	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	-	-	*2 674*	-	-
Other operating income/ other operating expenses	-	-	-	-	-	-	-	*(24 945)*
Recognised in other comprehensive income:	-	-	-	-	-	135 658	2 929	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*135 658*	*2 929*	-
Purchases / origination	-	858 169	81 521	-	343	457 263	1 810 351	-
Redemptions / total repayments	-	(249 332)	(134 963)	-	-	(731 756)	(600 838)	-
Sales	-	(3 688 103)	-	-	-	(628 087)	(2 733 555)	-
Issues	-	2 872 686	-	-	-	-	1 214 313	-
Other changes	470	-	(25 587)	-	-	(419 267)	-	-
As at the end of the period	**40 498**	**237 606**	**603 713**	**50 144**	**173 518**	**18 238 558**	**1 412 571**	**111 964**

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

Financial assets measured at fair value and investment properties at Level 3 - changes from 1 January to 31 December 2022	Financial assets held for trading and hedging derivatives		Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		Investment properties
	Loans and advances	Debt securities	Loans and advances	Debt securities	Equity securities	Loans and advances	Debt securities	
As at the beginning of the period	**40 426**	**425 179**	**991 469**	**81 128**	**147 596**	**18 191 254**	**1 504 600**	**127 510**
Gains and losses for the period:	**1 419**	**21 633**	**(26 406)**	**6 095**	**(27 238)**	**136 247**	**(14 623)**	**9 399**
Recognised in profit or loss:	1 419	21 633	(26 406)	6 095	(27 238)	(6 440)	-	9 399
Net trading income	*1 419*	*21 633*	-	*9 299*	*34*	-	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	*(26 406)*	*(3 204)*	*(27 272)*	-	-	-
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-	-	-	-	-	*(6 440)*	-	-
Other operating income/ other operating expenses	-	-	-	-	-	-	-	*9 399*
Recognised in other comprehensive income:	-	-	-	-	-	142 687	(14 623)	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*142 687*	*(14 623)*	-
Purchases / origination	-	1 132 349	42 873	-	312	4 125 086	1 994 737	-
Redemptions / total repayments	(3 813)	(117 316)	(251 960)	-	-	(810 450)	(545 447)	-
Sales	-	(2 726 211)	-	-	-	(2 075 137)	(1 654 666)	-
Issues	-	1 666 231	-	-	-	-	434 770	-
Other changes	1 688	-	(43 406)	(42 214)	-	(144 927)	-	-
As at the end of the period	**39 720**	**401 865**	**712 570**	**45 009**	**120 670**	**19 422 073**	**1 719 371**	**136 909**

In 2023 and 2022 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 2023, at level 1 of the fair value hierarchy, Bank has presented the fair value of held for trading government bonds in the amount of PLN 397 333 thousand and the fair value of government bonds and treasury bills measured at fair value through other comprehensive income in the amount of PLN 15 063 647 thousand (31 December 2022 respectively: PLN 670 227 thousand and PLN 14 300 990 thousand. Level 1 includes the fair values of corporate bonds in the amount of PLN 1 367 549 thousand (31 December 2022: PLN 1 316 626 thousand).

In addition, as at 31 December 2023, level 1 includes the value of the registered preferred shares of Giełda Papierów Wartościowych in the amount of PLN 893 thousand (31 December 2022: PLN 746 thousand) and equity instruments of non-financial corporations in the amount of PLN 10 440 thousand (31 December 2022: PLN 6 129 thousand).

As at 31 December 2023, level 1 includes liabilities from short sale of securities quoted on active markets in the amount of PLN 157 607 thousand (31 December 2022: PLN 260 538 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 2023, level 2 of the fair value hierarchy mainly includes the fair values of bills issued by NBP in the amount of PLN 18 382 180 thousand (31 December 2022: PLN 17 083 666 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 2023, level 3 of the hierarchy presents the fair values of commercial debt securities issued by local banks and companies in the amount of PLN 1 700 321 thousand (31 December 2022: PLN 2 166 245 thousand) and includes i.a. the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of preferred stock in Visa Inc.

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

Level 3 as at 31 December 2023 includes the value of loans and advances to customers in the amount of PLN 18 882 769 thousand (31 December 2022: PLN 20 174 363 thousand). The principles for Fair Value calculation for loans and advances to customers is described in Note 3.3.7.

Moreover, level 3 covers mainly the fair value of equity securities amounting to PLN 173 518 thousand (31 December 2022: PLN 120 670 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 2023, the cost of equity was estimated at the level in the range from 12.3% to 13.8% (as at the end of 2022: in the range of 13.9% to 14.4%).

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As at 31 December 2023, level 3 includes also fair value measurement of investment property in the amount of PLN 111 964 thousand (31 December 2022: PLN 136 909 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 7.25% used to discount cash flows (31 December 2022: 6.75%).

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

Portfolio	Fair value 31.12.2023	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Equity instruments	173 518	(17 659)	21 431	The valuation model uses the cost of own capital as the unobservable discount parameter. Sensitivity was calculated assuming a change in the cost of 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	1 412 571	(30 325)	30 325	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	237 606	(6 686)	6 686	
Loans and advances to customers held for trading	40 498	(311)	294	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	603 713	(8 755)	8 772	
Loans and advances to customers measured at fair value through other comprehensive income	18 238 558	(17 152)	16 317	

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

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

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

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

Detailed information on the impact of legal risk related to mortgage and housing loans granted to individual customers in CHF and other foreign currencies is provided in Note 34.

Impact of credit holidays on the financial result of the Bank

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

In 2022, the Bank recognised the impact of credit holidays in the total amount of PLN 1 334.4 million, out of which PLN 955.4 million related to mBank loan portfolio and decreased the interest income of the Bank, PLN 367.0 million related to mBank Hipoteczny loan portfolio and decreased the share in profits (losses) of entities under the equity method and PLN 12.0 million related to the effect on hedge accounting and decreased the net trading income. In 2023, due to an updated calculation of the impact of credit holidays, the Bank recognised PLN 38.8 million gain on non-substantial modification related to mBank loan portfolio, which increased net interest income, PLN 18.7 million impact related to mBank Hipoteczny loan portfolio, which increased the share in profits (losses) of entities under the equity method and PLN 12.0 million impact on hedge accounting, which increased 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.

By 31 December 2023, customers owning 77.0% and 73.2% of the value of the assumed eligible mortgage loan portfolio of mBank and mBank Hipoteczny respectively submitted applications applying for an average of 7.4 months of credit holidays. As of 31 December 2023 the gross carrying value of loans being subject to the credit holidays amounted to PLN 16 817.7 million at mBank and PLN 6 559.0 million at mBank Hipoteczny.

In addition, in view of the ongoing discussions on the potential extension of the credit holidays to 2024, the Bank has included the impact of such potential solutions in the valuation of loans and advances to customers measured at fair value through other comprehensive income as at 31 December 2023. The Bank reduced the fair value of this loan portfolio by the estimated effect of additional credit holidays in the amount of PLN 96,9 million in correspondence with Other components of equity. This estimate was made on the basis of the draft amendment to Act on crowdfunding for business ventures and aid to borrowers made available on 27 December 2023 on the website of the Government Legislation Center. For the purpose of adjusting the value of the mortgage portfolio for the portion that is measured at fair value through other comprehensive income in the Bank's books, the Bank assumed a probability of realisation of these solutions of 60% and participation of eligible borrowers of 83%.

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If the current value of estimated cash flows for portfolio of loans and advances as well as contingent liabilities which are impaired, change by +/-10%, the estimated loans and advances as well as contingent liabilities impairment would either decrease by PLN 52.8 million or increase by PLN 56.1 million as at 31 December 2023, respectively (as at 31 December 2022: PLN 49.7 million and PLN 51.1 million, respectively). This estimation was performed for portfolio of loans and advances and contingent liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral - Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6.

Actions taken in relation to the current situation in Ukraine

In 2023, the Bank continued to monitor its portfolio of exposures exposed to risk connected with the war in Ukraine. The review concerned the Bank's involvement in war countries (Ukraine, Russia) or in conflict-related countries (Belarus), taking into account sanctions imposed by the European Union, the United Kingdom and the USA. As a result of the review, as of 31 December 2023, 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 2023											
	Balance sheet gross exposure in PLN thousand				Off-balance sheet exposure in PLN thousand				Expected credit losses in PLN thousand			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Ukraine	-	-	-	-	-	-	-	-	-	-	-	-
Russia	-	-	150	-	-	-	-	-	-	-	(150)	43 504
Belarus	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(150)**	**43 504**

There was also identified an indirect exposure: a balance sheet exposure of PLN 160.9 million and an off-balance sheet exposure of PLN 219.7 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. Indirect exposure is shown in the table below.

Country	Indirect exposure as at 31 December 2023											
	Balance sheet gross exposure in PLN thousand				Off-balance sheet exposure in PLN thousand				Expected credit losses in PLN thousand			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Ukraine	27 051	18 816	0	0	81 357	2 360	0	0	(150)	(312)	0	0
Russia	16 191	4 650	91 894	0	118 488	8 346	8 696	0	(263)	(68)	(85 967)	0
Belarus	2 060	248	0	0	489	0	0	0	(5)	(2)	0	0
Total	**45 302**	**23 714**	**91 894**	**0**	**200 334**	**10 706**	**8 696**	**0**	**(418)**	**(382)**	**(85 967)**	**0**

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

In the first half of 2023, the Bank updated the forecasts of future macroeconomic conditions that are incorporated into the risk parameter models used to calculate the expected credit loss (the detailed description of the significant model changes can be found is section 3.3.6.2.2.). The forecasts take into account the current development of the economic situation in Poland and they are consistent with the forecasts used in the planning process. In order to assess expected credit loss (ECL) sensitivity to the future macroeconomic conditions, the Bank 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 optimistic and pessimistic scenarios is presented below as the deviation of the value of provisions in a given scenario from the expected credit losses calculated for the baseline path.

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 at 31.12.2023		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	0.4%	3.1%	1.9%	4.0%	-1.6%	1.5%
Unemployment rate	end of the year	5.3%	5.1%	4.3%	3.5%	5.5%	5.9%
Real estate price index	y/y	102.8	107.5	103.5	114.4	93.6	103.6
WIBOR 3M	end of the year	6.95%	6.20%	8.25%	8.20%	5.75%	4.70%

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

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			
	31.12.2023			
	Stage 1	Stage 2	Stage 3	Total
optimistic	46 403	53 952	171	**100 526**
pesimistic	(78 391)	(74 586)	(171)	**(153 148)**

The above results were estimated taking into account the equal allocation to the Stage 2 determined individually for each macroeconomic scenario. The ECL sensitivity analysis was performed for 91% 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 the models, i.e. exposures of TSU entities, non-bank financial institutions and corporate clients assessed individually).

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Methods for determining the fair value of financial instruments are described in Note 3.18.

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 deferring 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

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

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5. Net interest income

	Year ended 31 December	
	2023	**2022**
Interest income		
Interest income accounted for using the effective interest method	**13 638 349**	**8 667 715**
Interest income of financial assets at amortised cost, including:	10 061 600	7 327 896
- Loans and advances	*8 235 137*	*6 349 484*
- Debt securities	*807 588*	*503 180*
- Cash and short-term placements	*876 981*	*376 985*
- Gains (losses) on non-substantial modification (net)	*(11 634)*	*(80 840)*
- Other	*153 528*	*179 087*
Interest income on financial assets at fair value through other comprehensive income	3 576 749	1 339 819
- Debt securities	*1 920 097*	*845 101*
- Loans and advances	*1 620 656*	*1 377 323*
- Gains (losses) on non-substantial modification (net)	*35 996*	*(882 605)*
Income similar to interest on financial assets at fair value through profit or loss, including:	**358 186**	**170 000**
Financial assets held for trading	75 270	51 529
- Loans and advances	*5 198*	*3 968*
- Debt securities	*70 072*	*47 561*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	106 735	118 471
- Loans and advances	*106 735*	*118 471*
Interest income on derivatives classified into banking book	176 181	-
Total interest income	**13 996 535**	**8 837 715**

The item Gains or losses on non-substantial modification (net) in 2022 includes a loss of PLN 955.4 million resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays"). In 2023, as a result of credit holidays calculation update, the Bank recognised in these positions a positive impact amounting to PLN 38.8 million. 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.

	Year ended 31 December	
	2023	**2022**
Interest expenses		
Financial liabilities held for trading	(19 428)	(13 686)
Financial liabilities measured at amortised cost, including:	(4 342 827)	(2 023 875)
- Deposits	*(3 776 049)*	*(1 746 579)*
- Loans received	*(4 523)*	*(4 515)*
- Issue of debt securities	*(336 603)*	*(109 570)*
- Subordinated liabilities	*(182 502)*	*(126 325)*
- Other financial liabilities	*(40 518)*	*(34 396)*
- Leasing agreements	*(2 632)*	*(2 490)*
Interest expenses on derivatives classified into banking book	-	(30 949)
Interest expenses on derivatives concluded under the fair value hedge	(842 450)	(526 940)
Interest expenses on derivatives concluded under the cash flow hedge	(502 281)	(461 701)
Other	(1 515)	(22 956)
Total interest expense	**(5 708 501)**	**(3 080 107)**

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Net interest income per client groups is as follows:

	Year ended 31 December	
	2023	**2022**
Interest income		
From banking sector	3 779 170	1 549 901
From other customers, including:	10 217 365	7 287 814
- individual clients	*5 214 694*	*3 418 773*
- corporate clients	*4 032 015*	*3 117 536*
- public sector	*970 656*	*751 505*
Total interest income	**13 996 535**	**8 837 715**

Interest expenses		
From banking sector	(348 588)	32 312
From other customers, including:	(4 840 808)	(2 876 524)
- individual clients	*(2 558 002)*	*(954 490)*
- corporate clients	*(2 215 246)*	*(1 857 474)*
- public sector	*(67 560)*	*(64 560)*
Debt securities issued	(336 603)	(109 570)
Subordinated liabilities	(182 502)	(126 325)
Total interest expense	**(5 708 501)**	**(3 080 107)**

6. Net fee and commission income

	Year ended 31 December	
	2023	**2022**
Fee and commission income		
Payment cards-related fees	685 528	629 823
Credit-related fees and commissions	511 593	507 438
Commissions from currency transactions	496 457	516 540
Commissions from bank accounts	286 523	383 770
Commissions from money transfers	238 767	223 487
Fees from brokerage activity and debt securities issue	163 491	173 837
Commissions due to guarantees granted and trade finance commissions	99 628	98 144
Commissions for agency service regarding sale of insurance products of external financial entities	87 402	80 159
Fees from cash services	61 916	53 963
Commissions for agency service regarding sale of other products of external financial entities	39 697	44 628
Commissions on trust and fiduciary activities	30 247	32 919
Fees from portfolio management services and other management-related fees	17 926	25 127
Other	69 868	53 884
Total fee and commission income	**2 789 043**	**2 823 719**

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	Year ended 31 December	
	2023	2022
Fee and commission expenses		
Payment cards-related fees	(332 626)	(292 815)
Commissions paid to external entities for sale of the Bank's products	(202 101)	(169 952)
Commissions paid for agency service regarding sale of insurance products of external financial entities	(15 445)	(16 524)
Discharged brokerage fees	(39 044)	(36 823)
Cash services	(60 638)	(56 655)
Fees to NBP and KIR and GPW Benchmark	(24 611)	(21 785)
Other discharged fees	(301 017)	(188 879)
Total fee and commission expense	**(975 482)**	**(783 433)**

7. Dividend income

	Year ended 31 December	
	2023	2022
Non-trading financial assets mandatorily at fair value through profit or loss	4 385	4 336
Investments in subsidiaries accounted for using equity method	-	43 500
Investments in non-consolidated subsidiaries accounted for using other method than equity method	545	900
Total dividend income	**4 930**	**48 736**

8. Net trading income

	Year ended 31 December	
	2023	2022
Foreign exchange result	**(27 494)**	**(106 781)**
Net exchange differences on translation	209 033	(246 318)
Net transaction gains/(losses)	(236 527)	139 537
Gains or losses on financial assets and liabilities held for trading	**103 088**	**210 867**
Derivatives, including:	92 769	197 455
- Interest-bearing instruments	*62 947*	*170 013*
- Market risk instruments	*29 822*	*27 442*
Equity instruments	(1 369)	(100)
Debt securities	11 995	12 093
Loans and advances	308	1 419
Financial liabilities	(615)	-
Gains or losses from hedge accounting	**202**	**(32 191)**
Net profit on hedged items	(1 175 050)	865 902
Net profit on fair value hedging instruments	1 172 512	(875 494)
Ineffective portion of cash flow hedge	2 740	(22 599)
Total net trading income	**75 796**	**71 895**

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

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

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

	Year ended 31 December	
	2023	2022
Equity instruments	52 785	(16 424)
Debt securities	10 069	(3 204)
Loans and advances	(29 828)	(26 406)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**33 026**	**(46 034)**

In 2023, in the item Equity instruments, the Bank recognised mainly a profit resulting from revaluation to fair value of shares in Polski Standard Płatności Sp. z o.o. in the amount of PLN 46 508 thousand, (in 2022: PLN -11 694 thousand).

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

	Year ended 31 December	
	2023	2022
Gains less losses from derecognition, including:	(48 428)	(96 603)
- Financial assets at fair value through other comprehensive income	*(43 960)*	*(92 211)*
- Financial assets at amortised cost	*(4 468)*	*(4 392)*
Total gains less losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**(48 428)**	**(96 603)**

The result from the derecognition includes the result from the sale of government bonds as well as the result from the sale of retail mortgage loans that were transferred from mBank to mBank Hipoteczny in pooling transactions in the amount of PLN 2 674 thousand (in 2022: PLN -6 440 thousand).

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

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

	Year ended 31.12.2023		Year ended 31.12.2022	
	Gains	Losses	Gains	Losses
Debt securities	8 986	(55 620)	1 886	(87 658)
Loans and advances	7 391	(9 185)	14 321	(25 152)
Gains less losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**16 377**	**(64 805)**	**16 207**	**(112 810)**

11. Other operating income

	Year ended 31 December	
	2023	2022
Gains from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	7 559	5 838
Income from services provided	1 869	1 810
Net operating income due to operating lease and subleasing right-of-use assets	-	-
Rental income from investment properties	787	223
Income from revaluation of investment properties to fair value	-	12 862
Income due to release of provisions for future commitments	23 720	12 440
Income from recovered receivables designated previously as prescribed, remitted or uncollectible	12 954	1 825
Income from compensations, penalties and fines received	540	160
Gains from sale and valuation of investment in subsidiaries and associates	5 388	6 419
Other	25 251	28 742
Total other operating income	**78 068**	**70 319**

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

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The table below presents net operating income due to operating lease and subleasing right-of-use assets for 2023 and 2022.

	Year ended 31 December	
	2023	**2022**
Net operating income due to operating lease and subleasing right-of-use assets		
- Income from operating lease	4 022	3 771
- Income from subleasing right-of-use assets	11 360	10 442
- Amortisation cost of assets in operating lease and right-of-use assets in sub-lease	(15 382)	(14 213)
Total net operating income due to operating lease and subleasing right-of-use assets	**-**	**-**

12. Overhead costs

	Year ended 31 December	
	2023	**2022**
Staff-related expenses	(1 309 057)	(1 109 611)
Material costs, including:	(777 926)	(639 310)
- costs of administration and real estate services	*(287 128)*	*(234 729)*
- IT costs	*(212 755)*	*(174 378)*
- marketing costs	*(188 939)*	*(143 997)*
- consulting costs	*(73 247)*	*(71 725)*
- other material costs	*(15 857)*	*(14 481)*
Taxes and fees	(38 485)	(33 030)
Contributions and transfers to the Bank Guarantee Fund	(173 248)	(236 207)
Contributions to the Borrowers Support Fund	-	(162 527)
Contributions to the Social Benefits Fund	(12 143)	(12 935)
Institutional Protection Scheme	(75)	(428 071)
Total overhead costs	**(2 310 934)**	**(2 621 691)**

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

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

In 2023, the item Material costs includes costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 645 thousand (2022: PLN 380 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 2 141 thousand (2022: PLN 1 949 thousand).

Staff-related expenses in 2023 and 2022 are presented below.

	Year ended 31 December	
	2023	**2022**
Wages and salaries	(1 037 668)	(891 954)
Social security expenses	(184 642)	(155 210)
Remuneration concerning share-based payments, including:	(10 920)	(12 673)
- share-based payments settled in mBank S.A. shares	*(10 920)*	*(12 673)*
Other staff expenses	(75 827)	(49 774)
Staff-related expenses, total	**(1 309 057)**	**(1 109 611)**

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

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13. Other operating expenses

	Year ended 31 December	
	2023	**2022**
Losses from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(1 614)	(1 298)
Provisions for future commitments	(135 751)	(124 894)
Costs arising from provisions created for other receivables (excluding loans and advances)	(5 021)	(4 653)
Donations made	(5 627)	(6 196)
Compensation, penalties and fines paid	(1 592)	(3 246)
Losses form investment properties valuation	(24 945)	(3 463)
Direct operating expenses (including repairs and maintenance) arising from investment properties that generated rental income during the period	(6 894)	(7 282)
Impairment provisions created for tangible assets and intangible assets	-	(4 500)
Debt collection expenses	(19 915)	(29 432)
Losses on sale and revaluation of investments in subsidiaries and associates	(6 608)	(22 961)
Other operating costs	(56 075)	(57 850)
Total other operating expenses	**(264 042)**	**(265 775)**

The item Provisions for future commitments in 2023 included, among others, the cost of provision in the amount of PLN 80 167 thousand for the loss in the second instance of a court case brought by the Bank's corporate client regarding the validity of the CIRS transaction. mBank submitted a cassation appeal against the judgment. At the same time, at the request of mBank, a decision was issued to suspend the enforceability and effectiveness of the judgment until the cassation proceedings are completed.

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

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

	Year ended 31 December	
	2023	**2022**
Financial assets at amortised cost, including:	**(1 001 953)**	**(647 630)**
Debt securities	(2 403)	(942)
Stage 1	*(2 403)*	*(942)*
Loans and advances	(999 550)	(646 688)
Stage 1	*6 749*	*74 831*
Stage 2	*(262 874)*	*(54 305)*
Stage 3	*(776 171)*	*(670 184)*
POCI	*32 746*	*2 970*
Financial assets at fair value through other comprehensive income, including:	**(42 538)**	**(30 384)**
Debt securities	(2 274)	319
Stage 1	*(1 412)*	*(269)*
Stage 2	*(862)*	*588*
Loans and advances	(40 264)	(30 703)
Stage 1	*1 053*	*(5 144)*
Stage 2	*(23 402)*	*(12 900)*
Stage 3	*(17 861)*	*(12 600)*
POCI	*(54)*	*(59)*
Commitments and guarantees given	**98 210**	**17 127**
Stage 1	*(6 637)*	*4 471*
Stage 2	*(22 805)*	*657*
Stage 3	*125 838*	*6 881*
POCI	*1 814*	*5 118*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(946 281)**	**(660 887)**

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

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15. Income tax expense

	Year ended 31 December	
	2023	**2022**
Current tax	(684 627)	(1 021 748)
Deferred income tax (Note 32)	(183 693)	384 553
Total income tax	**(868 320)**	**(637 195)**
Profit (loss) before tax	**897 642**	**(59 529)**
Tax calculated at Polish current tax rate (19%)	(170 552)	11 311
Income not subject to tax	60 942	14 594
Costs other than tax deductible costs, thereof	(758 710)	(663 100)
Costs of legal risk related to foreign currency loans	*(886 043)*	*(582 405)*
Deferred tax assets related to the settlement program for customers with foreign currency loans in CHF and invalidity of CHF loan contracts	*367 222*	*198 899*
Tax on Certain Financial Institutions	*(136 734)*	*(123 871)*
Contributions and other mandatory payments that are not deductible (including the Bank Guarantee Fund)	*(32 917)*	*(75 760)*
Other	*(70 238)*	*(79 963)*
Total tax liability	**(868 320)**	**(637 195)**
Effective tax rate calculation		
Profit (loss) before income tax	897 642	(59 529)
Income tax	(868 320)	(637 195)
Effective tax rate %	**96.73%**	**n/a**

Item "Income not subject to tax" includes i.a. dividends excluded from taxation under Article 20 item 3 of Corporate Income Tax Act from 15 February 1992 (Journal of Laws 2019, item 865).

