mBank S.A. Group
Consolidated
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 presented below are supplementary information to these Consolidated Financial Statements of mBank S.A. Group for 2023.

SELECTED CONSOLIDATED FINANCIAL DATA		PLN thousand		EUR thousand	
		Year ended 31 December		Year ended 31 December	
		2023	2022 - restated	2023	2022 - restated
I.	Interest income	14 826 765	9 265 806	3 274 173	1 976 368
II.	Fee and commission income	3 015 912	3 026 096	665 999	645 457
III.	Net trading income	73 343	97 198	16 196	20 732
IV.	Operating profit	1 714 140	576 156	378 531	122 892
V.	Profit / (loss) before income tax	970 588	(108 019)	214 334	(23 040)
VI.	Net profit / (loss) attributable to Owners of mBank S.A.	24 054	(702 691)	5 312	(149 882)
VII.	Net profit / (loss) attributable to non-controlling interests	4	164	1	35
VIII.	Net cash flows from operating activities	19 498 985	7 985 988	4 305 933	1 703 387
IX.	Net cash flows from investing activities	(614 871)	(495 740)	(135 781)	(105 740)
X.	Net cash flows from financing activities	1 569 107	(3 783 916)	346 504	(807 098)
XI.	Net increase / decrease in cash and cash equivalents	20 453 221	3 706 332	4 516 655	790 549
XII.	Basic earnings / (loss) per share (in PLN/EUR)	0.57	(16.57)	0.13	(3.53)
XIII.	Diluted earnings / (loss) per share (in PLN/EUR)	0.57	(16.55)	0.13	(3.53)
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED CONSOLIDATED FINANCIAL DATA		PLN thousand		EUR thousand	
		As at		As at	
		31.12.2023	31.12.2022	31.12.2023	31.12.2022
I.	Total assets	226 980 516	209 892 113	52 203 431	44 754 070
II.	Amounts due to other banks	3 315 302	3 270 223	762 489	697 291
III.	Amounts due to customers	185 467 455	174 130 914	42 655 808	37 128 918
IV.	Equity attributable to Owners of mBank S.A.	13 735 187	12 713 001	3 158 967	2 710 719
V.	Non-controlling interests	2 039	2 030	469	433
VI.	Registered share capital	169 861	169 734	39 066	36 191
VII.	Number of shares	42 465 167	42 433 495	42 465 167	42 433 495
VIII.	Book value per share (in PLN/EUR)	323.45	299.60	74.39	63.88
IX.	Total capital ratio (%)	17.0	16.4	17.0	16.4
X.	Common Equity Tier I capital ratio (%)	14.7	13.8	14.7	13.8

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

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

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CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2023	2022 - restated
Interest income, including:	6	14 826 765	9 265 806
Interest income accounted for using the effective interest method		*14 522 983*	*9 093 789*
Income similar to interest on financial assets at fair value through profit or loss		*303 782*	*172 017*
Interest expenses	6	(5 953 294)	(3 341 812)
Net interest income		**8 873 471**	**5 923 994**
Fee and commission income	7	3 015 912	3 026 096
Fee and commission expenses	7	(1 100 004)	(906 019)
Net fee and commission income		**1 915 908**	**2 120 077**
Dividend income	8	9 486	5 236
Net trading income	9	73 343	97 198
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	34 100	(50 924)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	(50 941)	(91 548)
Other operating income	12	317 712	265 162
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	15	(1 076 778)	(817 972)
Costs of legal risk related to foreign currency loans	34	(4 908 205)	(3 112 265)
Overhead costs	13	(2 570 433)	(2 851 881)
Depreciation		(504 016)	(467 308)
Other operating expenses	14	(399 507)	(443 613)
Operating profit		**1 714 140**	**576 156**
Tax on the Bank's balance sheet items		(743 552)	(684 175)
Profit / (loss) before income tax		**970 588**	**(108 019)**
Income tax expense	16	(946 530)	(594 508)
Net profit / (loss)		**24 058**	**(702 527)**
Net profit / (loss) attributable to:			
- Owners of mBank S.A.		24 054	(702 691)
- Non-controlling interests		4	164
Earnings / (loss) per share (in PLN)	17	**0.57**	**(16.57)**
Diluted earnings / (loss) per share (in PLN)	17	**0.57**	**(16.55)**