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

Since 1 January 2024 mBank S.A., mBank Hipoteczny S.A., mFinanse S.A., mLeasing Sp. z o. o., mFaktoring S.A, mZakupy Sp. z o.o., mTFI S.A. and mElements S.A. established, Tax Capital Group of mBank ("TCG") based on Corporate Income Tax Act. According to the Corporate Income Tax Act, mBank – as a dominant entity – represents TCG with respect described by tax law. In a year preceding establishing the TCG, there was no tax losses in either of the entity that is a member of TCG. The TCG agreement has been concluded for 4 years.

The current tax breakdown by country is presented below.

	Year ended 31 December	
	2023	**2022**
Poland	(618 856)	(962 488)
Czech Republic	(51 092)	(52 061)
Slovakia	(14 679)	(7 199)
Total current tax	**(684 627)**	**(1 021 748)**

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

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16. Earnings (losses) per share

Earnings (losses) per share for 12 months

	Year ended 31 December	
	2023	2022
Basic:		
Net profit (loss)	29 322	(696 724)
Weighted average number of ordinary shares	42 451 562	42 403 048
Net basic profit (loss) per share (in PLN per share)	**0.69**	**(16.43)**
Diluted:		
Net profit (loss), applied for calculation of diluted earnings per share	29 322	(696 724)
Weighted average number of ordinary shares	42 451 562	42 403 048
Adjustments for:		
- subscription warrants	69 647	67 047
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 521 209	42 470 095
Net diluted earnings (losses) per share (in PLN per share)	**0.69**	**(16.41)**

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

The diluted earnings per share are calculated by as ratio of net profits attributable to Bank’s shareholder and the weighted average number of ordinary shares as if all potential ordinary shares causing the dilution were converted to shares. The Bank has one category of potential ordinary shares causing the dilution – the subscription warrants, exercising of which entitles to subscription for 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.

17. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2023			Year ended 31 December 2022		
	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	**1 360 924**	**(229 119)**	**1 131 805**	**(245 101)**	**40 852**	**(204 249)**
Exchange differences on translation of foreign operations	(35 990)	-	(35 990)	6 129	-	6 129
Cash flow hedges	539 054	(102 420)	436 634	(246 476)	46 830	(199 646)
Share of other comprehensive income of entities under the equity method	42 048	-	42 048	(92 514)	-	(92 514)
Change in valuation of debt instruments at fair value through other comprehensive income	815 812	(126 699)	689 113	87 760	(5 978)	81 782
Items that will not be reclassified to the income statement	**(7 940)**	**1 508**	**(6 432)**	**4 295**	**(816)**	**3 479**
Actuarial gains and losses relating to post-employment benefits	(7 940)	1 508	(6 432)	4 295	(816)	3 479
Total other comprehensive income	**1 352 984**	**(227 611)**	**1 125 373**	**(240 806)**	**40 036**	**(200 770)**

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The table below presents detailed information concerning net other comprehensive income for the years 2023 and 2022.

	Year ended 31 December	
	2023	2022
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT	**1 131 805**	**(204 249)**
Exchange differences on translating foreign operations	**(35 990)**	**6 129**
Gains or losses on exchange differences on translation of foreign operations included in other comprehensive income	(35 990)	6 129
Unrealised gains (positive differences) arising during the year (net)	*45 043*	*10 328*
Unrealised losses (negative differences) arising during the year (net)	*(81 033)*	*(4 199)*
Cash flows hedges (effective part)	**436 634**	**(199 646)**
Gains or losses included in other comprehensive income	29 786	(573 624)
Unrealised gains arising during the year (net)	*29 786*	*13 475*
Unrealised losses arising during the year (net)	-	*(587 099)*
Reclassification to the income statement (net)	406 848	373 978
Valuation of debt instruments at fair value through other comprehensive income	**689 113**	**81 782**
Gains or losses on valuation of debt instruments included in other comprehensive income	652 730	3 347
Unrealised gains on debt instruments arising during the year (net)	*731 219*	*124 360*
Unrealised losses on debt instruments arising during the year (net)	*(78 489)*	*(121 013)*
Reclassification to the income statement (net)	36 383	78 435
Share of other comprehensive income of entities under the equity method	**42 048**	**(92 514)**
Share of other comprehensive income of entities under the equity method during the year (net)	42 048	(92 514)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(6 432)**	**3 479**
Actuarial gains and losses relating to post-employment benefits	**(6 432)**	**3 479**
Actuarial gains (net)	-	*3 479*
Actuarial losses (net)	*(6 432)*	-
Total comprehensive income (net)	**1 125 373**	**(200 770)**

18. Cash and cash equivalents

	31.12.2023	31.12.2022
Cash on hand	1 545 034	1 645 857
Cash balances at central banks	34 949 763	14 260 635
Current accounts (payable on demand) and overnight deposits with other banks	146 651	173 217
Deposits with banks up to 3 months	-	40 592
Total cash and cash equivalents	**36 641 448**	**16 120 301**

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 5 805 019 thousand for the period from 30 November 2023 to 1 January 2024,
- PLN 5 342 096 thousand for the period from 30 November 2022 to 1 January 2023.

As at 31 December 2023, the mandatory reserve in Central Bank bore 5.75% interest (31 December 2022: 6.75%).

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

Financial assets held for trading and hedging derivatives

	31.12.2023	31.12.2022
Derivatives	**1 081 830**	**1 471 740**
- Derivatives held for trading classified into banking book	545 639	596 736
- Derivatives held for trading classified into trading book	711 714	1 199 748
- Derivatives designated as fair value hedges	239 432	111 811
- Derivatives designated as cash flow hedges	3 615	4 924
- Offsetting effect	(418 570)	(441 479)
Equity instruments	**10 440**	**6 129**
- Other financial corporations	10 440	-
- Non-financial corporations	-	6 129
Debt securities	**634 939**	**1 072 092**
- General governments	397 333	670 227
pledged securities	*280 193*	*278 219*
- Credit institutions	99	84 447
- Other financial corporations	101 660	135 636
- Non-financial corporations	135 847	181 782
Loans and advances to customers	**40 498**	**39 720**
- Corporate customers	40 498	39 720
Total financial assets held for trading and hedging derivatives	**1 767 707**	**2 589 681**

Trading debt securities include securities used to secure sell/buy back transactions with customers, the market value of which as at 31 December 2023 amounted to PLN 280 193 thousand (31 December 2022: PLN 278 219 thousand).

Financial liabilities held for trading and hedging derivatives

	31.12.2023	31.12.2022
Derivatives, including:	**1 301 245**	**1 814 475**
- Derivatives held for trading classified into banking book	199 583	395 977
- Derivatives held for trading classified into trading book	1 251 113	1 779 802
- Derivatives designated as fair value hedges	889 125	1 984 675
- Derivatives designated as cash flow hedges	230 171	679 253
- Offsetting effect	(1 268 747)	(3 025 232)
Liabilities from short sale of securities	**157 607**	**260 538**
Total financial liabilities held for trading and hedging derivatives	**1 458 852**	**2 075 013**

Derivative financial instruments

The Bank has the following types of derivative instruments:

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

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

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

Currency and interest rate swap contracts are commitments to exchange one cash flow for another cash flow. Such a transaction results in swap of currencies or interest rates (e.g., fixed to variable interest rate) or combination of all these factors (e.g., cross-currency CIRS). With the exception of specific currency swap contracts, such transactions do not result in swaps of capital. The credit risk of the Bank consists of the potential cost of replacing swap contracts if the parties fail to discharge their liabilities. This risk is monitored daily by reference to the current fair value, proportion of the face value of the contracts and market liquidity. The Bank evaluates the parties to such contracts using the same methods as for its credit business, to control the level of its credit exposure.

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

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

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

The Bank applies fair value hedge accounting and cash flow hedge accounting. Detailed information on hedge accounting is presented further in this Note.

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

31.12.2023	Contract amount		Fair value	
	Buy	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	18 966 657	19 463 789	58 713	489 266
- Currency swaps	34 730 360	34 150 411	633 929	110 134
- Cross-currency interest rate swaps	2 883 677	2 910 785	18 073	19 833
- OTC currency options	5 418 102	7 025 333	42 051	193 732
Total OTC derivatives	**61 998 796**	**63 550 318**	**752 766**	**812 965**
- Currency futures	990 998	992 403	-	-
Total foreign exchange derivatives	**62 989 794**	**64 542 721**	**752 766**	**812 965**
Interest rate derivatives				
- Interest rate swap, OIS	165 554 725	165 554 725	339 765	482 618
- Forward rate agreements	15 538 000	13 246 000	862	1 419
- OTC interest rate options	424 647	795 011	11 197	14 700
Total interest rate derivatives	**181 517 372**	**179 595 736**	**351 824**	**498 737**
Market risk transactions	**2 491 815**	**2 589 457**	**152 763**	**138 994**
Total derivative assets / liabilities held for trading	**246 998 981**	**246 727 914**	**1 257 353**	**1 450 696**
Hedging derivatives				
Derivatives designated as fair value hedges	24 102 479	24 102 479	239 432	889 125
- Interest rate swaps, OIS	24 102 479	24 102 479	239 432	889 125
Derivatives designated as cash flow hedges	5 755 000	5 755 000	3 615	230 171
- Interest rate swaps	5 755 000	5 755 000	3 615	230 171
Total hedging derivatives	**29 857 479**	**29 857 479**	**243 047**	**1 119 296**
Offsetting effect			**(418 570)**	**(1 268 747)**
Total	**276 856 460**	**276 585 393**	**1 081 830**	**1 301 245**
Short-term (up to 1 year)	130 611 586	128 669 989	854 214	1 008 506
Long-term (over 1 year)	146 244 874	147 915 404	227 616	292 739

31.12.2022	Contract amount		Fair value	
	Buy	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	16 392 618	16 774 537	126 093	323 682
- Currency swaps	30 915 143	30 477 871	546 950	259 594
- Cross-currency interest rate swaps	5 966 841	6 002 521	65 070	49 730
- OTC currency options	9 264 440	9 640 383	115 946	137 310
Total OTC derivatives	**62 539 042**	**62 895 312**	**854 059**	**770 316**
- Currency futures	916 806	921 064	-	-
Total foreign exchange derivatives	**63 455 848**	**63 816 376**	**854 059**	**770 316**
Interest rate derivatives				
- Interest rate swap, OIS	253 989 749	253 991 283	580 542	1 056 612
- Forward rate agreements	9 520 000	10 660 000	524	2 894
- OTC interest rate options	203 733	769 903	12 965	24 334
Total interest rate derivatives	**263 713 482**	**265 421 186**	**594 031**	**1 083 840**
Market risk transactions	2 866 762	2 995 905	348 394	321 623
Total derivative assets / liabilities held for trading	**330 036 092**	**332 233 467**	**1 796 484**	**2 175 779**
Hedging derivatives				
Derivatives designated as fair value hedges	20 249 502	20 249 502	111 811	1 984 675
- Interest rate swaps, OIS	20 249 502	20 249 502	111 811	1 984 675
Derivatives designated as cash flow hedges	9 445 000	9 445 000	4 924	679 253
- Interest rate swaps	9 445 000	9 445 000	4 924	679 253
Total hedging derivatives	**29 694 502**	**29 694 502**	**116 735**	**2 663 928**
Offsetting effect			**(441 479)**	**(3 025 232)**
Total	**359 730 594**	**361 927 969**	**1 471 740**	**1 814 475**
Short-term (up to 1 year)	137 170 526	138 618 244	830 500	919 136
Long-term (over 1 year)	222 560 068	223 309 725	641 240	895 339

Except of valuation of derivatives, the offsetting effect includes PLN 929 731 thousand of placed collaterals and PLN 79 553 thousand of collaterals received in connection with the derivative transactions subject to compensation (31 December 2022: PLN 2 697 133 thousand and PLN 113 380 thousand respectively).

In both reporting periods, market risk transactions comprise the fair values of: stock index options, shares and other equity securities, futures for commodities, swap contracts for commodities.

Credit quality of financial assets held for trading and derivatives according to internal rating system

Sub-portfolio	31.12.2023		31.12.2022	
	Derivatives	Loans and advances to customers	Derivatives	Loans and advances to customers
1	910 627	-	1 283 932	-
2	317 071	-	387 342	-
3	78 284	-	60 366	-
4	44 624	-	97 222	-
5	21 790	40 498	3 947	39 720
6	2	-	107	-
7	22	-	302	-
8	127 950	-	79 969	-
default	30	-	32	-
offsetting effect	(418 570)		(441 479)	
Total	**1 081 830**	**40 498**	**1 471 740**	**39 720**

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Rating	31.12.2023	31.12.2022
	Debt securities	Debt securities
1.0 - 1.2	397 334	-
1.8 - 2.0	-	700 410
2.2 - 2.8	175 526	334 796
3.0 - 3.8	62 079	36 886
Total	**634 939**	**1 072 092**

Rating system is described in Note 3.3.4.

As at 31 December 2023 and 31 December 2022, 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 Bank applies fair value hedge accounting and cash flow hedge accounting.

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

The Bank decided to continue from 1 January 2018, to apply the hedge accounting requirements in accordance with IAS 39. These requirements were consistently applied until 30 June 2022. Starting 1 July 2022 the Group applies the IFRS 9 hedge accounting requirements with the exception described below.

The fair value portfolio hedges of interest rate risk, where the hedged item is designated as portion that is a currency amount, continue to be accounted for in line with IAS 39 requirements.

The Bank determines the hedge ratio based on the nominal value of the hedged item and hedging instrument and it is 1:1 (except for the fair value hedge of loan portfolios granted by mBank's Czech Branch, where the nominal value of hedging instruments is determined at an amount lower than the nominal value of the hedged item in order to take into account the risk of prepayment).

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

Fair value hedge accounting

The Bank applies fair value hedge accounting, where the only type of hedged risk is interest rate risk.

At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.11.

<u>Description of the hedging relation</u>

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

- fixed interest rate loans received by mBank from European Investment Bank. The hedged risk results from changes in interest rates,
- fixed interest rate bonds issued by mBank S.A. The hedged risk results from changes in interest rates,
- senior non-preferred bonds issued by mBank – fixed interest rate during 3 years since the issue date. The hedged risk results from changes in interest rates,
- senior non-preferred bonds issued by mBank – fixed interest rate during 5 years since the issue date. The hedged risk results from changes in interest rates,
- part of the fixed interest rate housing and consumer loans portfolio granted by mBank’s foreign branch in the Czech Republic. The hedged risk results from changes in interest rates,
- part of 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.

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Hedged items

The hedged items are:

- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 125 000 thousand,
- senior non-preferred bonds issued by mBank S.A. with a nominal value of EUR 750 000 thousand, fixed rate during 3 years since the issue date,
- senior non-preferred bonds issued by mBank S.A., with nominal value of EUR 500 000 thousand, fixed rate during 5 years since the issue date,
- part of the fixed interest rate housing and consumer loans portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of portfolio of modelled deposits by mBank in PLN with economic characteristics of fixed-rate deposits.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments is recognised in the income statement as the income from trading operation except for interest income and interest cost of interest part of valuation of hedging instruments, presented in item "Interest income/cost on derivatives concluded under the fair value hedge accounting".

Hedged items – fair value hedges

31.12.2023	Carrying amount of the hedged items	Accumulated amount of fair value hedge adjustment of hedged item	The item in the statement of financial position that includes hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Micro hedges				
Bonds issued by mBank S.A. with a fixed interest rate	(5 996 198)	100 429	Financial liabilities measured at amortised cost – Debt securities issued	(201 839)
Fixed interest rate loans received by mBank from European Investment Bank	(1 938 343)	63 342	Financial liabilities measured at amortised cost – Amounts due to banks – Loans and advances received	(63 998)
Fixed interest rate housing and consumer loans in CZK	2 274	(74 167)	Financial assets at amortised cost – Loans and advances to customers	53 384
Hedging the fair value of a portfolio of financial assets and liabilities against interest rate risk				
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(16 075 106)	565 985	Financial liabilities measured at amortised cost – Amounts due to customers - deposits	(962 597)
TOTAL				**(1 175 050)**

31.12.2022	Carrying amount of the hedged items	Accumulated amount of fair value hedge adjustment of hedged item	The item in the statement of financial position that includes hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Micro hedges				
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(3 601 103)	302 268	Financial liabilities measured at amortised cost – Debt securities issued	283 963
Fixed interest rate loans received by mBank from European Investment Bank	(1 910 721)	127 340	Financial liabilities measured at amortised cost – Amounts due to banks – Loans and advances received	132 471
Fixed interest rate housing and consumer loans in CZK	971 816	(134 278)	Financial assets at amortised cost – Loans and advances to customers	(23 636)
Hedging the fair value of a portfolio of financial assets and liabilities against interest rate risk				
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(13 375 000)	1 528 582	Financial liabilities measured at amortised cost – Amounts due to customers - deposits	473 104
TOTAL				**865 902**

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

	31.12.2023	31.12.2022
Instruments hedging bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	197 245	(283 192)
Instruments hedging fixed interest rate loans received by mBank from European Investment Bank	63 481	(131 274)
Instruments hedging fixed interest rate housing and consumer portfolio denominated in CZK	(36 613)	10 922
Instruments hedging deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	948 399	(471 950)
Total	**1 172 512**	**(875 494)**

Nominal values of hedging derivatives - fair value hedges

	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
31.12.2023	1 207 198	500 000	1 985 350	20 409 931	-	**24 102 479**
31.12.2022	-	1 203 580	600 000	18 445 922	-	**20 249 502**

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

	Year ended 31 December	
	2023	2022
Interest income/expenses on derivatives concluded under the fair value hedge accounting (Note 5)	(842 450)	(526 940)
Net profit on hedged items (Note 8)	(1 175 050)	865 902
Net profit on fair value hedging instruments (Note 8)	1 172 512	(875 494)
The total result of fair value hedge accounting recognised in the income statement	**(844 988)**	**(536 532)**

Cash flow hedge accounting

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

The Bank applies cash flow hedge accounting of the part of loans at a variable interest rate indexed to the market rate portfolio, granted by the Bank. An Interest Rate Swap is the hedging instrument changing the variable interest rate to a fixed interest rate. The interest rate risk is the hedged risk within applied by the Bank cash flow hedge accounting. The ineffective portion of the gains or losses on the hedging instrument is presented in Note 8 in the position "Other net trading income and result on hedge accounting". Portion of the gains or losses on the hedging instrument that is an effective hedge, is presented in the statement of comprehensive income as “Cash flow hedges (net)”. The period from January 2024 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Loans and advances to customers - loans in variable interest rate indexed to the market rate	5 755 000	9 445 000	220 044	656 893	(258 977)	(695 611)

The change in value of the hedging item used as the basis for recognising hedge ineffectiveness for the period – cash flow hedges

	31.12.2023	31.12.2022
Instruments hedging loans and advances to customers - loans in variable interest rate indexed to the market rate	(217 578)	(658 277)

Nominal values of hedging derivatives - cash flow hedges

31.12.2023	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN thousand)	425 000	200 000	2 390 000	2 740 000	-	**5 755 000**
The average rate of fixed leg	2.012%	2.048%	1.772%	0.952%	-	

31.12.2022	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN thousand)	440 000	380 000	2 670 000	5 955 000	-	**9 445 000**
The average rate of fixed leg	2.364%	2.468%	1.546%	1.421%	-	

Below is given the timetable presenting the periods in which the cash flows from loans secured under the cash flow hedge accounting are expected and their impact on the income statement.

	up to 3 months	period from 3 months to 1 year	period from 1 to 5 years	over 5 years
31.12.2023	104 560	206 364	135 848	4 736
31.12.2022	229 818	518 859	519 099	17 811

The following note presents other comprehensive income due to cash flow hedges in the period between 1 January and 31 December 2023 and 1 January and 31 December 2022.

for period	Year ended 31 December	
	2023	**2022**
Other gross comprehensive income from cash flow hedge at the beginning of the period	**(858 779)**	**(612 303)**
Gains/losses included in other gross comprehensive income during the reporting period	36 773	(708 177)
The amount transferred in the period from comprehensive income to income statement	502 281	461 701
- net interest income	*502 281*	*461 701*
Accumulated other gross comprehensive income at the end of the reporting period	**(319 725)**	**(858 779)**
Income tax on accumulated other comprehensive income at the end of the reporting period	60 748	163 168
Accumulated other net comprehensive income at the end of the reporting period	**(258 977)**	**(695 611)**
Impact on other comprehensive income in the reporting period (gross)	539 054	(246 476)
Income tax on cash flow hedges	(102 420)	46 830
Impact on other comprehensive income in the reporting period (net)	**436 634**	**(199 646)**

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for period	Year ended 31 December	
	2023	**2022**
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	539 054	(246 476)
Results of cash flow hedge accounting recognised in the income statement	(499 541)	(484 300)
- amount included as interest income/expenses in income statement during the reporting period (Note 5)	*(502 281)*	*(461 701)*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 8)	*2 740*	*(22 599)*
Impact on comprehensive income in the reporting period (gross)	**39 513**	**(730 776)**

Impact of the IBOR reform

In preparing the 2019 financial statements, the Bank opted for early application of the amendments under Phase 1 of the interest rate benchmark reform: the amendments to IFRS 9/IAS 39 and IFRS 7. The amendments in question modified certain requirements for hedge accounting, allowing it to continue to be applied to hedging relationships covered by the amendments during the period of uncertainty before the hedged items or hedging instruments change as a result of the interest rate benchmark reform.

In 2021, the Bank has applied for the first time the amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases under Interest Rate Benchmark Reform - Phase 2, published in August 2020.

Application of the abovementioned Phase 1 measures allowed to maintain the hedge relationships despite uncertainty related to the value and timing of the hedged cashflows resulting from interest rate benchmark reform and lack of ability to separate reference rate interest rate component in case of IBOR related fair value hedges.

The Bank retained cumulative gains or losses in the cash flow hedge reserve for designated cash flow hedges related to IBORs subject to the interest rate benchmark reform despite the uncertainty caused by the interest rate benchmark reform related to the timing and amount of cash flows from the hedged items. In cases where the hedged future cash flows are no longer expected for reasons other than the interest rate benchmark reform, the cumulative gain or loss would be immediately reclassified to profit or loss.

The Bank will be taking advantage of the measures resulting from changes to IAS 39/IFRS 9 introduced within Phase 1 until uncertainty related to timing and amount of cashflows resulting from the interest benchmark reform ceases to impact the Bank. The above-mentioned uncertainty will be impacting the Bank until IBOR related contracts are amended to include clauses regulating replacement of reference benchmark and establishing alternative reference rate including fixed spread as basis for contractual cashflows.

As a result of the Phase 2 amendments, in cases where the contractual terms of non-derivative financial instruments have been changed as a direct result of the interest rate benchmark reform and the new basis for determining contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately before the change), the Bank has changed the basis for determining contractual cash flows prospectively by changing the effective interest rate. Where additional changes were made that are not directly related to the reform, the relevant requirements under IFRS 9 were applied to such changes.

In cases were the interest rate benchmark reform resulted in conversion of the hedging instrument, the Bank updated the hedging documentation without terminating the hedge relationship.

Additionally for cashflow hedge relationships, if the hedged item was modified as a result of the interest rate benchmark reform, the cumulated profits or losses recognised in the cashflow hedge reserve related to IBOR hedge relations are treated as if they were calculated based on alternative reference rate.

As of December 2023, derivative instruments designated in hedge relations are based on WIBOR, PRIBOR or EURIBOR rates.

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

	31.12.2023	31.12.2022
Equity instruments	**174 411**	**121 416**
- Other financial corporations	173 579	120 927
- Non-financial corporations	832	489
Debt securities	**50 144**	**45 009**
- Other financial corporations	50 144	45 009
Loans and advances to customers	**603 713**	**712 570**
- Individual customers	536 920	690 795
- Corporate customers	66 676	21 687
- Public sector customers	117	88
Total non-trading financial assets mandatorily at fair value through profit or loss	**828 268**	**878 995**
Short-term (up to 1 year)	517 858	654 641
Long-term (over 1 year)	310 410	224 354

Credit quality of non-trading financial assets mandatorily at fair value through profit or loss according to internal rating system

Rating	Debt securities	
	31.12.2023	31.12.2022
1.4 - 1.6	50 144	45 009
Total	**50 144**	**45 009**

Sub-portfolio	Loans and advances to customers	
	31.12.2023	31.12.2022
1	178	312
2	47 244	52 550
3	47 521	105 017
4	211 194	278 109
5	183 458	180 554
6	12 499	11 404
7	47 532	47 612
default	54 087	37 012
Total	**603 713**	**712 570**

Rating system is described in Note 3.3.4.

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21. Financial assets at fair value through other comprehensive income

31.12.2023	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	**36 225 947**	**36 207 837**	**28 800**	**-**	**-**	**(9 828)**	**(862)**	**-**	**-**
- Central banks	18 382 180	18 385 378	-	-	-	(3 198)	-	-	-
- General governments, including:	15 063 647	15 066 246	-	-	-	(2 599)	-	-	-
pledged assets	*618 614*	*618 614*	-	-	-	-	-	-	-
- Credit institutions	619 208	619 996	-	-	-	(788)	-	-	-
- Other financial corporations, including:	1 562 961	1 536 413	28 800	-	-	(1 390)	(862)	-	-
pledged assets	*383 022*	*383 022*	-	-	-	-	-	-	-
- Non-financial corporations	597 951	599 804	-	-	-	(1 853)	-	-	-
Loans and advances to customers	**18 238 558**	**15 189 404**	**2 975 222**	**155 221**	**419**	**(7 064)**	**(38 640)**	**(35 969)**	**(35)**
- Individual customers	18 238 558	15 189 404	2 975 222	155 221	419	(7 064)	(38 640)	(35 969)	(35)
Total financial assets at fair value through other comprehensive income	**54 464 505**	**51 397 241**	**3 004 022**	**155 221**	**419**	**(16 892)**	**(39 502)**	**(35 969)**	**(35)**

Short-term (up to 1 year) gross	23 951 021
Long-term (over 1 year) gross	30 605 882

31.12.2022	Carrying amount	Gross carrying amount including valuation to fair value				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**34 420 653**	**34 429 073**	**-**	**-**	**-**	**(8 420)**	**-**	**-**	**-**
- Central banks	17 083 666	17 086 509	-	-	-	(2 843)	-	-	-
- General governments, including:	14 300 990	14 303 430	-	-	-	(2 440)	-	-	-
pledged assets	*677 551*	*677 551*	-	-	-	-	-	-	-
- Credit institutions	881 908	882 322	-	-	-	(414)	-	-	-
- Other financial corporations	1 442 692	1 443 103	-	-	-	(411)	-	-	-
pledged assets	*415 618*	*415 618*	-	-	-	-	-	-	-
- Non-financial corporations	711 397	713 709	-	-	-	(2 312)	-	-	-
Loans and advances to customers	**19 422 073**	**18 310 725**	**1 063 200**	**90 925**	**474**	**(8 350)**	**(15 537)**	**(19 350)**	**(14)**
- Individual customers	19 422 073	18 310 725	1 063 200	90 925	474	(8 350)	(15 537)	(19 350)	(14)
Total financial assets at fair value through other comprehensive income	**53 842 726**	**52 739 798**	**1 063 200**	**90 925**	**474**	**(16 770)**	**(15 537)**	**(19 350)**	**(14)**

Short-term (up to 1 year) gross	24 908 405
Long-term (over 1 year) gross	28 985 992

As at 31 December 2023, the carrying amounts of debt securities with fixed interest rates amounted to PLN 26 344 213 thousand and debt securities with variable interest rates PLN 9 892 424 thousand (31 December 2022: PLN 28 232 249 thousand and PLN 6 196 824 thousand respectively).

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 (BFG), Deposit Guarantee Scheme and Resolution, as at 31 December 2023 the Bank held government bonds and bills included in the statement of financial position in the amount of PLN 618 614 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 2022: PLN 579 990 thousand and PLN 645 000 thousand, respectively).

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

Changes between 1 January and 31 December 2023	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Net changes in credit risk	Other changes	As at the end of the period
Debt securities	**(8 420)**	**-**	**-**	**-**	**(43 041)**	**43 610**	**(2 843)**	**4**	**(10 690)**
Stage 1	(8 420)	(256)	355	-	(43 041)	43 339	(1 809)	4	(9 828)
Stage 2	-	256	(355)	-	-	271	(1 034)	-	(862)
Loans and advances to customers	**(43 251)**	**-**	**-**	**-**	**(79)**	**6 952**	**(47 137)**	**1 807**	**(81 708)**
Stage 1	(8 350)	(14 368)	4 481	84	(79)	600	10 335	233	(7 064)
Stage 2	(15 537)	14 031	(6 515)	7 608	-	1 753	(40 279)	299	(38 640)
Stage 3	(19 350)	337	2 034	(7 692)	-	4 599	(17 139)	1 242	(35 969)
POCI	(14)	-	-	-	-	-	(54)	33	(35)
Expected credit loss allowance, total	**(51 671)**	**-**	**-**	**-**	**(43 120)**	**50 562**	**(49 980)**	**1 811**	**(92 398)**

Changes between 1 January and 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Net changes in credit risk	Changes due to new default definition	As at the end of the period
Debt securities	**(8 739)**	**-**	**-**	**-**	**(11 296)**	**10 565**	**1 050**	**-**	**(8 420)**
Stage 1	(8 151)	-	-	-	(11 296)	9 977	1 050	-	(8 420)
Stage 2	(588)	-	-	-	-	588	-	-	-
Loans and advances to customers	**(15 241)**	**-**	**-**	**-**	**(452)**	**6 544**	**(36 795)**	**2 693**	**(43 251)**
Stage 1	(3 520)	(7 593)	2 155	128	(452)	550	68	314	(8 350)
Stage 2	(2 758)	6 803	(2 440)	5 331	-	486	(23 080)	121	(15 537)
Stage 3	(9 003)	790	285	(5 459)	-	5 508	(13 724)	2 253	(19 350)
POCI	40	-	-	-	-	-	(59)	5	(14)
Expected credit loss allowance, total	**(23 980)**	**-**	**-**	**-**	**(11 748)**	**17 109**	**(35 745)**	**2 693**	**(51 671)**

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

Changes between 1 January and 31 December 2023	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other changes	As at the end of the period
Debt securities	**34 429 073**	**-**	**-**	**-**	**232 964 781**	**(237 271 330)**	**6 114 113**	**36 236 637**
Stage 1	34 429 073	20 486	(66 590)	-	232 964 781	(237 253 345)	6 113 432	36 207 837
Stage 2	-	(20 486)	66 590	-	-	(17 985)	681	28 800
Loans and advances to customers	**19 465 324**	**-**	**-**	**-**	**456 476**	**(1 051 014)**	**(550 520)**	**18 320 266**
Stage 1	18 310 725	1 267 893	(3 314 788)	(25 110)	456 476	(946 485)	(559 307)	15 189 404
Stage 2	1 063 200	(1 265 157)	3 331 145	(76 677)	-	(90 400)	13 111	2 975 222
Stage 3	90 925	(2 736)	(16 357)	101 787	-	(14 129)	(4 269)	155 221
POCI	474	-	-	-	-	-	(55)	419
Financial assets at fair value through other comprehensive income, gross	**53 894 397**	**-**	**-**	**-**	**233 421 257**	**(238 322 344)**	**5 563 593**	**54 556 903**

Changes between 1 January and 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other changes	As at the end of the period
Debt securities	**35 980 142**	**-**	**-**	**-**	**17 897 626**	**(19 267 923)**	**(180 772)**	**34 429 073**
Stage 1	35 936 194	-	-	-	17 897 626	(19 223 975)	(180 772)	34 429 073
Stage 2	43 948	-	-	-	-	(43 948)	-	-
Loans and advances to customers	**18 206 495**	**-**	**-**	**-**	**4 019 283**	**(2 878 728)**	**118 274**	**19 465 324**
Stage 1	18 059 705	24 421	(769 491)	(49 098)	3 846 888	(2 856 483)	54 783	18 310 725
Stage 2	114 831	(21 842)	769 753	(22 589)	170 779	(11 176)	63 444	1 063 200
Stage 3	31 557	(2 579)	(262)	71 687	1 616	(11 069)	(25)	90 925
POCI	402	-	-	-	-	-	72	474
Financial assets at fair value through other comprehensive income, gross	**54 186 637**	**-**	**-**	**-**	**21 916 909**	**(22 146 651)**	**(62 498)**	**53 894 397**

The item Other changes includes losses on non-substantial modification resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays" – Note 5).

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

As at 31 December 2023	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	77 994	-	-	-	77 994
1.4 - 1.6	1 367 706	-	-	-	1 367 706
1.8 - 2.0	33 627 768	-	-	-	33 627 768
2.2 - 2.8	723 446	-	-	-	723 446
3.0 - 3.8	361 757	-	-	-	361 757
4.0 - 5.0	49 166	28 800	-	-	77 966
Gross carrying amount	**36 207 837**	**28 800**	**-**	**-**	**36 236 637**
Accumulated impairment	(9 828)	(862)	-	-	(10 690)
Total carrying amount	**36 198 009**	**27 938**	**-**	**-**	**36 225 947**

As at 31 December 2023	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at fair value through other comprehensive income					
1	33 774	-	-	-	33 774
2	13 624 413	1 395 979	-	-	15 020 392
3	1 267 797	727 612	-	-	1 995 409
4	244 483	518 209	-	-	762 692
5	18 937	206 497	-	-	225 434
6	-	21 399	-	-	21 399
7	-	105 526	-	-	105 526
default	-	-	155 221	419	155 640
Gross carrying amount	**15 189 404**	**2 975 222**	**155 221**	**419**	**18 320 266**
Accumulated impairment	(7 064)	(38 640)	(35 969)	(35)	(81 708)
Total carrying amount	**15 182 340**	**2 936 582**	**119 252**	**384**	**18 238 558**

As at 31 December 2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at fair value through other comprehensive income					
1.0 - 1.2	213 774	-	-	-	213 774
1.4 - 1.6	1 316 742	-	-	-	1 316 742
1.8 - 2.0	31 176 165	-	-	-	31 176 165
2.2 - 2.8	1 329 204	-	-	-	1 329 204
3.0 - 3.8	393 188	-	-	-	393 188
Gross carrying amount	**34 429 073**	**-**	**-**	**-**	**34 429 073**
Accumulated impairment	(8 420)	-	-	-	(8 420)
Total carrying amount	**34 420 653**	**-**	**-**	**-**	**34 420 653**

As at 31 December 2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Loans and advances to customers at fair value through other comprehensive income					
1	1 276 674	1 960	-	-	1 278 634
2	15 648 924	383 490	-	-	16 032 414
3	969 844	323 259	-	-	1 293 103
4	338 901	210 310	-	-	549 211
5	71 672	87 788	-	-	159 460
6	2 924	12 433	-	-	15 357
7	1 786	43 960	-	-	45 746
default	-	-	90 925	474	91 399
Gross carrying amount	**18 310 725**	**1 063 200**	**90 925**	**474**	**19 465 324**
Accumulated impairment	(8 350)	(15 537)	(19 350)	(14)	(43 251)
Total carrying amount	**18 302 375**	**1 047 663**	**71 575**	**460**	**19 422 073**

Rating system is described in Note 3.3.4.

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Financial effect of collaterals

As at 31 December 2023	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to customers	18 320 266	(81 708)	(107 926)	26 218
Individual customers	18 320 266	(81 708)	(107 926)	26 218
Total balance sheet data	**18 320 266**	**(81 708)**	**(107 926)**	**26 218**
Total balance sheet data, Stage 3	155 221	(35 969)	(43 308)	7 339
Total balance sheet data, POCI	419	(35)	(96)	61

As at 31 December 2022	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to customers	19 465 324	(43 251)	(54 829)	11 578
Individual customers	19 465 324	(43 251)	(54 829)	11 578
Total balance sheet data	**19 465 324**	**(43 251)**	**(54 829)**	**11 578**
Total balance sheet data, Stage 3	90 925	(19 350)	(22 507)	3 157
Total balance sheet data, POCI	474	(14)	(35)	21

22. Financial assets at amortised cost

31.12.2023	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**25 527 804**	**25 533 214**	**-**	**-**	**-**	**(5 410)**	**-**	**-**	**-**
General governments, including:	15 666 682	15 669 481	-	-	-	(2 799)	-	-	-
pledged assets	*1 495 645*	*1 495 645*	-	-	-	-	-	-	-
Credit institutions	5 590 452	5 592 516	-	-	-	(2 064)	-	-	-
Other financial corporations, including:	4 270 670	4 271 217	-	-	-	(547)	-	-	-
pledged assets	*1 487 396*	*1 487 396*	-	-	-	-	-	-	-
Loans and advances to banks	**10 476 203**	**10 476 792**	**1 805**	**-**	**-**	**(2 362)**	**(32)**	**-**	**-**
Loans and advances to customers	**85 052 955**	**74 385 576**	**9 896 117**	**3 518 309**	**223 737**	**(350 759)**	**(588 401)**	**(2 085 023)**	**53 399**
Individual customers	36 661 091	30 848 344	5 454 083	2 163 228	155 653	(182 267)	(470 616)	(1 277 804)	(29 530)
Corporate customers	48 267 016	43 470 081	4 376 406	1 355 081	68 084	(168 372)	(109 974)	(807 219)	82 929
Public sector customers	124 848	67 151	65 628	-	-	(120)	(7 811)	-	-
Total financial assets at amortised cost	**121 056 962**	**110 395 582**	**9 897 922**	**3 518 309**	**223 737**	**(358 531)**	**(588 433)**	**(2 085 023)**	**53 399**

Short-term (up to 1 year) gross	45 652 218
Long-term (over 1 year) gross	78 383 332

31.12.2022	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**20 206 976**	**20 210 006**	**-**	**-**	**-**	**(3 030)**	**-**	**-**	**-**
General governments, including:	13 412 161	13 414 361	-	-	-	(2 200)	-	-	-
pledged assets	*1 089 602*	*1 089 602*	-	-	-	-	-	-	-
Credit institutions	3 345 406	3 345 858	-	-	-	(452)	-	-	-
Other financial corporations, including:	3 449 409	3 449 787	-	-	-	(378)	-	-	-
pledged assets	*1 041 894*	*1 041 894*	-	-	-	-	-	-	-
Loans and advances to banks	**15 179 061**	**15 178 756**	**2 261**	**-**	**-**	**(1 016)**	**(940)**	**-**	**-**
Loans and advances to customers	**87 805 447**	**81 702 670**	**5 233 498**	**3 190 157**	**205 984**	**(355 720)**	**(315 566)**	**(1 901 179)**	**45 603**
Individual customers	40 129 801	37 009 696	2 682 953	2 058 035	150 554	(209 481)	(270 118)	(1 262 306)	(29 532)
Corporate customers	47 622 759	44 640 026	2 550 531	1 132 120	55 430	(146 164)	(45 448)	(638 871)	75 135
Public sector customers	52 887	52 948	14	2	-	(75)	-	(2)	-
Total financial assets at amortised cost	**123 191 484**	**117 091 432**	**5 235 759**	**3 190 157**	**205 984**	**(359 766)**	**(316 506)**	**(1 901 179)**	**45 603**

Short-term (up to 1 year) gross	49 134 813
Long-term (over 1 year) gross	76 588 519

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

In addition the Bank held government bonds, which were securing the payment commitment to the BFG guarantee fund and forced restructuring fund in the amount of PLN 405 486 thousand (31 December 2022: PLN 394 745 thousand).

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

Loans and advances to banks

	31.12.2023	31.12.2022
Loans and advances	2 983 824	2 896 550
Reverse repo or buy/sell back	6 323 328	8 223 722
Other receivables	1 171 445	4 060 745
Total (gross) loans and advances to banks	**10 478 597**	**15 181 017**
Accumulated impairment	**(2 394)**	**(1 956)**
Total (net) loans and advances to banks	**10 476 203**	**15 179 061**
Short-term (up to 1 year) gross	7 095 427	10 712 232
Long-term (over 1 year) gross	3 383 170	4 468 785

The item "Other receivables" includes cash collaterals in the amount of PLN 365 733 thousand, placed with other banks under the derivative transactions concluded by the Bank (Note 36) (31 December 2022: PLN 557 138 thousand).

As at 31 December 2023, the variable rate loans to banks amounted to PLN 2 637 744 thousand and the fixed rate loans to banks amounted to PLN 346 080 thousand (31 December 2022: PLN 2 625 589 thousand and PLN 270 961 thousand, respectively).

An average interest rate for loans granted to other banks amounted to 5.81% (31 December 2022: 4.56%).

The following table presents receivables from Polish and foreign banks:

	31.12.2023		31.12.2022	
	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	3 607 626	6 870 971	6 242 343	8 938 674
Accumulated impairment	(2 181)	(213)	(733)	(1 223)
Loans and advances to banks, net	**3 605 445**	**6 870 758**	**6 241 610**	**8 937 451**

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Loans and advances to customers

Loans and advances to customers 31.12.2023	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current receivables	14 725 997	8 015 731	6 702 228	8 038
Term loans, including:	71 499 184	30 439 770	40 934 673	124 741
- housing and mortgage loans to natural persons	*15 720 487*	*15 720 487*		
Reverse repo or buy/sell back	884 216	-	884 216	-
Other loans and advances	723 627	-	723 627	-
Other receivables	190 715	165 807	24 908	-
Total gross carrying amount	**88 023 739**	**38 621 308**	**49 269 652**	**132 779**

Loans and advances to customers 31.12.2023	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current receivables	(1 041 837)	(832 953)	(208 838)	(46)
Term loans, including:	(1 924 679)	(1 127 264)	(789 530)	(7 885)
- housing and mortgage loans to natural persons	*(366 575)*	*(366 575)*		
Other loans and advances	(4 268)	-	(4 268)	-
Total accumulated impairment	**(2 970 784)**	**(1 960 217)**	**(1 002 636)**	**(7 931)**

Total gross carrying amount	**88 023 739**	**38 621 308**	**49 269 652**	**132 779**
Total accumulated impairment	(2 970 784)	(1 960 217)	(1 002 636)	(7 931)
Total carrying amount	**85 052 955**	**36 661 091**	**48 267 016**	**124 848**

Short-term (up to 1 year) gross	34 286 975
Long-term (over 1 year) gross	53 736 764

Loans and advances to customers 31.12.2022	Gross carrying amount	including:		
		Individual customers	Corporate customers	Public sector customers
Current receivables	15 088 668	8 015 011	7 067 366	6 291
Term loans, including:	73 039 182	33 864 850	39 127 659	46 673
- housing and mortgage loans to natural persons	*18 947 803*	*18 947 803*		
Reverse repo or buy/sell back	1 611 154	-	1 611 154	-
Other loans and advances	556 330	-	556 330	-
Other receivables	36 975	21 377	15 598	-
Total gross carrying amount	**90 332 309**	**41 901 238**	**48 378 107**	**52 964**

Loans and advances to customers 31.12.2022	Accumulated impairment	including:		
		Individual customers	Corporate customers	Public sector customers
Current receivables	(839 171)	(680 444)	(158 711)	(16)
Term loans, including:	(1 686 836)	(1 090 993)	(595 782)	(61)
- housing and mortgage loans to natural persons	*(427 756)*	*(427 756)*		
Other loans and advances	(855)	-	(855)	-
Total accumulated impairment	**(2 526 862)**	**(1 771 437)**	**(755 348)**	**(77)**

Total gross carrying amount	**90 332 309**	**41 901 238**	**48 378 107**	**52 964**
Total accumulated impairment	(2 526 862)	(1 771 437)	(755 348)	(77)
Total carrying amount	**87 805 447**	**40 129 801**	**47 622 759**	**52 887**

Short-term (up to 1 year) gross	34 321 759
Long-term (over 1 year) gross	56 010 550

As at 31 December 2023, gross amount of variable interest rate loans amounted to PLN 83 515 017 thousand and fixed interest rate loans amounted to PLN 4 508 722 thousand (31 December 2022: PLN 86 097 066 thousand and PLN 4 235 243 thousand, respectively). In 2023, an average interest rate for loans granted to customers (excluding reverse repos) amounted to 7.61% (in 2022: 5.14%).

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 2023, the above note includes receivables in the amount of PLN 217 119 thousand from the National Depository of Securities CCP in connection with the Brokerage Office activity (31 December 2022: PLN 286 567 thousand).

In addition, the item "Other loans and advances" includes cash collaterals in the amount of PLN 359 933 thousand placed by the Bank under derivatives transactions (Note 36) (31 December 2022: PLN 376 277 thousand).

The currency structure of housing and mortgage loans to natural persons

	31.12.2023	31.12.2022
Housing and mortgage loans to natural persons (in PLN thousand), including:	**15 353 912**	**18 520 047**
- PLN	5 714 488	2 868 238
- CHF	1 852 703	6 141 673
- EUR	3 359 720	4 027 009
- CZK	4 330 701	5 301 068
- USD	86 888	168 475
- other	9 412	13 584
Housing and mortgage loans to natural persons in original currencies (main currencies in thousand)		
- PLN	5 714 488	2 868 238
- CHF	395 640	1 288 130
- EUR	772 705	858 656
- CZK	24 620 244	27 296 952
- USD	22 081	38 274

The table above presents currency breakdown of net carrying value of housing and mortgage loans measured at amortised cost granted to natural persons. The table above does not present housing and mortgage loans measured at fair value through other comprehensive income in the amount of PLN 18 238 558 thousand (31 December 2022: PLN 19 422 073 thousand), granted entirely in PLN (Note 21).