Notes presented on pages 10–166 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2023 (PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2023	2022
Net profit / (loss)		**24 058**	**(702 527)**
Other comprehensive income net of tax, including:	18	**987 085**	**(313 225)**
Items that may be reclassified subsequently to the income statement		**993 622**	**(316 696)**
Exchange differences on translation of foreign operations (net)	18	(36 667)	6 194
Cash flows hedges (net)	18	482 405	(296 666)
Cost of hedge (net)	18	(20 714)	27 105
Change in valuation of debt instruments at fair value through other comprehensive income (net)	18	568 598	(53 329)
Items that will not be reclassified to the income statement		**(6 537)**	**3 471**
Actuarial gains and losses relating to post-employment benefits (net)	18	(6 537)	3 471
Total comprehensive income (net)		**1 011 143**	**(1 015 752)**
Total comprehensive income (net), attributable to:			
- Owners of mBank S.A.		1 011 139	(1 015 916)
- Non-controlling interests		4	164

Notes presented on pages 10–166 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2023 (PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2023	31.12.2022 - restated	01.01.2022 - restated
Cash and cash equivalents	19	36 702 427	16 250 951	12 540 599
Financial assets held for trading and hedging derivatives	20	1 760 033	2 524 652	2 589 076
Non-trading financial assets mandatorily at fair value through profit or loss, including:	21	898 798	1 044 189	1 417 191
Equity instruments		*244 941*	*185 788*	*224 389*
Debt securities		*50 144*	*45 009*	*81 128*
Loans and advances to customers		*603 713*	*813 392*	*1 111 674*
Financial assets at fair value through other comprehensive income – Debt securities	22	36 965 077	35 117 450	36 206 059
Financial assets at amortised cost, including:	23	143 319 329	147 902 186	139 580 826
Debt securities		*23 323 690*	*19 002 527*	*16 164 103*
Loans and advances to banks		*7 119 059*	*9 569 629*	*6 891 348*
Loans and advances to customers		*112 876 580*	*119 330 030*	*116 525 375*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	20	20 204	3 064	(110 033)
Non-current assets and disposal groups classified as held for sale	24	-	26 747	31 247
Intangible assets	25	1 701 939	1 391 707	1 283 953
Tangible assets	26	1 481 401	1 484 933	1 542 250
Investment properties	27	111 964	136 909	127 510
Current income tax assets		41 035	28 302	28 147
Deferred income tax assets	32	1 379 540	1 875 728	1 392 350
Other assets	28	2 598 769	2 105 295	1 744 199
TOTAL ASSETS		**226 980 516**	**209 892 113**	**198 373 374**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading and hedging derivatives	20	1 495 754	2 086 111	2 011 182
Financial liabilities measured at amortised cost, including:	29	203 458 575	190 567 661	179 348 925
Amounts due to banks		*3 315 302*	*3 270 223*	*5 266 179*
Amounts due to customers		*185 467 455*	*174 130 914*	*157 071 670*
Lease liabilities		*855 725*	*960 324*	*956 838*
Debt securities issued		*11 105 165*	*9 465 479*	*13 429 782*
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	20	(565 985)	(1 528 582)	(1 055 478)
Liabilities classified as held for sale	24	-	7 375	7 425
Provisions	31	2 345 584	1 362 259	836 900
Current income tax liabilities		201 184	571 456	61 910
Deferred income tax liabilities	32	-	-	89
Other liabilities	30	6 308 178	4 110 802	3 444 505
TOTAL LIABILITIES		**213 243 290**	**197 177 082**	**184 655 458**
EQUITY				
Equity attributable to Owners of mBank S.A.		**13 735 187**	**12 713 001**	**13 716 050**
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	**10 649 530**	**10 625 836**	**11 326 494**
- Profit from the previous years		10 625 476	11 328 527	12 505 247
- Profit (loss) for the current year		24 054	(702 691)	(1 178 753)
Other components of equity	40	**(530 528)**	**(1 517 613)**	**(1 204 388)**
Non-controlling interests		**2 039**	**2 030**	**1 866**
TOTAL EQUITY		**13 737 226**	**12 715 031**	**13 717 916**
TOTAL LIABILITIES AND EQUITY		**226 980 516**	**209 892 113**	**198 373 374**