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Credit quality of financial assets at amortised cost according to internal rating system

31.12.2023	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at amortised cost					
1.0 - 1.2	242 279	-	-	-	242 279
1.4 - 1.6	3 299 398	-	-	-	3 299 398
1.8 - 2.0	19 701 673	-	-	-	19 701 673
2.2 - 2.8	2 289 864	-	-	-	2 289 864
Total gross carrying amount	**25 533 214**	**-**	**-**	**-**	**25 533 214**
Total accumulated impairment	(5 410)	-	-	-	(5 410)
Total carrying amount	**25 527 804**	**-**	**-**	**-**	**25 527 804**
Loans and advances to banks at amortised cost					
1	6 818 884	-	-	-	6 818 884
2	3 555 257	-	-	-	3 555 257
3	84 954	-	-	-	84 954
4	17 697	1 805	-	-	19 502
Total gross carrying amount	**10 476 792**	**1 805**	**-**	**-**	**10 478 597**
Total accumulated impairment	(2 362)	(32)	-	-	(2 394)
Total carrying amount	**10 474 430**	**1 773**	**-**	**-**	**10 476 203**
Loans and advances to customers at amortised cost					
1	2 988 030	19 873	-	-	3 007 903
2	31 922 412	180 239	-	13 157	32 115 808
3	8 940 992	764 227	-	4 027	9 709 246
4	18 954 626	2 320 993	-	30 748	21 306 367
5	10 263 779	4 384 595	-	20 033	14 668 407
6	79 441	456 484	-	791	536 716
7	170 213	1 769 706	-	8 019	1 947 938
8	1 066 083	-	-	-	1 066 083
default	-	-	3 518 309	146 962	3 665 271
Total gross carrying amount	**74 385 576**	**9 896 117**	**3 518 309**	**223 737**	**88 023 739**
Total accumulated impairment	(350 759)	(588 401)	(2 085 023)	53 399	(2 970 784)
Total carrying amount	**74 034 817**	**9 307 716**	**1 433 286**	**277 136**	**85 052 955**

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Debt securities at amortised cost					
1.4 - 1.6	2 394 836	-	-	-	2 394 836
1.8 - 2.0	16 610 795	-	-	-	16 610 795
2.2 – 2.8	1 204 375	-	-	-	1 204 375
Total gross carrying amount	**20 210 006**	**-**	**-**	**-**	**20 210 006**
Total accumulated impairment	(3 030)	-	-	-	(3 030)
Total carrying amount	**20 206 976**	**-**	**-**	**-**	**20 206 976**
Loans and advances to banks at amortised cost					
1	8 902 799	-	-	-	8 902 799
2	332 353	-	-	-	332 353
3	5 692 463	-	-	-	5 692 463
4	16 827	22	-	-	16 849
5	4 312	-	-	-	4 312
7	-	2 239	-	-	2 239
8	230 002	-	-	-	230 002
Total gross carrying amount	**15 178 756**	**2 261**	**-**	**-**	**15 181 017**
Total accumulated impairment	(1 016)	(940)	-	-	(1 956)
Total carrying amount	**15 177 740**	**1 321**	**-**	**-**	**15 179 061**
Loans and advances to customers at amortised cost					
1	6 632 618	33 487	-	278	6 666 383
2	32 151 575	364 330	-	18 753	32 534 658
3	12 613 203	511 447	-	5 817	13 130 467
4	18 606 254	953 007	-	34 333	19 593 594
5	9 616 623	1 982 549	-	10 034	11 609 206
6	147 468	201 916	-	2 917	352 301
7	213 551	1 186 762	-	19 040	1 419 353
8	1 721 378	-	-	-	1 721 378
default	-	-	3 190 157	114 812	3 304 969
Total gross carrying amount	**81 702 670**	**5 233 498**	**3 190 157**	**205 984**	**90 332 309**
Total accumulated impairment	(355 720)	(315 566)	(1 901 179)	45 603	(2 526 862)
Total carrying amount	**81 346 950**	**4 917 932**	**1 288 978**	**251 587**	**87 805 447**

Rating system is described in Note 3.3.4.

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Movements in expected credit losses allowance

Change from 1 January to 31 December 2023	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Net changes in credit risk	Business combination effect	Write-offs	Other changes	As at the end of the period
Debt securities	**(3 030)**	**-**	**-**	**-**	**(1 942)**	**948**	**(1 409)**	**-**	**-**	**23**	**(5 410)**
Stage 1	(3 030)	-	-	-	(1 942)	948	(1 409)	-	-	23	(5 410)
Loans and advances to banks	**(1 956)**	**-**	**-**	**-**	**(1 461)**	**2 037**	**(1 918)**	**-**	**-**	**904**	**(2 394)**
Stage 1	(1 016)	(84)	38	-	(1 043)	1 255	(2 215)	-	-	703	(2 362)
Stage 2	(940)	84	(38)	-	(418)	782	297	-	-	201	(32)
Loans and advances to customers	**(2 526 862)**	**-**	**-**	**-**	**(252 676)**	**210 385**	**(955 917)**	**(140 345)**	**872 255**	**(177 624)**	**(2 970 784)**
Stage 1	(355 720)	(235 331)	161 675	6 562	(119 514)	69 454	125 952	(7 822)	-	3 985	(350 759)
Stage 2	(315 566)	227 338	(215 778)	281 808	(8 671)	21 920	(570 198)	(10 512)	-	1 258	(588 401)
Stage 3	(1 901 179)	7 993	54 103	(288 370)	(144 963)	150 568	(555 502)	(121 521)	861 387	(147 539)	(2 085 023)
POCI	45 603	-	-	-	20 472	(31 557)	43 831	(490)	10 868	(35 328)	53 399
Expected credit losses allowance, total	**(2 531 848)**	**-**	**-**	**-**	**(256 079)**	**213 370**	**(959 244)**	**(140 345)**	**872 255**	**(176 697)**	**(2 978 588)**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Net changes in credit risk	Net changes due to methodology update	Write-offs	Other changes	As at the end of the period
Debt securities	**(2 088)**	**-**	**-**	**-**	**(409)**	**104**	**(637)**	**-**	**-**	**-**	**(3 030)**
Stage 1	(2 088)	-	-	-	(409)	104	(637)	-	-	-	(3 030)
Loans and advances to banks	**(1 286)**	**-**	**-**	**-**	**(4 036)**	**3 708**	**(1 874)**	**-**	**-**	**1 532**	**(1 956)**
Stage 1	(1 286)	(8)	93	-	(3 138)	2 149	(341)	-	-	1 515	(1 016)
Stage 2	-	8	(93)	-	(898)	1 559	(1 533)	-	-	17	(940)
Loans and advances to customers	**(2 600 966)**	**-**	**-**	**-**	**(518 060)**	**623 733**	**(745 140)**	**(5 019)**	**895 605**	**(177 015)**	**(2 526 862)**
Stage 1	(428 785)	(305 114)	141 311	9 351	(192 325)	151 173	245 817	25 863	-	(3 011)	(355 720)
Stage 2	(258 476)	295 483	(168 818)	237 662	(38 610)	45 955	(394 744)	(30 276)	-	(3 742)	(315 566)
Stage 3	(1 935 789)	9 631	27 507	(247 013)	(290 248)	425 871	(595 933)	1	869 155	(164 361)	(1 901 179)
POCI	22 084	-	-	-	3 123	734	(280)	(607)	26 450	(5 901)	45 603
Expected credit losses allowance, total	**(2 604 340)**	**-**	**-**	**-**	**(522 505)**	**627 545**	**(747 651)**	**(5 019)**	**895 605**	**(175 483)**	**(2 531 848)**

Movements in expected credit losses resulting from changes in models are described in Note 3.3.6.2.2.

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

Change from 1 January to 31 December 2023	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	Business combination effect	Write-offs	Other changes	As at the end of the period
Debt securities	**20 210 006**	**-**	**-**	**-**	**8 822 970**	**(5 922 252)**	**-**	**-**	**2 422 490**	**25 533 214**
Stage 1	20 210 006	-	-	-	8 822 970	(5 922 252)		-	2 422 490	25 533 214
Loans and advances to banks	**15 181 017**	**-**	**-**	**-**	**132 168 397**	**(136 138 052)**	**-**	**-**	**(732 765)**	**10 478 597**
Stage 1	15 178 756	19 031	(18 418)	-	132 115 502	(136 087 064)		-	(731 015)	10 476 792
Stage 2	2 261	(19 031)	18 418	-	52 895	(50 988)		-	(1 750)	1 805
Loans and advances to customers	**90 332 309**	**-**	**-**	**-**	**83 931 660**	**(72 989 138)**	**1 807 373**	**(872 255)**	**(14 186 210)**	**88 023 739**
Stage 1	81 702 670	4 240 207	(11 446 255)	(267 693)	81 973 995	(70 182 625)	1 292 760	-	(12 927 483)	74 385 576
Stage 2	5 233 498	(4 187 093)	11 752 688	(1 438 902)	1 464 990	(1 931 975)	142 020	-	(1 139 109)	9 896 117
Stage 3	3 190 157	(53 114)	(306 433)	1 706 595	410 912	(814 437)	350 999	(861 387)	(104 983)	3 518 309
POCI	205 984	-	-	-	81 763	(60 101)	21 594	(10 868)	(14 635)	223 737
Financial assets at amortised cost, gross	**125 723 332**	**-**	**-**	**-**	**224 923 027**	**(215 049 442)**	**1 807 373**	**(872 255)**	**(12 496 485)**	**124 035 550**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other changes	As at the end of the period
Debt securities	**16 635 003**	**-**	**-**	**-**	**4 164 745**	**(557 120)**	**-**	**(32 622)**	**20 210 006**
Stage 1	16 635 003	-	-	-	4 164 745	(557 120)	-	(32 622)	20 210 006
Loans and advances to banks	**10 860 854**	**-**	**-**	**-**	**11 940 588**	**(7 441 541)**	**-**	**(178 884)**	**15 181 017**
Stage 1	10 860 854	-	(4 378)	-	11 940 565	(7 441 541)	-	(176 744)	15 178 756
Stage 2	-	-	4 378	-	23	-	-	(2 140)	2 261
Loans and advances to customers	**88 722 733**	**-**	**-**	**-**	**27 717 338**	**(18 044 274)**	**(895 605)**	**(7 167 883)**	**90 332 309**
Stage 1	81 730 671	807 277	(2 663 522)	(877 646)	26 229 761	(16 749 387)	-	(6 774 484)	81 702 670
Stage 2	3 822 250	(778 877)	2 724 723	(464 191)	1 040 363	(837 582)	-	(273 188)	5 233 498
Stage 3	2 939 041	(28 400)	(61 201)	1 334 842	408 598	(427 555)	(869 155)	(106 013)	3 190 157
POCI	230 771	-	-	6 995	38 616	(29 750)	(26 450)	(14 198)	205 984
Financial assets at amortised cost, gross	**116 218 590**	**-**	**-**	**-**	**43 822 671**	**(26 042 935)**	**(895 605)**	**(7 379 389)**	**125 723 332**

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The item Other changes includes the effect of gross carrying amount adjustments for legal risk costs related to foreign currency loans (Note 34) and losses on non-substantial modification resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays" – Note 5).

In 2023, the following changes which influenced the staging assessment, were reflected in the calculation of expected credit losses:

- Implementation of additional Transfer Logic qualitative criterion – threefold PD backstop indicator, related to at least threefold increase of current PD level in relation to PD at initial recognition date. This change resulted in reclassification of the credit exposure portfolio of PLN 3 741.1 million from Stage 1 to Stage 2.

In 2022, the following changes resulting from the model management process, which influenced the quantitative staging model, were reflected in the calculation of expected credit losses:

- Adjustment of model segmentation according to the Recommendation R requirements. This change resulted in reclassification of the credit exposure portfolio of PLN 331.5 million from the Stage 2 to the Stage 1, and PLN 621.5 million PLN from the Stage 1 to the Stage 2;
- Recalibration of the transfer logic model in connection with the implementation of the new behavioral rating model in retail area. This change resulted in reclassification of the credit exposure portfolio of PLN 752.2 million from the Stage 2 to the Stage 1, and PLN 779.9 million PLN from the Stage 1 to the Stage 2.

Financial effect of collaterals

31.12.2023	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	10 478 597	(2 394)	(5 177)	2 783
Loans and advances to customers, including:	88 023 739	(2 970 784)	(3 744 393)	773 609
Individual customers	38 621 308	(1 960 217)	(2 056 054)	95 837
- housing and mortgage loans to natural persons	*15 720 487*	*(366 575)*	*(422 543)*	*55 968*
Corporate customers	49 269 652	(1 002 636)	(1 679 422)	676 786
Public sector customers	132 779	(7 931)	(8 917)	986
Total balance sheet data	**98 502 336**	**(2 973 178)**	**(3 749 570)**	**776 392**
Total balance sheet data, Stage 3	3 518 309	(2 085 023)	(2 574 080)	489 057
Total balance sheet data, POCI	223 737	53 399	(59 227)	112 626
Off-balance sheet data				
Loan commitments and other commitments	34 064 866	(103 101)	(123 845)	20 744
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 201 815	(95 042)	(114 016)	18 974
Total off-balance sheet data	**42 266 681**	**(198 143)**	**(237 861)**	**39 718**
Total off-balance sheet data, Stage 3	227 989	(115 068)	(126 071)	11 003
Total off-balance sheet data, POCI	6 434	2 898	(806)	3 704

31.12.2022	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	15 181 017	(1 956)	(4 096)	2 140
Loans and advances to customers, including:	90 332 309	(2 526 862)	(3 155 486)	628 624
Individual customers	41 901 238	(1 771 437)	(1 877 684)	106 247
- housing and mortgage loans to natural persons	*18 947 803*	*(427 756)*	*(499 082)*	*71 326*
Corporate customers	48 378 107	(755 348)	(1 277 329)	521 981
Public sector customers	52 964	(77)	(473)	396
Total balance sheet data	**105 513 326**	**(2 528 818)**	**(3 159 582)**	**630 764**
Total balance sheet data, Stage 3	3 190 157	(1 901 179)	(2 397 118)	495 939
Total balance sheet data, POCI	205 984	45 603	41 840	3 763
Off-balance sheet data				
Loan commitments and other commitments	32 652 084	(79 115)	(96 075)	16 960
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 580 947	(260 755)	(281 895)	21 140
Total off-balance sheet data	**41 233 031**	**(339 870)**	**(377 970)**	**38 100**
Total off-balance sheet data, Stage 3	340 517	(243 504)	(255 622)	12 118
Total off-balance sheet data, POCI	5 102	1 152	1 124	28

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The carrying amount of loans and advances to customers as at 31 December 2023, for which the Bank has not recognised a loss allowance because of the collateral amounted to PLN 56 606 thousand (31 December 2022 PLN 1 910 672 thousand).

23. Investments in subsidiaries

31 December 2023

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**BRE Property Partner Sp. z o.o.**	Poland	932	31	100	(166)	100.00	901
2.	**Future Tech Fundusz Inwestycyjny Zamknięty**	Poland	207 263	1 801	18 042	451	98.04	203 922
3.	**G-Invest Sp. z o.o.**	Poland	7 056	53	387	237	100.00	6 659
4.	**mBank Hipoteczny S.A.**	Poland	10 118 306	9 312 255	150 129	19 891	100.00	759 200
5.	**mBox Sp z o.o.**	Poland	837	23	144	6	100.00	814
6.	**mElements S.A.**	Poland	35 005	13 561	12 022	629	100.00	21 444
7.	**mFaktoring S.A.**	Poland	2 978 957	2 754 484	74 164	30 951	100.00	226 600
8.	**mFinanse S.A.**	Poland	294 371	202 609	76 286	(9 669)	100.00	-
9.	**mInvestment Banking S.A.**	Poland	2 478	244	5 425	(2 641)	100.00	5 666
10.	**mLeasing Sp. z o.o.**	Poland	15 256 276	14 323 740	464 584	171 286	100.00	937 525
11.	**mServices Sp. z o.o.**	Poland	7 239	1 043	8 777	2 706	100.00	5 886
12.	**mTFI S.A.**	Poland	18 100	6 819	21 976	5 489	100.00	11 281
13.	**mZakupy Sp. z o.o. (previously: Herut Sp. z o.o.)**	Poland	17 189	386	(2)	(1 764)	100.00	16 314
14.	**Octopus Sp. z o.o.**	Poland	410	1	18	(10)	99.90	50
								2 196 262

31 December 2022

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Net profit / (loss)	% interest held	Carrying value
1.	**BRE Property Partner Sp. z o.o.**	Poland	579	6	5	(299)	100.00	573
2.	**Future Tech Fundusz Inwestycyjny Zamknięty**	Poland	206 378	1 893	16 877	16 561	98.04	203 163
3.	**G-Invest Sp. z o.o.**	Poland	6 808	37	333	128	100.00	6 659
4.	**Herut Sp. z o.o.**	Poland	30	4	-	-	100.00	39
5.	**mBank Hipoteczny S.A.**	Poland	13 162 518	12 293 539	(234 228)	(327 926)	100.00	845 384
6.	**mBox Sp. z o.o.**	Poland	827	22	140	6	100.00	805
7.	**mElements S.A.**	Poland	26 785	5 970	8 921	(668)	100.00	20 815
8.	**mFaktoring S.A.**	Poland	2 702 221	2 508 881	82 727	44 708	100.00	196 661
9.	**mFinanse S.A.**	Poland	330 536	228 611	(2 012)	(53 893)	100.00	-
10.	**mInvestment Banking S.A.**	Poland	8 759	3 337	11 260	1 635	100.00	5 342
11.	**mLeasing Sp. z o.o.**	Poland	14 268 609	13 507 920	421 327	160 856	100.00	767 190
12.	**mServices Sp. z o.o.**	Poland	4 660	667	5 183	851	100.00	3 993
13.	**mTFI S.A.**	Poland	7 473	1 654	78	(3 531)	100.00	6 781
14.	**Octopus Sp. z o.o.**	Poland	412	1	(28)	(28)	99.90	50
								2 057 455

Changes in investments in subsidiaries

	31.12.2023	31.12.2022
As at the beginning of the period	**2 057 455**	**2 357 068**
Increase	19 060	-
Decrease	(157 122)	-
Changes resulting from the application of the equity method, including:	278 089	(282 949)
- recognised in the income statement	*236 041*	*(190 435)*
- recognised in the other components of equity	*42 048*	*(92 514)*
Change of valuation of investment in subsidiaries not measured at equity method	(1 220)	(16 664)
As at the end of the period	**2 196 262**	**2 057 455**

Decrease in 2023 relate to the reduction in the value of mBank Hipoteczny S.A. shares in connection with the demerger described in Note 45.

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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 43 Powstańców St., owned by mBank. The property consists of an office, service building with equipment and the right of perpetual usufruct of land.

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

On 29 March 2023, the Bank sold the property.

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

Non-current assets held for sale	31.12.2023	31.12.2022
Fixed asset	-	26 747
Total non-current assets held for sale	**-**	**26 747**

Liabilities classified as held for sale	31.12.2023	31.12.2022
Financial liabilities measured at amortised cost, including:	-	7 375
Lease liabilities	-	*7 375*
Total liabilities classified as held for sale	**-**	**7 375**

25. Intangible assets

	31.12.2023	31.12.2022
Patents, licences and similar assets, including:	1 208 783	985 972
- computer software	*1 012 656*	*874 845*
Intangible assets under development	305 099	223 750
Total intangible assets	**1 513 882**	**1 209 722**

Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2023	Patents, licences and other similar assets		Other intangible assets	Total intangible assets
		Computer software		
Gross value of intangible assets as at the beginning of the period	**1 785 271**	**1 479 053**	**223 750**	**2 009 021**
Increase (due to):	**417 748**	**262 901**	**363 264**	**781 012**
- purchase	149 110	54	278 885	427 995
- transfer from intangible assets under development	249 521	244 986	-	249 521
- development costs	-	-	67 678	67 678
- business combination	17 861	17 861	-	17 861
- other increases	1 256	-	16 701	17 957
Decrease (due to):	**(166 490)**	**(23 560)**	**(281 915)**	**(448 405)**
- liquidation	(165 176)	(22 246)	-	(165 176)
- transfer to intangible assets given to use	-	-	(249 521)	(249 521)
- other decreases	(1 314)	(1 314)	(32 394)	(33 708)
Gross value of intangible assets as at the end of the period	**2 036 529**	**1 718 394**	**305 099**	**2 341 628**
Accumulated amortisation as at the beginning of the period	**(799 299)**	**(604 208)**	**-**	**(799 299)**
Amortisation for the period (due to):	**(28 447)**	**(101 530)**	**-**	**(28 447)**
- amortisation	(188 844)	(118 878)	-	(188 844)
- other increases	(5 235)	(5 235)	-	(5 235)
- liquidation	165 176	22 246	-	165 176
- other decreases	456	337	-	456
Accumulated amortisation as at the end of the period	**(827 746)**	**(705 738)**	**-**	**(827 746)**
Net value of intangible assets as at the end of the period	**1 208 783**	**1 012 656**	**305 099**	**1 513 882**

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Movements in intangible assets from 1 January to 31 December 2022	Patents, licences and other similar assets		Other intangible assets	Total intangible assets
		Computer software		
Gross value of intangible assets as at the beginning of the period	**1 548 978**	**1 240 633**	**252 745**	**1 801 723**
Increase (due to):	**303 350**	**262 477**	**284 624**	**587 974**
- purchase	23 040	12	220 961	244 001
- transfer from intangible assets under development	278 641	262 319	-	278 641
- development costs	-	-	43 587	43 587
- other increases	1 669	146	20 076	21 745
Decrease (due to):	**(67 057)**	**(24 057)**	**(313 619)**	**(380 676)**
- liquidation	(67 057)	(24 057)	-	(67 057)
- transfer to intangible assets given to use	-	-	(278 641)	(278 641)
- other decreases	-	-	(34 978)	(34 978)
Gross value of intangible assets as at the end of the period	**1 785 271**	**1 479 053**	**223 750**	**2 009 021**
Accumulated amortisation as at the beginning of the period	**(690 244)**	**(527 043)**	**-**	**(690 244)**
Amortisation for the period (due to):	**(109 055)**	**(77 165)**	**-**	**(109 055)**
- amortisation	(175 152)	(100 317)	-	(175 152)
- other increases	(182)	(127)	-	(182)
- liquidation	66 279	23 279	-	66 279
Accumulated amortisation as at the end of the period	**(799 299)**	**(604 208)**	**-**	**(799 299)**
Net value of intangible assets as at the end of the period	**985 972**	**874 845**	**223 750**	**1 209 722**

26. Tangible assets

	31.12.2023	31.12.2022
Fixed assets, including:	**414 883**	**431 370**
- land	202	653
- buildings and structures	23 284	33 804
- equipment	198 657	198 179
- vehicles	-	-
- other fixed assets	192 740	198 734
Fixed assets under construction	**81 321**	**42 761**
Right-of-use, including:	**669 688**	**698 583**
- real estate	632 840	684 286
- perpetual usufruct of land	2 114	2 146
- vehicles	34 183	11 190
- other	551	961
Total tangible assets	**1 165 892**	**1 172 714**

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Movements in fixed assets

Movements in tangible assets from 1 January to 31 December 2023	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of fixed assets as at the beginning of the period	**653**	**90 444**	**566 994**	**47**	**444 392**	**42 761**	**1 145 291**
Increase (due to)	**-**	**-**	**85 135**	**-**	**32 893**	**128 566**	**246 594**
- purchase	-	-	49 398	-	2 752	107 810	159 960
- transfer from fixed assets under construction	-	-	35 326	-	30 108	-	65 434
- business combination	-	-	123	-	-	-	123
- other increases	-	-	288	-	33	20 756	21 077
Decrease (due to)	**(451)**	**(21 854)**	**(56 920)**	**-**	**(25 040)**	**(90 006)**	**(194 271)**
- sale	(451)	(21 854)	(6 697)	-	(1 007)	-	(30 009)
- liquidation	-	-	(48 817)	-	(21 613)	-	(70 430)
- transfer to fixed assets	-	-	-	-	-	(65 434)	(65 434)
- other decreases	-	-	(1 406)	-	(2 420)	(24 572)	(28 398)
Gross value of fixed assets as at the end of the period	**202**	**68 590**	**595 209**	**47**	**452 245**	**81 321**	**1 197 614**
Accumulated depreciation as at the beginning of the period	**-**	**(35 860)**	**(368 815)**	**(47)**	**(245 658)**	**-**	**(650 380)**
Depreciation for the period (due to)	**-**	**7 464**	**(27 737)**	**-**	**(13 847)**	**-**	**(34 120)**
- depreciation charge	-	(1 508)	(84 079)	-	(38 220)	-	(123 807)
- business combination	-	-	(73)	-	-	-	(73)
- sale	-	8 972	6 671	-	970	-	16 613
- liquidation	-	-	48 690	-	21 436	-	70 126
- other decreases	-	-	1 054	-	1 967	-	3 021
Accumulated depreciation as at the end of the period	**-**	**(28 396)**	**(396 552)**	**(47)**	**(259 505)**	**-**	**(684 500)**
Impairment losses as at the beginning of the period	**-**	**(20 780)**	**-**	**-**	**-**	**-**	**(20 780)**
- decrease	-	3 870	-	-	-	-	3 870
Impairment losses as at the end of the period	**-**	**(16 910)**	**-**	**-**	**-**	**-**	**(16 910)**
Net value of fixed assets as at the end of the period	**202**	**23 284**	**198 657**	**-**	**192 740**	**81 321**	**496 204**

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**	**90 444**	**584 848**	**47**	**453 639**	**62 818**	**1 192 449**
Increase (due to)	**-**	**-**	**110 295**	**-**	**24 620**	**59 178**	**194 093**
- purchase	-	-	62 070	-	3 373	51 813	117 256
- transfer from fixed assets under construction	-	-	47 626	-	20 223	-	67 849
- other increases	-	-	599	-	1 024	7 365	8 988
Decrease (due to)	**-**	**-**	**(128 149)**	**-**	**(33 867)**	**(79 235)**	**(241 251)**
- sale	-	-	(36 930)	-	(4 508)	-	(41 438)
- liquidation	-	-	(14 274)	-	(14 107)	-	(28 381)
- transfer to fixed assets	-	-	-	-	-	(67 849)	(67 849)
- other decreases	-	-	(76 945)	-	(15 252)	(11 386)	(103 583)
Gross value of fixed assets as at the end of the period	**653**	**90 444**	**566 994**	**47**	**444 392**	**42 761**	**1 145 291**
Accumulated depreciation as at the beginning of the period	**-**	**(33 804)**	**(418 418)**	**(40)**	**(239 361)**	**-**	**(691 623)**
Depreciation for the period (due to)	**-**	**(2 056)**	**49 603**	**(7)**	**(6 297)**	**-**	**41 243**
- depreciation charge	-	(2 056)	(77 489)	(7)	(38 963)	-	(118 515)
- other increases	-	-	(410)	-	(760)	-	(1 170)
- sale	-	-	36 903	-	4 316	-	41 219
- liquidation	-	-	14 141	-	13 898	-	28 039
- other decreases	-	-	76 458	-	15 212	-	91 670
Accumulated depreciation as at the end of the period	**-**	**(35 860)**	**(368 815)**	**(47)**	**(245 658)**	**-**	**(650 380)**
Impairment losses as at the beginning of the period	**-**	**(20 780)**	**-**	**-**	**-**	**-**	**(20 780)**
Impairment losses as at the end of the period	**-**	**(20 780)**	**-**	**-**	**-**	**-**	**(20 780)**
Net value of fixed assets as at the end of the period	**653**	**33 804**	**198 179**	**-**	**198 734**	**42 761**	**474 131**

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

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Movements in right-of-use assets

Movements in right-of-use from 1 January to 31 December 2023	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of right-of-use as at the beginning of the period	**1 095 368**	**2 271**	**34 785**	**2 033**	**1 134 457**
Increase (due to)	**134 695**	**-**	**34 725**	**147**	**169 567**
- new contracts	11 055	-	32 298	147	43 500
- modification of contracts	123 640	-	2 427	-	126 067
Decrease (due to)	**(103 914)**	**-**	**(13 674)**	**(589)**	**(118 177)**
- termination of contracts	(46 573)	-	(12 740)	(237)	(59 550)
- modification of contracts	(51 312)	-	(703)	(305)	(52 320)
- other decreases	(6 029)	-	(231)	(47)	(6 307)
Gross value of right-of-use as at the end of the period	**1 126 149**	**2 271**	**55 836**	**1 591**	**1 185 847**
Accumulated depreciation as at the beginning of the period	**(411 082)**	**(125)**	**(23 595)**	**(1 072)**	**(435 874)**
Depreciation for the period (due to)	**(82 227)**	**(32)**	**1 942**	**32**	**(80 285)**
- depreciation charge	(126 255)	(32)	(10 496)	(221)	(137 004)
- modification of contracts	(5 420)	-	614	-	(4 806)
- termination of contracts	46 370	-	11 674	237	58 281
- other decreases	3 078	-	150	16	3 244
Accumulated depreciation as at the end of the period	**(493 309)**	**(157)**	**(21 653)**	**(1 040)**	**(516 159)**
Net value of right-of-use as at the end of the period	**632 840**	**2 114**	**34 183**	**551**	**669 688**

Movements in right-of-use from 1 January to 31 December 2022	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of right-of-use as at the beginning of the period	**1 011 377**	**2 271**	**30 796**	**1 007**	**1 045 451**
Increase (due to)	**107 264**	**-**	**6 033**	**1 100**	**114 397**
- new contracts	25 161	-	3 978	-	29 139
- modification of contracts	80 439	-	1 962	1 100	83 501
- other increases	1 664	-	93	-	1 757
Decrease (due to)	**(23 273)**	**-**	**(2 044)**	**(74)**	**(25 391)**
- termination of contracts	(14 221)	-	(1 213)	(74)	(15 508)
- modification of contracts	(9 052)	-	(831)	-	(9 883)
Gross value of right-of-use as at the end of the period	**1 095 368**	**2 271**	**34 785**	**2 033**	**1 134 457**
Accumulated depreciation as at the beginning of the period	**(302 773)**	**(94)**	**(17 184)**	**(766)**	**(320 817)**
Depreciation for the period (due to)	**(108 309)**	**(31)**	**(6 411)**	**(306)**	**(115 057)**
- depreciation charge	(114 752)	(31)	(8 117)	(375)	(123 275)
- other increases	(1 001)	-	(59)	(3)	(1 063)
- modification of contracts	(5 682)	-	697	-	(4 985)
- termination of contracts	13 126	-	1 068	72	14 266
Accumulated depreciation as at the end of the period	**(411 082)**	**(125)**	**(23 595)**	**(1 072)**	**(435 874)**
Net value of right-of-use as at the end of the period	**684 286**	**2 146**	**11 190**	**961**	**698 583**

27. Investment properties

Position Investment properties contains the value of a building at Królewska 14 St. in Warsaw. The building is intended for rent.

	31.12.2023	31.12.2022
Gross value as at the beginning of the period	**136 909**	**127 510**
Increase (due to):	**-**	**12 862**
- gains arising from fair value adjustments	-	12 862
Decrease (due to):	**(24 945)**	**(3 463)**
- losses arising from fair value adjustments	(24 945)	(3 463)
Fair value at the end of the period	**111 964**	**136 909**

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28. Other assets

	31.12.2023	31.12.2022
Other financial assets	**1 226 613**	**1 053 015**
- debtors, including:	1 000 534	871 417
- settlements of cash deposit machines and cash sorting companies	*560 843*	*484 463*
- settlements of payment cards	*57 664*	*54 527*
- accrued income	124 583	112 780
- interbank balances	56 334	40 694
- settlements of securities transactions	45 162	28 124
Other non-financial assets	**642 784**	**521 811**
- other accruals	142 079	130 013
- inventories	1 507	2 966
- non-financial receivables due to final verdicts in legal proceedings relating to loans in foreign currencies	499 198	388 832
Total other assets	**1 869 397**	**1 574 826**

Short-term (up to 1 year)	1 725 724	1 441 702
Long-term (over 1 year)	143 673	133 124

In 2023 and in 2022, the item Settlements of the securities transaction relates entirely to the settlements of securities transactions in connection with the Brokerage Office activity.

Other financial assets included in the other assets

	31.12.2023	31.12.2022
Gross other financial assets, including:	**1 250 623**	**1 074 281**
- not past due	1 231 153	1 065 813
- past due from 1 to 90 days	3 325	888
- past due over 90 days	16 145	7 580
Provisions for impaired assets (negative amount)	(24 010)	(21 266)
Net other financial assets	**1 226 613**	**1 053 015**

Movements of impairment allowance for other assets

	31.12.2023	31.12.2022
As at the beginning of the period	**(21 266)**	**(16 921)**
Change in the period (due to):	(2 744)	(4 345)
- increase of provisions	(3 717)	(4 601)
- release of provisions	312	8
- write-offs	663	249
- foreign exchange differences	(2)	(1)
As at the end of the period	**(24 010)**	**(21 266)**

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29. Financial liabilities measured at amortised cost

Amounts due to other banks and customers

31.12.2023	Amounts due to banks	Amounts due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**692 680**	**184 268 376**	**128 162 427**	**55 489 800**	**616 149**
Current accounts	373 195	148 031 861	103 034 512	44 403 333	594 016
Term deposits	191 337	36 061 089	25 127 915	10 911 041	22 133
Repo or sell/buy back transactions	128 148	175 426	-	175 426	-
Loans and advances received	**1 938 343**	**-**	**-**	**-**	**-**
Other financial liabilities	**715 185**	**848 763**	**249 921**	**598 839**	**3**
Liabilities in respect of cash collaterals	569 613	537 093	37 598	499 495	-
Other	145 572	311 670	212 323	99 344	3
Total financial liabilities measured at amortised cost	**3 346 208**	**185 117 139**	**128 412 348**	**56 088 639**	**616 152**

Short-term (up to 1 year)	1 346 382	184 883 697
Long-term (over 1 year)	1 999 826	233 442

31.12.2022	Amounts due to banks	Amounts due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**603 158**	**173 182 532**	**122 669 186**	**49 253 122**	**1 260 224**
Current accounts	330 336	133 914 762	95 642 108	37 828 765	443 889
Term deposits	254 972	38 957 844	27 027 078	11 114 431	816 335
Repo or sell/buy back transactions	17 850	309 926	-	309 926	-
Loans and advances received	**1 910 721**	**-**	-	-	-
Other financial liabilities	**791 872**	**818 379**	**220 850**	**597 520**	**9**
Liabilities in respect of cash collaterals	697 425	508 848	39 713	469 135	-
Other	94 447	309 531	181 137	128 385	9
Total financial liabilities measured at amortised cost	**3 305 751**	**174 000 911**	**122 890 036**	**49 850 642**	**1 260 233**

Short-term (up to 1 year)	1 269 583	173 778 705
Long-term (over 1 year)	2 036 168	222 206

In the item Amounts due to individual customers liabilities to microenterprises were also included.

The average interest rate for loans obtained from banks in 2023 amounted to 2.33% (31 December 2022: 2.87%).

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

As at 31 December 2023 and 31 December 2022, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 2.01% (31 December 2022: 0.99%).

As at 31 December 2023, loans and advances received include loans received from European Investment Bank amounting to PLN 1 938 343 thousand (31 December 2022: PLN 1 910 721 thousand). The loans with fixed interest rate are collateralised with treasury bonds, which have been disclosed as pledged assets under Note 22 and Note 36.

Lease liabilities

	31.12.2023	31.12.2022
Lease liabilities	874 242	955 436

Undiscounted Lease liabilities breakdown by maturity dates is presented in Note 3.8.1.

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Debt securities issued

31 December 2023 Debt securities by type	Nominal value (currency of issue)	Carrying amount of the liability by maturity date				Total carrying amount
		up to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Bonds, including:		**167 533**	**1 023 035**	**6 064 732**	**355 086**	**7 610 386**
- PLN	1 315 164	68 763	431 726	622 471	205 056	1 328 016
- EUR	1 314 000	97 329	15 158	5 442 261	150 030	5 704 778
- CHF	125 000	1 441	576 151	-	-	577 592
Deposit certificates		**93**	**15 000**	**-**	**-**	**15 093**
- PLN	15 000	93	15 000	-	-	15 093
Total		**167 626**	**1 038 035**	**6 064 732**	**355 086**	**7 625 479**

31 December 2022 Debt securities by type	Nominal value (currency of issue)	Carrying amount of the liability by maturity date				Total carrying amount
		up to 3 months	from 3 to 12 months	from 1 to 5 years	more than 5 years	
Bonds, including:		**986 675**	**-**	**3 417 085**	**119 753**	**4 523 513**
- PLN	642 500	20 935	-	512 922	91 219	625 076
- EUR	564 000	7 521	-	2 330 062	28 534	2 366 117
- CHF	325 000	958 219	-	574 101	-	1 532 320
Deposit certificates		**185**	**10 000**	**15 000**	**-**	**25 185**
- PLN	25 000	185	10 000	15 000	-	25 185
Total		**986 860**	**10 000**	**3 432 085**	**119 753**	**4 548 698**

Bank has not registered any contractual conditions infringement related to liabilities due to debt security issuance.

Movements in debt securities issued

Movements from 1 January to 31 December	2023	2022
As at the beginning of the period	**4 548 698**	**6 683 623**
Additions (issue)	4 196 675	939 230
Disposals (redemptions)	(1 015 716)	(2 969 117)
Exchange differences	(414 344)	205 055
Other changes	310 166	(310 093)
Debt securities issued as at the end of the period	**7 625 479**	**4 548 698**

Issues in 2023

- On 11 September 2023, mBank S.A. issued non-privileged senior bonds in the amount of EUR 750 000 thousand (equivalent of PLN 3 465 675 thousand, at the average NBP exchange rate of 11 September 2023), with a maturity date of 11 September 2027 (with the option of early redemption at the issuer's request on 11 September 2026),
- On 27 September 2023, the Bank concluded a synthetic securitisation transaction referencing a portfolio of non-mortgage retail loans with a total value of PLN 9 962.8 million. The securitised portfolio has been divided into three tranches according to the order of the allocation of credit losses. The junior and senior tranches were kept by mBank. The mezzanine tranche has been acquired by external investors. Transaction structure uses synthetic excess spread. As part of the transaction, the Bank transferred a significant part of the credit risk of a selected securitised portfolio to investors via credit protection instrument, in the form of credit linked notes. The CLNs, through the built-in financial guarantee, provide coverage of losses on the securitisation portfolio up to the amount of the mezzanine tranche. The retention requirement of an economic interest is implemented in the form of retaining randomly selected eligible exposures representing at least 5% of the nominal value of the securitised loans.

  As part of the transaction, on 27 September 2023, the Bank issued CLNs with a maturity date of 26 November 2036, with a nominal value in the amount of PLN 731 million. The Bank has the option of early repayment of liabilities under the CLNs. The main collateral for CLNs are debt securities (and/or cash) deposited with an independent custodian. The required value of the collateral on a specific date is determined based on the actual value of the mezzanine tranche. On 27 September 2023, CLNs were introduced to trading in the alternative trading system on the Vienna MTF operated by the Vienna Stock Exchange.

Redemptions in 2023

- On 28 March 2023, Bank redeemed fixed rate bonds issued by mFinance France on 28 March 2017, acquired by the Bank in the substitution process, with a total nominal value of CHF 200 000 thousand,

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 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.

  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 Bank has the option of early repayment of liabilities under the CLNs. The main collateral for CLNs are debt securities deposited with an independent custodian. CLNs were introduced to trading on the Vienna MTF operated by the Vienna Stock Exchange.

- 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 CLNs. The CLN provides coverage of losses from credit risk on the securitisation portfolio up to the amount of the mezzanine tranche.

  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. 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.

Redemptions in 2022

- On 7 June 2022 mBank S.A. redeemed fixed rate bonds with a nominal value of CHF 180 000 thousand which were issued on 7 June 2018 under EMTN scheme.
- On 5 September 2022, mBank S.A. redeemed fixed rate bonds with a nominal value of EUR 460 030 thousand which were issued on 5 September 2018 under EMTN scheme.

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Subordinated liabilities

31.12.2023	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%	4.59	21.03.2028	1 172 149
Investors not associated with mBank S.A	550 000	PLN	6M WIBOR + 1.8%	7.52	10.10.2028	558 995
Investors not associated with mBank S.A	200 000	PLN	6M WIBOR + 1.95%	7.67	10.10.2030[1)]	203 336
Investors not associated with mBank S.A	750 000	PLN	6M WIBOR + 2.1%	9.23	17.01.2025	780 448
						2 714 928

31.12.2022	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	Carrying amount as at the end of the period
Commerzbank AG	250 000	CHF	Comp. SARON + CAS + 2.75%	3.70	21.03.2028	1 193 021
Investors not associated with mBank S.A	550 000	PLN	6M WIBOR + 1.8%	9.29	10.10.2028	561 338
Investors not associated with mBank S.A	200 000	PLN	6M WIBOR + 1.95%	9.44	10.10.2030 [1)]	204 189
Investors not associated with mBank S.A	750 000	PLN	6M WIBOR + 2.1%	9.39	17.01.2025	782 173
						2 740 721

[1)] The issue conditions assume the possibility of early redemption of bonds with a nominal value of PLN 200 000 thousand on 10 October 2025.

Movements in subordinated liabilities

Movements from 1 January to 31 December	2023	2022
As at the beginning of the period	**2 740 721**	**2 624 456**
Exchange differences	(21 275)	79 875
Other changes	(4 518)	36 390
Subordinated liabilities as at the end of the period	**2 714 928**	**2 740 721**
Short-term (up to 1 year)	44 228	48 747
Long-term (over 1 year)	2 670 700	2 691 974

On 29 March 2018, the Polish Financial Supervision Authority gave consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand, taken on 21 March 2018, as instrument in the Bank's Tier II capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.

On 9 October 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on 10 October 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on 10 October 2030.

The Bank applied to the Polish Financial Supervision Authority for permission to include in the supplementary capital of the Bank, in accordance with art. 127 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 II capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2023 and 2022, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

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30. Other liabilities

	31.12.2023	31.12.2022
Other financial liabilities	**4 597 945**	**2 566 522**
Interbank settlements	3 299 886	1 514 812
Creditors, including:	951 272	810 433
- settlements of payment cards	*51 575*	*45 202*
- liabilities payable to BFG	*321 453*	*321 453*
Accrued expenses	346 787	241 277
Other non-financial liabilities	**1 149 213**	**924 956**
Tax liabilities	164 654	109 539
Deferred income	254 725	267 466
Provisions for holiday equivalents	28 454	28 442
Provisions for other liabilities to employees	193 377	172 471
Non-financial liabilities due to final verdicts in legal proceedings relating to loans in foreign currencies	504 063	345 126
Other	3 940	1 912
Total other liabilities	**5 747 158**	**3 491 478**

Cash flows resulting from financial liabilities are presented under the Note 3.8.1. Liabilities payable to BFG, as a rule, are payable whenever requested by BFG and have been shown under short-term liabilities. The other components of presented liabilities are short-term liabilities.

31. Provisions

	31.12.2023	31.12.2022
Provisions for legal proceedings, including:	1 939 787	766 830
- provisions for legal proceedings relating to loans in foreign currencies	*1 819 606*	*718 128*
- provisions for remaining legal proceedings	*120 181*	*48 702*
Off-balance commitments and guarantees given	198 143	339 870
Provisions for post-employment benefits	28 557	20 086
Other provisions	72 657	160 792
Provisions, total	**2 239 144**	**1 287 578**

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

Estimated cash flows due to created provisions for legal proceedings and other provisions are expected to occur over 1 year period.

The description regarding individual cases concerning indexation clauses in mortgage and housing loans is presented in Note 34.

On 31 December 2023, the position Other provisions included, among others, the provision for the reimbursement of bridging insurance costs charged to customers who were granted mortgage loans for the period before the mortgage was registered in the land register, amounting to PLN 26 512 thousand (in 31 December 2022: PLN 84 000 thousand).