Notes presented on pages 10–166 constitute an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Changes in equity from 1 January to 31 December 2023

	Share capital		Retained earnings		Other components of equity	Equity attributable to Owners of mBank S.A.	Non-controlling interests	Total equity
	Registered share capital	Share premium	Profit from the previous years	Profit/loss for the current year				
Equity as at 1 January 2023	**169 734**	**3 435 044**	**11 328 527**	**(702 691)**	**(1 517 613)**	**12 713 001**	**2 030**	**12 715 031**
Transfer of profit/loss from previous year	-	-	(702 691)	702 691	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**24 054**	**987 085**	**1 011 139**	**4**	**1 011 143**
Issuance of ordinary shares	127	-	-	-	-	127	-	127
Other increases and decreases of equity	-	-	-	-	-	-	5	5
Stock option program for employees	**-**	**11 280**	**(360)**	**-**	**-**	**10 920**	**-**	**10 920**
value of services provided by the employees	-	-	*10 920*	-	-	*10 920*	-	*10 920*
settlement of exercised options	-	*11 280*	*(11 280)*	-	-	-	-	-
Equity as at 31 December 2023	**169 861**	**3 446 324**	**10 625 476**	**24 054**	**(530 528)**	**13 735 187**	**2 039**	**13 737 226**

Changes in equity from 1 January to 31 December 2022

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2023	2022 - restated
Profit / (loss) before income tax		**970 588**	**(108 019)**
Adjustments:		***18 528 397***	***8 094 007***
Income taxes paid		(1 078 944)	(454 867)
Depreciation, including depreciation of fixed assets provided under operating lease	25,26	533 138	498 701
Foreign exchange (gains) losses related to financing activities		(727 249)	473 497
(Gains) losses on investing activities		(23 712)	2 490
Dividends received	8	(9 486)	(5 236)
Interest income (income statement)	6	(14 826 765)	(9 265 806)
Interest expense (income statement)	6	5 953 294	3 341 812
Interest received		13 232 763	9 227 748
Interest paid		(5 895 569)	(2 642 687)
Changes in loans and advances to banks		2 715 407	(2 527 730)
Changes in financial assets and liabilities held for trading and hedging derivatives		1 774 356	(954 096)
Changes in loans and advances to customers		6 950 463	(2 890 289)
Changes in financial assets at fair value through other comprehensive income		(7 652)	1 261 938
Changes in securities at amortised cost		(4 366 033)	(2 806 315)
Changes of non-trading securities mandatorily at fair value through profit or loss		446	57 934
Changes in other assets		(526 948)	(382 611)
Changes in amounts due to banks		83 663	(2 123 045)
Changes in amounts due to customers		11 411 893	16 669 811
Changes in lease liabilities		(47 151)	6 436
Changes in issued debt securities		299 405	(662 074)
Changes in provisions		973 894	528 816
Changes in other liabilities		2 109 184	739 580
A. Cash flows from operating activities		**19 498 985**	**7 985 988**
Disposal of shares in subsidiaries, net of cash disposed		-	122
Disposal of intangible assets and tangible fixed assets		115 703	61 723
Dividends received	8	9 486	5 236
Other investing outflows		-	289
Acquisition of shares in subsidiaries		(21 560)	-
Purchase of intangible assets and tangible fixed assets		(718 500)	(563 110)
B. Cash flows from investing activities		**(614 871)**	**(495 740)**
Issue of debt securities	29	4 884 161	1 792 187
Issue of ordinary shares		127	194
Redemption of debt securities		(2 955 623)	(5 366 177)
Payments of lease liabilities		(167 078)	(115 629)
Interest paid from financing activities		(192 480)	(94 491)
C. Cash flows from financing activities		**1 569 107**	**(3 783 916)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**20 453 221**	**3 706 332**
Effects of exchange rate changes on cash and cash equivalents		(1 745)	4 020
Cash and cash equivalents at the beginning of the reporting period		16 250 951	12 540 599
Cash and cash equivalents at the end of the reporting period	**42**	**36 702 427**	**16 250 951**