Movements in provisions

Change from 1 January to 31 December 2023	Provisions for legal proceedings relating to loans in foreign currencies	Other provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**718 128**	**48 702**	**160 792**
Change in the period, due to:	**1 101 478**	**71 479**	**(88 135)**
- increase of provisions	1 285 462	114 373	21 378
- release of provisions	(829)	(8 512)	(10 896)
- utilisation	(177 354)	(33 741)	(57 682)
- reclassification to other positions	-	-	(40 910)
- foreign exchange differences	(5 801)	(641)	(25)
Provisions as at the end of the period	**1 819 606**	**120 181**	**72 657**

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Change from 1 January to 31 December 2022	Provisions for legal proceedings relating to loans in foreign currencies	Other provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**358 807**	**36 639**	**92 418**
Change in the period, due to:	**359 321**	**12 063**	**68 374**
- increase of provisions	292 945	18 830	287 631
- release of provisions	(1 784)	(5 500)	(4 322)
- utilisation	(143 728)	(1 392)	(214 965)
- reclassification to other positions	227 553	-	-
- foreign exchange differences	(15 665)	125	30
Provisions as at the end of the period	**718 128**	**48 702**	**160 792**

Movements in provisions for loan commitments and guarantees

Change in the period from 1 January to 31 December 2023	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Reductions caused by derecognition	Net changes in credit risk	Other changes	As at the end of the period
Loan commitments	**79 115**	**-**	**-**	**-**	**76 704**	**(53 388)**	**1 091**	**(421)**	**103 101**
Stage 1	40 368	16 175	(9 725)	(109)	56 031	(30 429)	(28 284)	(285)	43 742
Stage 2	14 026	(14 880)	11 252	(1 448)	7 111	(9 660)	30 128	(100)	36 429
Stage 3	24 276	(1 295)	(1 527)	1 557	13 360	(12 905)	(1 261)	(27)	22 178
POCI	445	-	-	-	202	(394)	508	(9)	752
Guarantees and other financial facilities	**260 755**	**-**	**-**	**-**	**64 876**	**(217 568)**	**30 075**	**(43 096)**	**95 042**
Stage 1	42 040	38	(564)	(42)	46 772	(55 659)	12 433	(40 560)	4 458
Stage 2	1 084	(38)	564	(35)	1 559	(1 422)	(326)	(42)	1 344
Stage 3	219 228	-	-	77	17 560	(160 487)	19 083	(2 571)	92 890
POCI	(1 597)	-	-	-	(1 015)	-	(1 115)	77	(3 650)
Total provisions on off-balance sheet items	**339 870**	**-**	**-**	**-**	**141 580**	**(270 956)**	**31 166**	**(43 517)**	**198 143**

Change in the period from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Reductions caused by derecognition	Net changes in credit risk	Changes due to new default definition	Other changes	As at the end of the period
Loan commitments	**90 636**	**-**	**-**	**-**	**46 901**	**(40 216)**	**(22 546)**	**187**	**4 153**	**79 115**
Stage 1	50 339	18 509	(4 861)	(146)	36 624	(23 971)	(36 746)	487	133	40 368
Stage 2	14 576	(17 337)	5 879	(1 250)	6 149	(8 469)	14 750	(300)	28	14 026
Stage 3	24 555	(1 172)	(1 018)	1 396	5 445	(8 481)	3 538	-	13	24 276
POCI	1 166	-	-	-	(1 317)	705	(4 088)	-	3 979	445
Guarantees and other financial facilities	**261 198**	**-**	**-**	**-**	**53 082**	**(42 195)**	**(12 340)**	**-**	**1 010**	**260 755**
Stage 1	35 692	(334)	198	-	11 784	(10 796)	4 781	-	715	42 040
Stage 2	1 153	332	(232)	-	1 032	(918)	(293)	-	10	1 084
Stage 3	225 860	2	34	-	40 266	(30 921)	(15 970)	-	(43)	219 228
POCI	(1 507)	-	-	-	-	440	(858)	-	328	(1 597)
Total provisions on off-balance sheet items	**351 834**	**-**	**-**	**-**	**99 983**	**(82 411)**	**(34 886)**	**187**	**5 163**	**339 870**

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Movements in provisions for post-employment benefits

Period from 1 January to 31 December 2023	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment benefits				
As at the beginning of the period	**12 677**	**2 658**	**4 751**	**20 086**
Change in the period (due to)	**4 827**	**863**	**2 781**	**8 471**
Provisions created	722	53	191	966
Interest expense	871	188	303	1 362
Actuarial gains and losses recognised in other comprehensive income (Note 17), due to:	4 050	640	3 250	7 940
- change in financing assumptions	*2 171*	*432*	*1 411*	*4 014*
- change in demographic assumptions	*260*	*(428)*	*254*	*86*
- other changes	*1 619*	*636*	*1 585*	*3 840*
Benefits paid	(816)	(18)	(963)	(1 797)
As at the end of the period	**17 504**	**3 521**	**7 532**	**28 557**
Short-term (up to 1 year)	2 653	303	169	3 125
Long-term (over 1 year)	14 851	3 218	7 363	25 432

Period from 1 January to 31 December 2022	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment benefits				
As at the beginning of the period	**13 057**	**2 877**	**8 197**	**24 131**
Change in the period (due to)	**(380)**	**(219)**	**(3 446)**	**(4 045)**
Provisions created	764	69	388	1 221
Interest expense	442	100	286	828
Actuarial gains and losses recognised in other comprehensive income (Note 17), due to:	(658)	(352)	(3 285)	(4 295)
- change in financing assumptions	*(3 567)*	*(734)*	*(4 574)*	*(8 875)*
- change in demographic assumptions	*161*	*280*	*(556)*	*(115)*
- other changes	*2 748*	*102*	*1 845*	*4 695*
Benefits paid	(928)	(36)	(835)	(1 799)
As at the end of the period	**12 677**	**2 658**	**4 751**	**20 086**
Short-term (up to 1 year)	2 248	258	134	2 640
Long-term (over 1 year)	10 429	2 400	4 617	17 446

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 2023 was decreased by 0.5 p.p. the value of the provisions would increase by PLN 1 559 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 1 419 thousand (31 December 2022: PLN 964 thousand and PLN 884 thousand, respectively).

32. Deferred income tax assets and liabilities

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2023 and 2022.

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

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

Deferred income tax assets	**As at 01.01.2023**	**Recognised in the income statement**	**Recognised in other comprehensive income**	**Other changes**	**As at 31.12.2023**
Interest accrued	71 874	(17 278)	-	2 947	57 543
Valuation of derivative financial instruments	967 980	(318 021)	(102 420)	-	547 539
Valuation of securities	366 192	(21 134)	(109 134)	-	235 924
Provisions for impairment of loans and advances	490 868	(16 443)	-	30 505	504 930
Provisions for employee benefits	39 798	3 450	1 508	55	44 811
Other provisions	239 580	68 949	-	-	308 529
Prepayments/accruals	33 421	17 874	-	-	51 295
Difference between tax and book value of tangible and intangible assets	209 804	(18 876)	-	-	190 928
Other negative temporary differences	43 924	(1 415)	-	5 223	47 732
Total, gross	**2 463 441**	**(302 894)**	**(210 046)**	**38 730**	**1 989 231**
Offsetting effect	(1 317 525)				(1 227 688)
Total, net	**1 145 916**				**761 543**

Deferred income tax liabilities	**As at 01.01.2023**	**Recognised in the income statement**	**Recognised in other comprehensive income**	**Other changes**	**As at 31.12.2023**
Interest accrued	(99 873)	1 296	-	(3 583)	(102 160)
Valuation of derivative financial instruments	(709 465)	249 211	-	-	(460 254)
Valuation of securities	(208 203)	(25 002)	(17 565)	-	(250 770)
Interest and fees received in advance	(5 406)	(73 500)	-	-	(78 906)
Difference between tax and book value of tangible and intangible assets	(236 922)	(20 982)	-	(704)	(258 608)
Prepayments regarding amortisation of applied investment relief	(9 163)	9 163	-	-	-
Other positive temporary differences	(48 493)	(20 985)	-	(7 512)	(76 990)
Total, gross	**(1 317 525)**	**119 201**	**(17 565)**	**(11 799)**	**(1 227 688)**
Offsetting effect	(1 317 525)				(1 227 688)
Total, net	**-**				**-**

Deferred income tax assets	**As at 01.01.2022**	**Recognised in the income statement**	**Recognised in other comprehensive income**	**Other changes**	**As at 31.12.2022**
Interest accrued	10 595	61 279	-	-	71 874
Valuation of derivative financial instruments	830 633	90 517	46 830	-	967 980
Valuation of securities	294 340	60 928	10 924	-	366 192
Provisions for impairment of loans and advances	476 105	14 763	-	-	490 868
Provisions for employee benefits	32 914	7 700	(816)	-	39 798
Other provisions	37 918	201 662	-	-	239 580
Prepayments/accruals	33 389	32	-	-	33 421
Difference between tax and book value of tangible and intangible assets	203 286	6 518	-	-	209 804
Other negative temporary differences	36 818	7 014	-	92	43 924
Total, gross	**1 955 998**	**450 413**	**56 938**	**92**	**2 463 441**
Offsetting effect	(1 234 674)				(1 317 525)
Total, net	**721 324**				**1 145 916**

Deferred income tax liabilities	**As at 01.01.2022**	**Recognised in the income statement**	**Recognised in other comprehensive income**	**Other changes**	**As at 31.12.2022**
Interest accrued	(51 738)	(48 135)	-	-	(99 873)
Valuation of derivative financial instruments	(733 147)	23 682	-	-	(709 465)
Valuation of securities	(127 928)	(63 373)	(16 902)	-	(208 203)
Interest and fees received in advance	(48 254)	42 848	-	-	(5 406)
Difference between tax and book value of tangible and intangible assets	(233 426)	(3 496)	-	-	(236 922)
Prepayments regarding amortisation of applied investment relief	(9 163)	-	-	-	(9 163)
Other positive temporary differences	(31 107)	(17 386)	-	-	(48 493)
Total, gross	**(1 234 763)**	**(65 860)**	**(16 902)**	**-**	**(1 317 525)**
Offsetting effect	(1 234 674)				(1 317 525)
Total, net	**(89)**				**-**

Deferred income tax included in the income statement	As of 31 December	
	2023	2022
Interest accrued	(15 982)	13 144
Valuation of derivative financial instruments	(68 810)	114 199
Valuation of securities	(46 136)	(2 445)
Provisions for impairment of loans and advances	(16 443)	14 763
Provisions for employee benefits	3 450	7 700
Other provisions	68 949	201 662
Prepayments/accruals	17 874	32
Interest and fees received in advance	(73 500)	42 848
Prepayments regarding amortisation of applied investment relief	9 163	-
Difference between tax and book value of tangible and intangible assets	(39 858)	3 022
Other temporary differences	(22 400)	(10 372)
Total deferred income tax included in the income statement (Note 15)	**(183 693)**	**384 553**

As at 31 December 2023 the item Other positive temporary differences includes the impact of the creation of deferred tax provision in the amount of PLN 3 755 thousand resulting from the implementation of IFRS 9 in respect of recognised in previous years tax-deductible costs from the provision for incurred undocumented credit risk (31 December 2022: PLN 7 510 thousand). According to art. 12 par. 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 Bank evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29, the Bank recognised deferred tax assets to the extent that it is probable that the Bank will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

As at 31 December 2023, the Group recognised deferred tax assets of PLN 238 128 thousand arising from the ongoing settlement program for customers with foreign currency loans denominated in CHF (Other provisions, as at 31 December 2022: PLN 198 899 thousand).

Bank recognises deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and affiliated except that the implementation of the temporary differences is controlled by Bank and it is probable that in the foreseeable future, these differences will not be reversed. As at 31 December 2023, Bank did not include settlements on temporary differences in the total amount of PLN 1 521 934 thousand incurred due to investments in subsidiaries and affiliated companies in deferred tax calculation (as at 31 December 2022: PLN 1 326 903 thousand).

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

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

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

The value of provisions for litigations as at 31 December 2023 amounted to PLN 1 939 787 thousand of which PLN 1 819 606 thousand concerns provisions for legal proceedings relating to loans in foreign currencies (at 31 December 2022 PLN 766 830 thousand and PLN 718 128 thousand respectively). A potential outflow of funds due to the fulfilment of the obligation takes place at the moment of the final resolution of the cases by the courts, which is beyond the control of the Bank.

Information on the most important court proceedings

1. A lawsuit filed by LPP S.A.

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

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

   On 16 August 2018 mBank S.A. has submitted its statement of defence and requested that the action be dismissed. The court accepted the Defendants' requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons. Two banks have notified of their intention to intervene in the case as an indirect intervener. In a judgment dated 27 January 2023, the District Court in Warsaw dismissed LPP S.A.'s lawsuit in its entirety. On 27 March 2023 LPP S.A. has filed an appeal, to which the Bank filed a response on 26 June 2023. On 3 November 2023, Court of Appeal in Warsaw dismissed LPP S.A.'s appeal. The plaintiff may file a cassation complaint.

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 cases against the Bank concerning loans indexed to CHF and other foreign currencies

   Detailed information on individual court cases against the Bank regarding loans indexed in CHF and other foreign currencies is provided in Note 34.

Tax inspections

On 6 October 2023, mBank S.A. received the results of the inspection issued by the Head of the Customs and Tax Office in Opole, concluding the customs and tax inspection in terms of the correctness and reliability of fulfilling the payer's obligations in the field of flat-rate corporate income tax for the payment of receivables specified in art. 21 section 1 of the Act of 15 February 1992 on corporate income tax for 2018 and 2019. The Bank agreed with the inspection findings and made tax payments for the periods covered by the inspection. The additional tax amounts paid for 2018 – 2022 were immaterial from the point of view of their impact on mBank's financial result. On 12 December 2023, mBank S.A. received a notice of completion of the Inspection issued by the Head of the Customs and Tax Office in Opole in terms of the correctness and reliability of fulfilling the payer's obligations in the field of flat-rate corporate income tax for the payment of receivables specified in art. 21 section 1 of the Act of 15 February 1992 on corporate income tax for 2020 - 2022.

From 9 September 2022 to 17 July 2023, at the Branch of mBank S.A. in Slovakia, there was an ongoing tax audit conducted by Úrad Pre Vybrané Hospodárske Subjekty in Bratislava regarding the correctness of corporate income tax (CIT) settlements for 2019. The inspection did not reveal any irregularities.

Tax authorities may carry out inspections and verify records of economic operations recorded in the accounting books within 5 years from the end of the tax year in which tax returns were submitted, determine additional tax liabilities and impose related penalties. In the opinion of the Management Board, there are no circumstances indicating the likelihood of significant tax liabilities arising in this respect.

Proceedings initiated by the Polish Financial Supervision Authority (PFSA)

- 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 the 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.

  On 5 December 2023 the Supreme Administrative Court dismissed the cassation appeal and the verdict is non-appealable.

- On 22 November 2023, the Polish Financial Supervision Authority started administrative proceedings against mBank S.A. that might result in a penalty being imposed on the Bank under Article 176i(1)(4) of the Act on trading in financial instruments. At this stage of the proceedings, the amount of the potential penalty cannot be estimated reliably.

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. The proceedings have been extended to 30 April 2024.
- 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. mBank does not agree with these allegations and present its position throughout the proceedings. By decision of 27 November 2023 no. DOZIK 11/2023 the President of UOKIK discontinued the proceedings in their entirety as being without subject matter.

- By way of the decision of 8 July 2022, the President of the Office of Competition and Consumer Protection (UOKiK) instigated proceedings on the application of practices violating consumers' collective interests, consisting in a failure to refund the cost of transactions which consumers reported as unauthorised or to restore account balances that would have existed had such transactions not been executed under the procedure and within the time limit specified in the Payment Services Act, as well as practices consisting in providing consumers with incorrect information on the Bank's verification of whether a payment instrument was used correctly in response to customer reports.

  The President of the Office of Competition and Consumer Protection accuses the Bank of not refunding the amount of an unauthorized payment transaction despite the lack of grounds justifying the refusal to refund, i.e. suspicion of fraud on the part of the customer or expiration of the claim due to the expiry of the deadline. In its arguments, the Bank emphasizes that art. 46 section 1 of the Act of 19 August 2011 on Payment Services (hereinafter referred to as "UUP") does not apply to authorized transactions, and that the obligation to return pursuant to art. 46 section 1 of the UUP does not apply to situations where the payer is liable for an unauthorized transaction.

  The essence of the proceedings initiated by the President of the Office of Competition and Consumer Protection is to determine under what circumstances the payment service provider is obliged to refund the transaction amount within D+1. According to the President of the Office of Competition and Consumer Protection, such an obligation arises whenever the consumer reports that, in his opinion, an unauthorized transaction has occurred. In the Bank's opinion, this position is unjustified, because such an obligation arises only when an unauthorized transaction actually took place and a bank is liable for a transaction that is not authorized under the provisions of the Personal Data Protection Act.

  The Bank is of the opinion that the information provided to consumers regarding the Bank's lack of liability for the reported transaction is true. The Bank's liability for transactions reported as unauthorized transactions is not absolute, and the Bank's obligation to refund the transaction amount becomes effective only in situations where an unauthorized transaction actually occurs and there is no occurrence of one of the cases excluding the Bank's liability. The proceedings are ongoing.

34. Legal risk related to mortgage and housing loans granted to individual customers indexed to CHF and other foreign currencies

Introduction

In recent years, a significant number of individual customers who took out mortgage and housing loans in CHF and other foreign currencies, challenged in court some of the provisions or entire agreements on the basis of which the Bank granted these loans. In the case law to date, there are divergences in the evaluation of contractual provisions introducing an indexation mechanism and the consequences of determining their abusiveness (ineffectiveness), although the judgments that have been made are predominantly unfavourable to the Bank.

The carrying amount of mortgage and housing loans granted to natural persons in CHF as of 31 December 2023 amounted to PLN 1.9 billion (i.e. CHF 0.4 billion) compared to PLN 6.1 billion (i.e. CHF 1.3 billion) as at the end of 2022. The carrying amount of mortgage and housing loans granted to natural persons in other foreign currencies by mBank in Poland as of 31 December 2023 amounted to PLN 1.5 billion, compared to PLN 2.0 billion at the end of 2022.

The volume of the portfolio of loans indexed to CHF granted to natural persons, taking into account the exchange rate on the date of disbursement of individual loan tranches, amounted to PLN 19.5 billion (85.5 thousand loan agreements). The volume of the portfolio of loans indexed to other foreign currencies granted to natural persons, taking into account the exchange rate on the date of disbursement of individual loan tranches, amounted to PLN 4.1 billion (13.4 thousand loan agreements).

	31.12.2023		31.12.2022	
	PLN billion	Number of loan contracts (thousand)	PLN billion	Number of loan contracts (thousand)
The volume of the portfolio of loans indexed to CHF granted to natural persons in Poland that were active taking into account the exchange rate on the date of disbursement of individual loan tranches	8.3	28.6	11.6	43.0
The volume of the portfolio of loans indexed to other foreign currencies granted to natural persons in Poland that were active taking into account the exchange rate on the date of disbursement of individual loan tranches	2.4	7.4	2.6	8.0
The volume of the portfolio of loans indexed to CHF granted to natural persons in Poland that were inactive taking into account the exchange rate on the date of disbursement of individual loan tranches, of which:	11.2	56.9	7.9	42.5
- Fully repaid loans	*7.1*	*39.2*	*7.0*	*38.9*
- Settled loans	*2.8*	*13.3*	*0.4*	*1.9*
- Loans closed after final verdict	*1.3*	*4.4*	*0.5*	*1.7*

Due to the significance of the legal issues related to the foreign currencies loan portfolio for the financial position of mBank Group as at 31 December 2023, 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 foreign currencies, 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 and other foreign currencies

As of 31 December 2023, the Bank observed individual lawsuits regarding 21 411 loan agreements indexed to CHF including of which 17 852 active loan agreements and 3 559 repaid loan agreements (as of 31 December 2022: 18 382 of which 15 722 active and 2 660 repaid loans). Additionally, as of 31 December 2023, the Bank observed individual lawsuits regarding 370 loan agreements indexed to other foreign currencies including of which 297 active loan agreements and 73 repaid loan agreements (as of 31 December 2022: 172 of which 134 active and 38 repaid loans).

As of 31 December 2023, mBank received final rulings in individual lawsuits concerning 4 487 loan agreements indexed to CHF (31 December 2022: 1 898 loans), out of which 99 rulings were favourable to the Bank and 4 388 rulings were unfavourable (31 December 2022: 83 rulings favourable and 1 815 unfavourable).

Additionally as of 31 December 2023, mBank received final rulings in individual lawsuits concerning 41 loan agreements indexed to other foreign currencies (31 December 2022: 17 loans), out of which 5 rulings were favourable to the Bank and 36 rulings were unfavourable (31 December 2022: 4 rulings favourable and 13 unfavourable).

Approximately 92% 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

On 4 April 2016 the Bank was also sued by the Municipal Consumer Ombudsman representing a group of 1 731 individuals – retail banking customers who entered into mortgage loan agreements indexed to CHF.

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.

On 19 October 2018, the District Court issued judgment dismissing all of Plaintiff's claims. In its reasoning, the Court argued that the Plaintiff failed to prove that it has a legal interest in bringing the claim in question and also addressed the issue of the validity of the CHF valorised loan agreements, emphasizing that both the agreements themselves and the indexation clause are in compliance with both applicable laws and the principles of social interaction.

On 9 March 2020, as a result of the Plaintiff's appeal, 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 9 February 2022 the District 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.

On 25 April 2023, as a result of the Plaintiff's appeal, the Court of Appeal issued an order to suspend the proceedings pending final resolution of the legal issue presented to the Supreme Court in case file III CZP 157/22 concerning the composition of the Court with jurisdiction to hear the case in group proceedings during the special regulations related to COVID-19.

By order of 15 November 2023, the Court of Appeal suspended the proceedings due to the adoption of the above resolution by the Supreme Court.

On 29 January 2024 the Court of Appeal in Łódź announced a verdict and set aside the previous judgment and sent the case to the Court of the First Instance for re-examination due to the invalidity of the previous proceedings in the Court of the First Instance.

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

Information on the most important court proceedings regarding loans indexed to foreign currency

Rulings of the Court of Justice of the European Union regarding the most important issues relating to mortgages indexed to foreign currency

Applicability of a general custom where there is no provision in domestic law that could replace an abusive exchange rate clause

On 3 October 2019, the CJEU issued the ruling in case C-260/18 that:

- the question of abusiveness will be decided by domestic courts,
- the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful,
- 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.
- possible is the application of a disposable norm if the invalidity of the agreement was unfavourable for the client,
- impossible is the application of general provisions referring to a custom or equity principles.

Possibility of applying provision of law with average NBP exchange rate in place of abusive clause and the limitation period for the consumer's claims

On 8 September 2022, the CJEU issued a ruling in case C-81/21 upholding its previous jurisprudence:

- confirmed 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,
- concluded that automatic application of provision of law (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 restored the balance of the parties,
- The Court of Justice has again emphasized that the purpose of Directive 93/13 is not to annul all contracts containing unfair terms.

Obligation to inform the consumer of the consequences of invalidity

On 29 April 2021, the CJEU issued a judgment in case C-19/20, according to which:

- 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.

<u>Remuneration for using principal/valorisation</u>

On 15 June 2023, the CJEU issued judgment in case C-520/21 according to which:

- consumer is entitled to demand compensation from the credit institution beyond the reimbursement of monthly instalments and costs paid for the execution of this contract and beyond the payment of statutory default interest from the date of the demand for payment, provided that the objectives of Directive 93/13 and the principle of proportionality are respected,
- bank is not entitled to demand compensation from the consumer beyond the return of the principal paid for the performance of that agreement and beyond the payment of statutory default interest from the date of the demand for payment. According to the CJEU, the claims may be allowed only if they do not jeopardize the objective of restoring the situation as if the credit agreement did not exist and the deterrent objective of Directive 93/13.

On 11 December 2023, CJEU issued an order in case C-756/22 and pointed out that:

- it had already answered the question about what claims the bank is entitled to in the event of invalidity of the contract in case C-520/21,
- indicated that the bank is not entitled to any amount going beyond reimbursement of the capital paid in respect of the performance of that agreement together with the payment of default interest at the statutory rate from the date on which notice is served.

On 15 January 2024, CJEU issued an order in case C-488/23 according to which:

- valorisation is a form of recompense, thus banks are not entitled to claim it.

The judgment and the orders in the aforementioned case in practice ruled out the possibility for banks to claim based on remuneration for the use of capital and valorisation of the capital.

<u>Period of limitation</u>

On 7 December 2023 the CJEU issued judgment in case C-140/22 that:

- in the event of invalidity of the contract, the exercise of the consumer's rights arising from this invalidity cannot depend on a declaration made by a consumer during the court proceedings that the consumer does not consent to the unfair term being maintained, is aware of the consequences of the invalidity of the contract and consents to the invalidity of the contract. Such a declaration may be made outside of the court and does not have to be so precise. It should indicate that the consumer is requesting an invalidity.

On 14 December 2023 the CJEU issued judgment in case C-28/22 that:

- not permissible is situation in which the limitation period for the business entity’s claims begins to run only from the date on which the contract becomes permanently ineffective, while the limitation period for the consumer’s claims begins to run at the moment when he or she learned or should have learned about the unfair nature of the contract provision giving rise to invalidity.

These judgments have opened up a debate for national courts as to what moment should be considered as the beginning of the limitation period for a bank's claim. The Bank will monitor the development of the jurisprudence in this regard.

Supreme Court resolutions on loans indexed foreign currency

<u>The resolution of the Full Civil Chamber of the Supreme Court case III CZP:</u>

On 29 January 2021, the motion of the First President of the Supreme Court for adopting a resolution regarding following issues was submitted:

- replacing abusive provisions with provisions of civil law or common practice,
- possibility to maintain indexed/denominated loan as a PLN loan with an interest rate based on LIBOR,
- the theory of balance or the theory of two conditionalities will 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,
- remuneration for the using principal for banks and consumers.

On 2 September 2021, the Supreme Court 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. By order of 9 January 2024, the CJEU declared the application manifestly inadmissible. The verdict on the questions asked by the First President of the Supreme Court was not issued.

<u>The resolution of the Supreme Court of 16 February 2021 in case III CZP 11/20:</u>

- endorsed the theory of two conditionalities if a credit agreement is declared to be invalid.

<u>The resolution of the 7 Supreme Court's judges of 7 May 2021 in case III CZP 6/21:</u>

- 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.

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 2023, would amount to PLN 3.5 billion if only active portfolio indexed/denominated to CHF was converted (data not verified by the auditor). 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 is individually negotiated with customers. The Bank also reimburse low contribution insurance premiums by redeeming capital equal to the sum of premiums collected from the customer.

After conversion, the customer can 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, eliminates the currency risk and, due to the offered preferential interest rate and the possibility to choose a temporarily fixed interest rate, minimises the interest rate risk. Settlements are signed in an out-of-court mode, although, the Bank allows to any customer who wishes to do so to sign a settlement at an arbitration court.

As of 31 December 2023, the Bank concluded 13 321 settlements (as of 31 December 2022: 1 886 settlements).

Accounting policies for recognising the effect of legal risk related to court cases concerning mortgage and housing loans to individual customers in foreign currencies 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 foreign currencies 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,
- IAS 37 "Provisions, contingent liabilities and contingent assets" in relation to repaid loans.

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

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

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

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

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

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

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

The details of the methodology and calculation related to credit loans indexed to CHF and to other foreign currencies and settlement program 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 foreign currencies 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 foreign currencies and the settlement program is based on historical observations and due to the lack of market data and the divergence in case law that exists, 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 foreign currencies mortgages and housing loans and the settlement program included in the Group's statement of financial position is shown in the table below.

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	31.12.2023	31.12.2022
Impact of legal risk concerning lawsuits and settlement program related to active loans recognised as a reduction of gross carrying amount of loans, including loans in:	6 446 591	5 752 732
- CHF	*6 334 478*	*5 752 732*
- USD	*47 219*	*-*
- EUR	*64 894*	*-*
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	1 811 522	709 187
The cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in foreign currencies	**8 258 113**	**6 461 919**

Total costs of legal risk related to foreign currency loans recognised in the income statement for the year 2023 amounted to PLN 4 908.2 million (in 2022: PLN 3 112.3 million). The legal risk costs were mostly due to changes in the expected distribution of court judgments, the costs of settlements and changes in other model and market parameters.

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

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 using statistical methods based on the Bank's litigation history and assumptions about the influx of new cases over the full projection period. The Bank assumes that the vast majority of the projected cases will be filed by the end of 2024, after which the number will decline.

For the purpose of calculating the impact of legal risk mBank assumes that approximately 7.9 thousand CHF borrowers including 6.1 thousand with active loans and 1.8 thousand with repaid loans, will file a lawsuit against the Bank (as of 31 December 2022: 11.4 thousand of which 9.1 thousand active and 2.3 thousand repaid loans). Moreover, the Bank assumed that some portion of CHF borrowers will sign settlements. These assumptions, 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 thousand borrowers with active loans indexed to CHF filed a lawsuit against the Bank and the loan was invalidated in its entirety, the impact of the legal risk would increase by approximately PLN 282.1 million (while other relevant assumptions remain constant) as compared to 31 December 2023, of which PLN 282.1 million would reduce gross carrying amount of the loans. If an additional 1 thousand borrowers with repaid loans indexed to CHF filed a lawsuit against the Bank and the loan was invalidated in its entirety, the impact of the legal risk would increase by approximately PLN 90.0 million (while other relevant assumptions remain constant) of which PLN 90.0 million would increase the provisions for legal proceedings.

The Bank estimates that 4.2 thousand borrowers with active CHF indexed loans will not decide to sue the Bank or sign a settlement with the Bank in the future and 33.9 thousand borrowers with 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 and borrowers who have already repaid their loans.

Distribution of expected court rulings

The expected distribution of court rulings was based on final judgments issued in cases against the Bank over the last 12 months. As at 31 December 2023, the Bank assumed a loss in 99% of pending or future lawsuits (as at 31 December 2022: 95%), while for the remaining 1% of cases, the Bank assumed dismissal of the claim (as at 31 December 2022: 5%). In the loss scenario Bank took into account two 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). If assumed that all lawsuits end unfavourably for the Bank (100% of the loss scenario), and furthermore that all judgments imply invalidity of the contract in its entirety (instead of scenarios (i) and (ii) described above), the impact of the legal risk would change by PLN 135.6 million, of which PLN 114.6 million would change the gross carrying amount of loans and PLN 21.0 million provisions for legal proceedings.

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The Bank estimates that if all Bank's originated loan agreements currently under individual and class action court proceedings were declared invalid without any compensation for the use of capital, the pre-tax cost could reach ca. PLN 7.3 billion (vs. the cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in foreign currencies of PLN 8.3 billion). Overall losses would be higher or lower depending on the final court verdicts.

Probability of settlement acceptance

The Bank assumed the probability of accepting settlements based in part on the results of an actively conducted settlement program and available market data, and based on its own projections. As of 31 December 2023, the Bank assumed that it would conclude 6.2 thousand settlements in the future, which accounts for approximately 22% of active portfolio (as of 31 December 2022: 13.7 thousand and 32% respectively), including the borrowers who already filed or are expected to file a lawsuit against the Bank.

Methodology of calculating the impact of the legal risk related to the class action case and other foreign currencies loans

In order to calculate the legal risk costs related to a class action and loans indexed to other foreign currencies, the methodology described above for calculating the impact of the legal risk related to individual cases and loans indexed to CHF was used and it was applied to the whole population covered by the class action and loans indexed to other foreign currencies. The distribution of expected court rulings used is the same as for individual cases in CHF.

As of 31 December 2023, the Bank recognised the impact of legal risk in the class action in the amount of PLN 364.7 million and the impact of legal risk of loans indexed to other currencies in the amount of PLN 130.4 million.

35. Off-balance sheet liabilities

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

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

Loan commitments, guarantees and other financial facilities and other commitments

31.12.2023	Nominal amount of off-balance loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment				Provisions on off-balance loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	31 811 496	2 164 661	86 222	2 487	43 742	36 429	22 178	752
Guarantees and other financial facilities	7 371 824	684 277	141 767	3 947	4 458	1 344	92 890	(3 650)

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- loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	31 900 434	674 689	74 062	2 899	40 368	14 026	24 276	445
Guarantees and other financial facilities	7 851 769	460 520	266 455	2 203	42 040	1 084	219 228	(1 597)

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Off-balance loan commitments, guarantees, other financial facilities, other commitments and provisions for off-balance loan commitments and guarantees by internal rating system levels

31.12.2023	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Nominal value of off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
1	5 388 831	80	-	-	5 388 911
2	13 292 210	33 188	-	8	13 325 406
3	7 194 907	199 523	-	54	7 394 484
4	10 321 729	1 476 929	-	518	11 799 176
5	2 678 245	940 458	-	103	3 618 806
6	12 964	55 514	-	2	68 480
7	25 002	143 246	-	54	168 302
8	269 432	-	-	-	269 432
default	-	-	227 989	5 695	233 684
Total nominal values	**39 183 320**	**2 848 938**	**227 989**	**6 434**	**42 266 681**
Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
Total provisions	**48 200**	**37 773**	**115 068**	**(2 898)**	**198 143**

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Nominal value of off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
1	4 756 152	1 847	-	-	4 757 999
2	13 852 028	59 227	-	2	13 911 257
3	10 039 077	370 674	-	279	10 410 030
4	7 608 704	338 620	-	277	7 947 601
5	2 716 126	267 307	-	125	2 983 558
6	12 319	14 506	-	2	26 827
7	518 010	83 028	-	14	601 052
8	249 787	-	-	-	249 787
default	-	-	340 517	4 403	344 920
Total nominal values	**39 752 203**	**1 135 209**	**340 517**	**5 102**	**41 233 031**
Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments subject to impairment in accordance with IFRS 9					
Total provisions	**82 408**	**15 110**	**243 504**	**(1 152)**	**339 870**

Rating system is described in Note 3.3.4.

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2023 and as at 31 December 2022.

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Guarantees are presented in the table below based on the contractual maturity date. Financial guarantees can be called immediately.

31.12.2023	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Contingent liabilities granted and received	**30 572 569**	**17 617 532**	**4 073 636**	**52 263 737**
Commitments granted	**26 752 645**	**12 303 811**	**3 210 225**	**42 266 681**
Financing	22 802 727	9 015 389	2 246 750	34 064 866
- loan commitments	*22 802 727*	*9 015 389*	*2 246 750*	*34 064 866*
Guarantees and other financial facilities	3 949 918	3 288 422	963 475	8 201 815
- guarantees and standby letters of credit	*3 949 918*	*3 288 422*	*963 475*	*8 201 815*
Commitments received	**3 819 924**	**5 313 721**	**863 411**	**9 997 056**
Financial commitments received	485 280	-	-	485 280
Guarantees received	3 334 644	5 313 721	863 411	9 511 776
Derivative financial instruments (nominal value of contracts)	**259 281 575**	**261 094 843**	**33 065 435**	**553 441 853**
Interest rate derivatives	137 899 853	250 439 768	32 488 445	420 828 066
Currency derivatives	118 115 367	9 412 258	4 890	127 532 515
Market risk derivatives	3 266 355	1 242 817	572 100	5 081 272
Total off-balance sheet items	**289 854 144**	**278 712 375**	**37 139 071**	**605 705 590**

31.12.2022	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Contingent liabilities granted and received	**28 917 511**	**16 207 207**	**5 313 462**	**50 438 180**
Commitments granted	**25 767 569**	**11 141 741**	**4 323 721**	**41 233 031**
Financing	21 806 985	8 124 517	2 720 582	32 652 084
- loan commitments	*21 806 985*	*8 124 517*	*2 720 582*	*32 652 084*
Guarantees and other financial facilities	3 960 584	3 017 224	1 603 139	8 580 947
- guarantees and standby letters of credit	*3 960 584*	*3 017 224*	*1 603 139*	*8 580 947*
Commitments received	**3 149 942**	**5 065 466**	**989 741**	**9 205 149**
Financial commitments received	476 790	-	-	476 790
Guarantees received	2 673 152	5 065 466	989 741	8 728 359
Derivative financial instruments (nominal value of contracts)	**275 788 770**	**403 855 792**	**42 014 001**	**721 658 563**
Interest rate derivatives	158 128 185	388 474 304	41 921 183	588 523 672
Currency derivatives	112 626 393	14 604 013	41 818	127 272 224
Market risk derivatives	5 034 192	777 475	51 000	5 862 667
Total off-balance sheet items	**304 706 281**	**420 062 999**	**47 327 463**	**772 096 743**

The carrying amounts of derivatives are presented in the Note 19.

As at 31 December 2023, commitments received by the Bank in the amount of PLN 9 997 056 thousand (31 December 2022: PLN 9 205 149 thousand), related mainly to guarantees received as collateral of loans and advances granted.

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36. Pledged assets

Assets may be pledged as collateral for repo or sell/buy back transactions, derivative contracts with other banks. Collateral may be also placed due to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Bank. If securities are subject to collateral (in buy/sell back transaction) they can be re-pledged in the opposite transaction (sell/buy back).

Moreover the Bank accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like loans, credit lines, banking guarantees.

The table below presents the breakdown of the measures possible to pledge by the main items of the statement of financial position of mBank. Treasury securities are the main component of the Bank's liquidity collateral that can be eligible to pledge.

31.12.2023	Assets			Fair value of collateral received in form of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19, 20, 21 and 22), including:	62 438 834	4 264 870	52 495 812	7 153 550	425 204	6 728 346	59 224 158
- NBP bills	*18 382 180*	-	*18 382 180*	-	-	-	*18 382 180*
- Government bonds	*31 127 662*	*2 394 452*	*28 733 210*	*7 153 550*	*425 204*	*6 728 346*	*35 461 556*
- Mortgage bonds	*2 551 612*	-	-	-	-	-	-
- Other non-treasury securities	*10 377 380*	*1 870 418*	*5 380 422*	-	-	-	*5 380 422*
Cash collaterals (due to derivatives transactions) (Note 22)	725 666	725 666	-	-	-	-	-
Other assets	159 253 976	-	-	-	-	-	-
Total	**222 418 476**	**4 990 536**	**52 495 812**	**7 153 550**	**425 204**	**6 728 346**	**59 224 158**

31.12.2022	Assets			Fair value of collateral received in form of securities related with buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 19, 20, 21 and 22), including:	55 744 730	3 502 884	47 885 585	9 310 924	562 338	8 748 586	56 634 171
- NBP bills	*17 083 666*	-	*17 083 666*	-	-	-	*17 083 666*
- Government bonds	*28 383 378*	*2 045 372*	*26 338 006*	*9 310 924*	*562 338*	*8 748 586*	*35 086 592*
- Mortgage bonds	*1 831 663*	-	-	-	-	-	-
- Other non-treasury securities	*8 446 023*	*1 457 512*	*4 463 913*	-	-	-	*4 463 913*
Cash collaterals (due to derivatives transactions) (Note 22)	933 415	933 415	-	-	-	-	-
Other assets	147 297 633	-	-	-	-	-	-
Total	**203 975 778**	**4 436 299**	**47 885 585**	**9 310 924**	**562 338**	**8 748 586**	**56 634 171**

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes Bank's collateral of liabilities due to the fixed interest rate loans received from the EIB, collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund. The note also includes securities issued by EIB that secure CLN bonds issued.

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37. Registered share capital

The total number of ordinary shares as at 31 December 2023 was 42 465 167 shares (31 December 2022: 42 433 495 shares) of PLN 4 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2023						
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
ordinary bearer	-	-	31 672	126 688	fully paid in cash	2023
Total number of shares			**42 465 167**			
Total registered share capital				**169 860 668**		
Nominal value per share (PLN)		4				

* As at the end of the reporting period

In 2023, the National Depository of Securities has registered 31 672 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 2023 mBank's share capital increased by PLN 126 688.

Commerzbank AG is the only shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2023 it held 69.12% of the share capital and votes at the General Meeting of mBank S.A.

The changes in the ownership structure of Bank's material shares packages

On 7 February 2023, the Bank was notified by Powszechne Towarzystwo Emerytalne Allianz Polska S.A. (PTE Allianz Polska S.A.) about a decrease of the funds managed by PTE Allianz Polska S.A. share in the share capital and the total number of votes at the General Meeting of mBank S.A. below 5% as a result of a sale of Bank's shares on 3 February 2023.

After the transaction, the funds managed by PTE Allianz Polska S.A. held 2 115 048 shares of mBank S.A., which represents 4.98% of the share capital and the total number of votes at the General Meeting of mBank S.A.

38. Share premium

Share premium is formed from the share premium obtained from the issue of shares reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 2023 and 2022 results from the issue of shares under incentive programmes described under Note 43.

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39. Retained earnings

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

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

	31.12.2023	31.12.2022
Other supplementary capital	8 001 299	8 001 299
Other reserve capital	35 652	36 012
General banking risk reserve	1 115 143	1 115 143
Profit from the previous year	1 401 758	2 098 482
Profit (loss) for the current year	29 322	(696 724)
Total retained earnings	**10 583 174**	**10 554 212**

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

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

40. Other components of equity

	31.12.2023	31.12.2022
Exchange differences on translating foreign operations	**(27 355)**	**8 635**
Unrealised gains (foreign exchange gains)	75 111	30 068
Unrealised losses (foreign exchange losses)	(102 466)	(21 433)
Cash flow hedges	**(258 977)**	**(695 611)**
Unrealised gains	16 637	16 637
Unrealised losses	(336 362)	(875 416)
Deferred income tax	60 748	163 168
Valuation of debt instruments at fair value through other comprehensive income	**(185 645)**	**(874 758)**
Unrealised gains on debt instruments	160 607	25 090
Unrealised losses on debt instruments	(344 571)	(1 024 866)
Deferred income tax	(1 681)	125 018
Actuarial gains and losses relating to post-employment benefits	**(13 572)**	**(7 140)**
Actuarial gains	736	1 376
Actuarial losses	(17 491)	(10 191)
Deferred income tax	3 183	1 675
Share of other comprehensive income of entities under the equity method	**(62 308)**	**(104 356)**
Share of other comprehensive income of subsidiaries and associates	(62 308)	(104 356)
Reclassification to investment properties	**11 436**	**11 436**
Gains on reclassification to investment properties	14 118	14 118
Deferred income tax	(2 682)	(2 682)
Total other components of equity	**(536 421)**	**(1 661 794)**

41. Dividend per share

On 30 March 2023, the XXXVI Ordinary General Meeting of mBank S.A. adopted a resolution on covering the loss for 2022. The net loss of mBank S.A. reported in 2022, amounting to PLN 696 723 897.52 was covered from the Bank's undivided profit from the previous years. The General Meeting of mBank S.A. also decided not to divide profits from previous years, amounting to PLN 1 401 756 971.49. The General Meeting of mBank S.A. did not made a decision regarding dividend payment.

42. Explanatory notes to the statement of cash flows

Cash and cash equivalents

Amount of cash and cash equivalents is described in Note 18.

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Supplementary information to the cash flow statement

Explanation of differences between the change in the balances resulting from the balance sheet and the change disclosed in the cash flows from operating activities

	Year ended 31 December	
	2023	2022
Loans and advances to banks - change in the balances of the statement of financial position	**4 702 858**	**(4 319 493)**
The difference between the interest accrued and paid in cash in the period	(22 121)	154 510
Loans and advances to banks derecognised due to acquisition of the organised part of mBH	(1 661 492)	-
Total change in loans and advances to banks	**3 019 245**	**(4 164 983)**
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	**1 168 410**	**(561 232)**
The difference between the interest accrued and paid in cash in the period	105 926	(195 401)
Valuation included in other comprehensive income	539 054	(246 476)
Total change in financial assets and liabilities held for trading and hedging derivatives	**1 813 390**	**(1 003 109)**
Loans and advances to customers - change in the balance of the statement of financial position	**4 044 864**	**(2 635 600)**
The difference between the interest accrued and paid in cash in the period	395 629	(193 772)
Valuation included in other comprehensive income	135 659	142 686
Loans and advances to clients due to acquisition of the organised part of mBH	1 744 596	-
Total change in loans and advances to customers	**6 320 748**	**(2 686 686)**
Debt securities at fair value through other comprehensive income - change in the balance of the statement of financial position	**(1 805 294)**	**1 550 750**
Valuation included in other comprehensive income	680 153	(54 926)
The difference between the interest accrued and paid in cash in the period	1 126 377	224 438
Total change in debt securities at fair value through other comprehensive income	**1 236**	**1 720 262**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(5 320 828)**	**(3 574 061)**
The difference between the interest accrued and paid in cash in the period	(44 870)	23 303
Total change in debt securities measured at amortised cost	**(5 365 698)**	**(3 550 758)**
Other assets (incl. held for sale) – change in the balance of the statement of financial position	**(267 824)**	**(335 470)**
Derecognition of non-current assets held for sale	(26 747)	-
Other changes	(56 412)	21 269
Total change in other assets	**(350 983)**	**(314 201)**
Amounts due to banks - change in the balance of the statement of financial position	**40 457**	**(2 020 871)**
The difference between the interest accrued and paid in cash in the reporting period	(2 239)	4 656
Exchange differences	36 343	(136 445)
Exclusion of change in cash flows from financing activity	4 480	4 700
Total change in amounts due to banks	**79 041**	**(2 147 960)**
Amounts due to customers - change in the balance of the statement of financial position	**11 116 228**	**16 955 537**
The difference between the interest accrued and paid in cash in the reporting period	70 178	(389 902)
Total change in amounts due to customers	**11 186 406**	**16 565 635**
Lease liabilities - change in the balance of the statement of financial position	**(81 194)**	**1 440**
Exclusion of changes in cash from financial activities	166 803	115 395
Exclusion of increase in lease liabilities	(108 109)	(112 640)
Total change in lease liabilities	**(22 500)**	**4 195**
Debt securities issued - change in the balance of the statement of financial position	**3 076 781**	**(2 134 925)**
The difference between the interest accrued and paid in cash in the reporting period	(126 937)	1 136
Exchange differences	414 344	(205 055)
Exclusion of change in cash flows from financing activity	(3 180 959)	2 029 887
Total change in debt securities issued	**183 229**	**(308 957)**
Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position	**3 199 871**	**1 137 696**
Valuation of incentive programmes recognised in income statement (Note 12)	10 920	12 673
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 17)	(7 940)	4 295
Exclusion of change in cash flows from investing activity	(100 769)	59 832
Exclusion of liabilities classified as held for sale	7 363	-
Derecognition of provisions and liabilities due to acquisition of the organised part of mBH	37 186	-
Other changes	6 987	(36 919)
Total change in other liabilities and provisions	**3 153 618**	**1 177 577**

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Interests received and paid from operating activities

	Year ended 31 December	
	2023	**2022**
Interest income, including:		
Loans and advances to banks	2 022 608	928 066
Loans and advances to customers	8 626 383	6 551 654
Debt securities	1 646 177	1 100 540
Other interest income	246 253	47 561
Total interest income	**12 541 421**	**8 627 821**
Interest expense, including:		
Settlements with banks due to deposits received	(113 327)	(69 244)
Settlements with customers due to deposits received	(3 775 604)	(1 295 189)
Issuance of debt securities	(209 666)	(110 705)
Interest expense on derivatives	(1 470 084)	(824 189)
Other interest expense	(2 785)	(72 700)
Total interest expense	**(5 571 466)**	**(2 372 027)**

Cash flows from investing activities

In 2023 and in 2022, cash flows from investment activities mainly related to the settlements regarding the purchase of intangible and tangible assets.

Cash flows from financing activities

Cash flows from financing activities mainly related to the settlements regarding the issue of debt securities and to the settlements of long-term loans received from the European Investment Bank (Note 29). Moreover, cash flows from financing activities included the settlements relates to subordinated liabilities.

The following table presents the change in liabilities as part of financial activities.

	As at 01.01.2023	Cash flows	Change not connected with cash flows	As at 31.12.2023
Loans and advances received from banks (Note 29)	1 910 721	(4 480)	32 102	1 938 343
Lease liabilities (Note 29)	955 436	(166 803)	85 609	874 242
Debt securities in issue (Note 29)	4 548 698	3 180 959	(104 178)	7 625 479
Subordinated liabilities (Note 29)	2 740 721	(188 000)	162 207	2 714 928
Total liabilities from financing activities	**10 155 576**	**2 821 676**	**175 740**	**13 152 992**

	As at 01.01.2022	Cash flows	Change not connected with cash flows	As at 31.12.2022
Loans and advances received from banks (Note 29)	1 906 621	(4 700)	8 800	1 910 721
Lease liabilities (Note 29)	953 996	(115 395)	116 835	955 436
Debt securities in issue (Note 29)	6 683 623	(2 029 887)	(105 038)	4 548 698
Subordinated liabilities (Note 29)	2 624 456	(89 791)	206 056	2 740 721
Total liabilities from financing activities	**12 168 696**	**(2 239 773)**	**226 653**	**10 155 576**

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 169 589 thousand (in 2022: PLN 117 724 thousand).

43. Share-based incentive programmes

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.

In 2023, incentive programme in wording adopted by the resolution of 13 June 2023 of the Supervisory Board was applicable. The programme will be in force since 1 January 2018 until the day on which the earlier of the following events occurs: expiry of the 10-year period from the date of recording the last of the warrants taken up by programme participants in the securities account or taking up all shares.

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. and Members of the Management Board of mTFI S.A., which apply different incentive programmes.

Risk Taker I means a Member of the Management Board of the Bank. Risk Taker II means a person holding a position identified as having a material impact on the Bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Rules and Remuneration Policy of employees with a significant impact on the risk profile of mBank (referred to as Risk Takers Remuneration Policy), Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

Bonus for Risk Takers I

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years. The bonus amount depends on the bonus pool. Starting from 2023, the base of determining the amount of the bonus pool for a given calendar year is the sum of amounts calculated based on Key Performance Indicators (KPI). Determining the amount of bonus is preceded by Supervisory Board approval of the following: KPI definition, number of KPI for a given year, percentage of each KPI in bonus pool. Supervisory Board approves the score corresponding with 100% execution of a given KPI and actual score of a given KPI. Reaching execution for each KPI corresponds with bonus pool on the level of 8-times the monthly base salary for all Management Board Members. Reaching KPI scores above or below 100% execution for each KPI means proportional calculation above or below 100%. The percentage score for each KPI is calculated as a weighted average of scores from a calendar year, for which the bonus is granted and 2 years before this year, according to the rules specified in Remuneration Policy of Risk Takers.

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 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 five 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 Group'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 or 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 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.

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The deferred part, both the cash portion and the subscription warrant portion, is paid in 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.

Starting the bonus granted for 2021, the period of deferring both the cash and subscription part of a bonus was extended. For Risk Takers II, which positions were identified as senior management staff (applies to Managing Directors and Members of Management Boards of mBank Group subsidiaries), the deferral period was extended from three to five years, for other Risk Takers – from three to four years.

In case when the bonus amount determined for a Risk Taker II (not applied Risk Takers II identified as senior management staff) for a given calendar year does not exceed one-third of their total annual remuneration or the equivalent of PLN 50,000. EUR in PLN (according to the value on the day on which the bonus was granted), the bonus may be paid fully in cash in a non-deferred form based on a Management Board decision.

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 or subsidiary, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises, stipulated in Article 142 especially (2) of the Banking Law Act, has occurred.

If the circumstances referred to the above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group or the subsidiary or has contributed to financial sanctions being imposed on the Bank/subsidiary by supervisory bodies under a final and unappealable decision.

The decision determining the occurrence of the described events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

The table below presents change in the number of prices of share warrants related to the 2018 incentive programme for Management Board Members of the Bank and for key managers of mBank.

	31.12.2023		31.12.2022	
	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	**81 102**		**97 510**	
Granted during the period	27 340		32 203	
Forfeited during the period	-		-	
Exercised during the period*	31 672	4	48 611	4
Expired during the period	-		-	
Outstanding at the end of the period	**76 770**		**81 102**	
Exercisable at the end of the period	**-**		**-**	

* In 2023, the weighted average price of the shares was PLN 396.62 (in 2022 PLN 292.44).

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Summary of the impact of the incentive programme 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 programme for share-based payments settled in mBank S.A. shares.

	31.12.2023	31.12.2022
Incentive programmes		
As at the beginning of the period	**36 012**	**33 979**
- value of services provided by the employees	10 920	12 673
- settlement of exercised options	(11 190)	(10 640)
As at the end of the period	**35 652**	**36 012**

Cash Payments

The cost of the cash part of the programmes is presented in Note 12.

44. Transactions with related entities

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

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

The Bank provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which include maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the by-laws adopted by the Supervisory Board of mBank S.A.

The by-laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

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The table below presents the values of transactions between the Bank and Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as with transactions with other Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2022 and 31 December 2023.

	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons*		mBank's subsidiaries		Commerzbank AG		Other companies of the Commerzbank AG Group	
As at the end of the period	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**
Statement of Financial Position										
Assets	4 343	3 627	1 221	1 882	21 539 912	22 293 361	565 885	674 513	45	37
Liabilities	15 449	18 382	10 496	3 447	533 442	427 198	1 761 275	2 465 567	82 994	77 829
Income Statement										
Interest income	241	175	106	103	1 424 380	1 050 717	63 828	65 212	-	28
Interest expense	(440)	(104)	(133)	(8)	(7 077)	(56 012)	(58 054)	(42 613)	(2 612)	(1 416)
Commission income	24	38	33	89	16 196	21 634	6 333	4 991	54	176
Commission expense	-	-	-	-	(194 292)	(191 209)	-	-	-	-
Other operating income	-	-	62	14	15 022	21 426	1 914	3 846	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	(22 300)	(5 769)	(8 118)	(11 408)	-	-
Contingent liabilities granted and received										
Commitments granted	1 499	755	166	158	2 909 963	3 274 715	2 288 854	2 101 314	1 776	1 608
Commitments received	-	-	-	-	-	-	1 956 104	1 915 387	-	-

** 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*

Management Board of mBank S.A.

As at 31 December 2023, the Management Board of mBank S.A. performed functions in the following composition:

1. Cezary Stypułkowski – President of the Management Board,
2. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and IT,
3. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking,
4. Marek Lusztyn – Vice-President of the Management Board, Head of Risk,
5. Julia Nusser – Vice-President of the Management Board, Head of Compliance, Legal Issues and HR,
6. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking,
7. Pascal Ruhland – Vice-President of the Management Board, Chief Financial Officer.

Changes in the Management Board of mBank S.A.

- On 17 January 2023, Mr. Andreas Böger, the Vice-President of the Management Board, Chief Financial Officer resigned from his function with the effective date of 30 April 2023.
- On 30 March 2023, the Supervisory Board of mBank S.A. appointed new members to the Management Board of the Bank as of 1 May 2023:
  - Ms. Julia Nusser, for the post of Vice-President of the Management Board, Head of Compliance, Legal Issues and HR and,
  - Mr. Pascal Ruhland, for the post of Vice-President of the Management Board, Chief Financial Officer

  for the duration of the present term of office of the Management Board.

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Supervisory Board of mBank S.A.

As at 31 December 2023 the composition of the Supervisory Board of mBank S.A. is as follows:

1. Agnieszka Słomka-Gołębiowska – Chairwoman,
2. Bettina Orlopp – Vice-Chairwoman,
3. Hans-Georg Beyer,
4. Tomasz Bieske,
5. Marcus Chromik,
6. Mirosław Godlewski,
7. Aleksandra Gren,
8. Thomas Schaufler.

Changes in the Supervisory Board of mBank S.A.

- On 14 December 2023, the Supervisory Board appointed Mr. Bernard Spalt as the Member of the Supervisory Board of mBank S.A., as of 1 January 2024 for the duration of the present term of office of the Supervisory Board.
- On 20 October 2023, Mr. Marcus Chromik resigned from membership in the Bank's Supervisory Board with the effective date of 31 December 2023.
- On 14 October 2022, Mr. Arno Walter resigned from membership in the Bank's Supervisory Board with the effective date of 30 March 2023.
- On 9 December 2022, the Supervisory Board appointed Mr. Hans-Georg Beyer as the Member of the Supervisory Board of mBank S.A., as of 1 January 2023 for the duration of the present term of office of the Supervisory Board.
- On 30 March 2023, the Annual General Meeting appointed Mr. Thomas Schaufler as the Member of the Supervisory Board of mBank S.A., as of 31 March 2023 for the duration of the present term of office of the Supervisory Board.

Supervisory Board and Management Board Remuneration

The table below presents the information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2023 and at the end of 2022, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

Renumeration paid (in PLN)	2023	2022
mBank Management Board		
Basic salary	12 472 913	11 970 427
Other benefits	3 376 357	1 460 547
Bonus for the previous year	1 292 000	-
Deferred bonus	654 000	780 000
Remuneration of the former Management Board Members		
Basic salary	560 000	-
Other benefits	139 358	1 710
Bonus for the previous year	224 000	-
Deferred bonus	342 000	216 000
mBank Supervisory Board		
Basic salary	1 671 354	1 742 360

The total compensation of members of the Management Board consists of basic salary, bonuses, termination payments of management agreement, prohibition of competitiveness payment, insurance costs and accommodation costs.

The above mentioned benefits are short-term employee benefits.

The total remuneration received in 2023 by Bank's Management Board members was PLN 18 843 thousand (2022: PLN 14 211 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 2023, which would be paid out from 2024. Therefore, a provision was created for the payment of a cash bonus for 2023 for the members of the Management Board, which amounted to PLN 6 310 thousand as of 31 December 2023 (31 December 2022: PLN 2 178 thousand). The final decision concerning the level of the bonus will be taken by the Remuneration and Nomination Committee of the Supervisory Board by 28 February 2024.

In 2023 and 2022, the members of the Management Board of mBank S.A. did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2023 amounted to PLN 29 763 thousand (2022: PLN 23 190 thousand).

Detailed information on the remuneration of individual Members of the Management Board and the Supervisory Board, as well as the composition of the Management Board and the Supervisory Board, was presented in the Management Board Report on the Performance of mBank S.A. Group in 2023 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 2023, the Bank shares were held by two Members of the Management Board: Mr. Cezary Stypułkowski – 30 902 shares and Mr. Marek Lusztyn – 1 283 shares.

As at 31 December 2022, the Bank shares were held by six Members of the Management Board: Mr. Cezary Stypułkowski – 27 884 shares, Mr. Andreas Böger – 2 994 shares, Mr. Krzysztof Dąbrowski – 2 240 shares, Mr. Cezary Kocik – 1 392 shares, Mr. Marek Lusztyn– 303 shares and Mr. Adam Pers 26 shares.

45. Acquisitions and disposals

Acquisition by mBank the activity of mBank Hipoteczny related to servicing loans

Description of the transaction

The Division Plan of mBank Hipoteczny (mBH) was published on 31 May 2022. The plan assumed that a part of business of mBank Hipoteczny would be transferred to mBank in 2023. These were mostly commercial real estate loans. The acquisition was completed through a division of mBank Hipoteczny by separation and a transfer of the separated part of business to mBank. The division was made by way of universal succession, which means that on the day the division was registered in the National Court Register (KRS) mBank assumed all rights and obligations of mBank Hipoteczny arising from the transferred business, including from loan agreements.

On 30 March 2023, the shareholders of mBH and mBank approved the Division Plan. The organised part of the enterprise was transferred on 18 May 2023.

About the transferred business

The division of mBH was effected in accordance with Article 529 (1) (4) of the Code of Commercial Partnerships and Companies, i.e. through a transfer of certain assets and liabilities as well as rights and obligations of the company being divided in the form of an organised part of mBH's enterprise, which constitute a group of tangible and intangible assets, including liabilities, organisationally and financially separated within the existing enterprise, intended for the performance of tasks related to the business of granting and handling the following loans:

- mortgage-backed loans for the financing of commercial real estate,
- loans to local government units or guaranteed by local government units, and
- mortgage-backed loans to individuals for the financing of non-business purposes, meeting the detailed conditions laid down in the Division Plan of 31 May 2022.

The division had an effect on mBH's business line dealing with corporate mortgages ("corporate banking"). Once the division had been completed, mBank Hipoteczny discontinued its corporate business.

Economic rationale for the transaction

The Bank and mBH decided to pursue the division with the aim to consolidate sale processes and after-sales service within a single entity (Bank), which is expected to produce the following effects:

- create in mBank a single competence centre for the Group in the area of managing real estate finance products and services;
- unify access channels available to clients;
- increase the availability of mortgage services via electronic channels and in selected branches;
- boost the operational effectiveness of launching new solutions for clients;
- simplify the structure of the mortgage business;
- integrate and develop remote customer service tools to match the service level offered to Bank clients;
- use the Bank's know-how and IT resources to offer highly digitalised services;
- achieve cost synergies by way of eliminating overlapping structures, especially in the IT and operations area.

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As a result of the transaction, mBank acquired the following assets and liabilities of mBH.

ASSETS	
Cash and balances with the Central Bank	1 783
Non-trading financial assets mandatorily at fair value through profit or loss, including:	77 568
Loans and advances to customers	*77 568*
Financial assets at amortised cost, including:	1 667 028
Loans and advances to customers	*1 667 028*
Intangible assets	12 626
Tangible assets	50
Deferred income tax assets	22 439
Other assets	39 057
TOTAL ASSETS	**1 820 551**
LIABILITIES	
Financial liabilities measured at amortised cost, including:	1 661 492
Amounts due to banks	*1 661 492*
Other liabilities	1 791
TOTAL LIABILITIES	**1 663 283**

Loans and advances to customers measured at amortised cost	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Individual customers	13 610	10 827	2 600	315	-	(42)	(32)	(58)	-
Corporate customers	1 601 712	1 230 211	139 420	350 684	21 594	(7 764)	(10 480)	(121 463)	(490)
Public sector customers	51 706	51 722	-	-	-	(16)	-	-	-
Total	**1 667 028**	**1 292 760**	**142 020**	**350 999**	**21 594**	**(7 822)**	**(10 512)**	**(121 521)**	**(490)**

As part of the transaction, the share capital of mBH was reduced through the cancellation of shares by PLN 116 000 thousand. In addition, the capital reserve was reduced by the amount representing the difference between the book value of organized part of the business as of the date of the split and the total amount of the reduction in share capital of mBH, i.e. by PLN 41 268 thousand.

Settlement of the transaction / recognition of the transaction in the Bank's books

The combination was settled based on book values and had no effect on mBank's net profit in 2023 and net assets as at 31 December 2023. The transaction is considered a combination under common control as the organised part of the enterprise is ultimately controlled by mBank before and after the combination. In accordance with mBank's accounting policy, business combinations of entities under common control are settled under the predecessor method, whereby the assets and liabilities of the acquirees are not measured at fair value, but they are recognised in the financial statements at values arising from the consolidated financial statements of mBank S.A. Group. All settlement balances between mBank and mBH have been eliminated. The value of mBH's shares, which are valued using the equity method in mBank's separate financial statements, was reduced by the value of mBH's acquired net assets. The combination is settled prospectively, which means that the profit and loss account and the balance sheet of the acquiree are included in the financial data of the acquirer from the acquisition date and the comparative data is not restated.

46. Capital adequacy

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management strategy, the Bank creates a framework and guidelines for the effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, ensuring an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management strategy in mBank is based on two pillars:

- aiming at optimal level and structure of own funds, assuring capital adequacy above the capital strategic targets (established above minimum requirement taking into account the risk appetite at approved level) as well as ensuring coverage against all material risks identified in mBank's activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and IFRS equity and thus creating stable basis for strengthening capital in future periods.

Above pillars of the capital management allow to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in mBank was made according to the following regulations:

- Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on the conditions for the authorisation and prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD Direcive),
- 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 as amended (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, as amended (ITS Regulation),
- the Banking Act of 29 August 1997 (Journal of Laws of 2023 , item 2488, as amended),
- the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management (Journal of Laws of 2022, item 2536, as amended),
- the Regulation of the Minister of Development and Finance of 25 May 2017 on the higher risk weight for exposures secured by mortgages on real estate (Journal of Laws of 2023, item 1751, as amended).

As a result of the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System (the Act) that entered into force in 2015 and transposed the CRD Directive provisions to the Polish prudential regulations, as of 31 December 2023 Bank was obliged to ensure adequate own funds to meet conservation buffer of 2.5% of the total risk exposure amount (31 December 2022: 2.5%).

As of the end of 2023 and 2022 the countercyclical capital buffer rate set for relevant exposures in Poland according with the article 83 of the Act amounted to 0%. mBank specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Bank are located, amounted to 15 b.p. as at 31 December 2023 (31 December 2022: 12 b.p.). The value of the indicator was predominantly affected by the exposures of mBank's foreign branches in the Czech Republic and Slovakia, where the countercyclical buffer rates at the end of 2023 were 2.0% and 1.5% (31 December 2022: 1.5% and 1.0%, respectively).

In 2016 the Bank received an administrative decision of the PFSA that identified mBank as other systemically important institutions (O-SII) and imposed a capital buffer of the total risk exposure amount. Pursuant to the PFSA decision of 29 October 2020 the Bank was obliged to maintain the capital buffer of 0.50% of the total risk exposure, calculated in accordance with article 92(3) of the CRR Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as of 31 December 2023.

Consequently, the combined buffer requirement set for the mBank as at the end of 2023 amounted to 3.15% of the total risk exposure amount (31 December 2022: 3.12%).

In December 2023, the PFSA's 2022 recommendation (amended in June 2023) to maintain own funds to cover the additional capital requirement at the individual level expired:

- in the amount of 1.38% at the level of the total capital ratio,
- in the amount of 1.03% at the Tier 1 capital ratio level.

During 2023 and 2022 capital ratios on the individual level were above the required values taking into account the abovementioned components.

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mBank	31.12.2023		31.12.2022	
Capital ratio	Required level	Reported level	Required level	Reported level
Total capital ratio	11.15%	19.70%	13.15%	19.37%
Tier I ratio	9.15%	17.01%	10.64%	16.42%

The stand-alone leverage ratio, calculated in accordance with the provisions of the CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including transitional definition of Tier I capital, at the end of 2023 amounted to 5.97% (at the end of 2022: 6.43%).

The Bank is also subject to the requirements for own funds and eligible liabilities ("MREL") referred to in Article 98(1) of the BFG Act, transposing the provisions of Article 45 of the Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms in this respect. As at 31 December 2023 the Bank met the applicable minimum requirements.

Own Funds

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

Common Equity Tier I capital of mBank contains:

- capital instruments and the related share premium accounts,
- retained earnings,
- accumulated other comprehensive income and other reserves,
- funds for general banking risk,
- independently reviewed interim profits net of any foreseeable charge or dividend,
- regulatory adjustments.

Tier II capital of mBank contains capital instruments and the related share premium accounts (subordinated liabilities including amortization during the last five years of the maturity of the instruments concerned) and credit risk adjustments (AIRB excess of provisions over expected losses eligible).

The own funds of mBank as at 31 December 2023 amounted to PLN 14 845 446 thousand while the Common Equity Tier I capital amounted to PLN 12 817 356 thousand (as at 31 December 2022 it was PLN 14 768 545 thousand and PLN 12 519 047 thousand respectively).

Total risk exposure amount (TREA)

The total risk exposure amount contains:

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

As at 31 December 2023 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 for income properties (IRB slotting approach),
- mBank retail non-mortgage exposures,
- mBank retail microenterprises mortgage loan portfolio,
- other commercial banks exposures.

Since 2021, mBank 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 2023 as well, and will apply until further notice.

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The total risk exposure amount of mBank as of 31 December 2023 amounted to PLN 75 369 675 thousand including PLN 63 093 257 thousand of risk-weighted exposure amount for credit risk, counterparty credit risk (31 December 2022: PLN 76 253 472 thousand and 65 951 615 thousand respectively).

ICAAP and internal capital

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

These resources are at safe level. The value of Bank's internal funds in regulatory approach is higher than value required to cover the total Bank's capital requirement calculated in line with CRR Regulation. Similarly, in the economic approach, the capital resources in a form of own funds or risk coverage potential, are higher that internal capital estimated for Bank in line with Regulation of the Minister of Finance, Funds and Regional Policy of 27 July 2021 on the detailed manner of estimation of internal capital and the Bank's review of the strategy and procedures for the estimation and ongoing maintenance of internal capital.

CAPITAL ADEQUACY	31.12.2023	31.12.2022
Common Equity Tier I Capital	**12 817 356**	**12 519 047**
Total Own Funds	**14 845 446**	**14 768 545**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries, including:	63 093 257	65 951 615
- under standardised approach	*20 283 340*	*20 065 367*
- under AIRB approach	*40 036 244*	*44 321 331*
- securitisation transactions	*2 770 102*	*1 560 845*
- risk exposure amount for contributions to the default fund of a CCP	*3 571*	*4 072*
Total risk exposure amount for position, foreign exchange and commodities risks	1 292 151	791 154
Total risk exposure amount for operational risks	10 834 923	9 234 453
Total risk exposure amount for credit valuation adjustments	149 344	276 250
Total risk exposure amount	**75 369 675**	**76 253 472**
Common Equity Tier I capital ratio	**17.0%**	**16.4%**
Total capital ratio	**19.7%**	**19.4%**

OWN FUNDS	31.12.2023	31.12.2022
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**13 792 145**	**13 707 768**
Capital instruments and the related share premium accounts	3 616 057	3 604 519
Retained earnings, including:	1 401 758	2 098 482
- profit from the previous years	*1 401 758*	*2 098 482*
Accumulated other comprehensive income (and other reserves)	7 500 530	6 375 517
Funds for general banking risk	1 115 143	1 115 143
Independently reviewed interim profits net of any foreseeable charge or dividend	158 657	514 107
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**(974 789)**	**(1 188 721)**
Additional value adjustments (negative amount)	(60 955)	(66 439)
Intangible assets (net of related tax liability) (negative amount)	(944 804)	(750 465)
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	258 977	695 611
Negative amounts resulting from the calculation of expected loss amounts	-	(57 476)
Exposure amount of the securitisation positions (negative amount) which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(18 647)	(36 234)
Losses for the current financial year (negative amount)	(129 335)	(1 210 831)
Other regulatory adjustments	(80 025)	237 113
Common Equity Tier 1 (CET1) capital	**12 817 356**	**12 519 047**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**12 817 356**	**12 519 047**
Tier 2 (T2) capital before regulatory adjustments	**2 028 090**	**2 249 498**
Capital instruments and the related share premium accounts	1 874 027	2 249 498
Credit risk adjustments	154 063	-
Tier 2 (T2) capital: regulatory adjustments	-	-
Tier 2 (T2) capital	**2 028 090**	**2 249 498**
Total capital (TC = T1 + T2)	**14 845 446**	**14 768 545**

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

The application of the transitional provisions was intended to mitigate the negative impact of unrealized losses on government debt instruments during COVID-19 pandemic, and the decision to apply them meant that the Bank was able to reduce the impact of much of the volatility in the market valuation of its government bond portfolio during the temporary treatment period.

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.

	31.12.2023		31.12.2022	
	Measures reported	Measures calculated without taking into account transitional provisions	Measures reported	Measures calculated without taking into account transitional provisions
Common Equity Tier I capital (PLN thousand)	12 817 356	n/a	12 519 047	12 251 039
Tier I capital (PLN thousand)	12 817 356	n/a	12 519 047	12 251 039
Own funds (PLN thousand)	14 845 446	n/a	14 768 545	14 500 537
Common Equity Tier I ratio (%)	17.0	n/a	16.4	16.0
Tier I capital ratio (%)	17.0	n/a	16.4	16.0
Total capital ratio (%)	19.7	n/a	19.4	19.0
Leverage ratio (%)	5.97	n/a	6.43	6.29

47. Events after the balance sheet date

- On 12 February 2024, the Government Legislation Center's website announced another version of the draft amendment to the Act on supporting consumer borrowers who have taken out a mortgage loan and are in a difficult financial situation and the Act on crowdfunding for business ventures and support to borrowers, which provides for extending the possibility of suspending the performance of mortgage contracts granted in Polish currency (so-called "credit holidays") to 2024. According to the draft amendment to the law, upon meeting certain conditions (the amount of the loan less than PLN 1.2 million and the proportion of the loan instalment to the borrower's income exceeds the level of 35%), borrowers would be entitled to suspend four monthly instalments in 2024. Credit holidays would apply to both the principal and interest portions of the loan. Deadlines for repayment of instalments would be extended without any additional interest for the suspension periods. The Bank estimates that if the amendment to the law as presented in the draft mentioned above comes into effect, mBank will recognize costs related to loan holidays of approximately PLN 290 million, of which approximately PLN 210 million will reduce the Bank's interest income, and approximately PLN 80 million will reduce its Share in profits (losses) of entities under the equity method.