Notes presented on pages 10–166 constitute an integral part of these Consolidated Financial Statements.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Name of reporting entity or other means of identification	mBank S.A.
Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period	not applicable
Domicile of entity	Poland
Legal form of entity	joint stock company
Country of incorporation	Poland
Address of registered office of entity	Poland, 00-850 Warszawa, ul. Prosta 18
Principal place of business	Poland, 00-850 Warszawa, ul. Prosta 18
Description of nature of entity's operations and principal activities	providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its by-laws
Name of parent entity	Commerzbank AG
Name of ultimate parent of group	Commerzbank AG

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

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

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

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

As at 31 December 2023, mBank S.A. Group covered by the Consolidated Financial Statements comprised the following companies:

mBank S.A. – the parent entity

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

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

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

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

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

As at 31 December 2023 the headcount of mBank S.A. amounted to 6 649 FTEs (Full Time Equivalents) and of the Group to 7 319 FTEs (31 December 2022: Bank 6 382 FTEs, Group 7 014 FTEs).

As at 31 December 2023 the employment in mBank S.A. was at 7 626 persons and in the Group at 8 397 persons (31 December 2022: Bank 7 387 persons, Group 8 364 persons).

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

Corporate and Investment Banking Segment

- mFaktoring S.A., subsidiary

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

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

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

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

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

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

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

Retail Banking Segment

- mFinanse S.A., subsidiary

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

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

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

- mBank Hipoteczny S.A., subsidiary

The core business of mBank Hipoteczny S.A. is to ensure stable and long-term financing of the Group by issuing mortgage bonds. The company does not conduct independent credit operations but uses the pooling model in cooperation with mBank.

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

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

- mElements S.A., subsidiary (the retail segment of the company's activity)
- mTowarzystwo Funduszy Inwestycyjnych S.A., subsidiary

mTFI S.A. operates in the area of establishment and management of investment funds and providing portfolio management services which may include one or more financial instruments. The subsidiary operates on the basis of Polish Financial Supervision Authority's permission and it is a subject to its supervision.

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Treasury and Other Segment

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

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

Other information concerning companies of the Group

From the beginning of 2023, the Group started to consolidate the subsidiary mTowarzystwo Funduszy Inwestycyjnych S.A. (mTFI) in relation to the start of its operating activities.

Since the beginning of 2022, the Group started to consolidate subsidiaries mFinanse CZ s.r.o. and mFinanse SK s.r.o. in relation to the start of their operating activities. Moreover, in the first quarter of 2022, the Group ceased to consolidate the subsidiary G-Invest Sp. z o.o. due to its immaterial impact on financial result and on financial statements of mBank S.A. Group.

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

Company	31.12.2023		31.12.2022	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full
mElements S.A.	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full
mFinanse CZ s.r.o.	100%	full	100%	full
mFinanse SK s.r.o.	100%	full	100%	full
mTowarzystwo Funduszy Inwestycyjnych S.A.	100%	full	100%	-

As of 31 December 2023, the Bank did not include the following subsidiaries in its consolidated financial statements due to their immateriality:

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

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

2. Information on relevant accounting policies

Information on relevant accounting policies used in the preparation of these consolidated financial statements are set forth below. These accounting policies have been applied consistently in all periods presented, except for accounting policy for hedge accounting. For accounting policy for hedge accounting until 30 June 2022 the Group applied the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9. Starting 1 July 2022 the Group applies IFRS 9 requirements in the area of hedge accounting to all hedge relations except for fair value portfolio hedges of interest rate risk where the hedged item is designated as portion that is a currency amount. The above change in accounting policy, as required by IFRS 9, was implemented prospectively from 1 July 2022 and did not have a material impact on the Group's financial statements. In particular, no hedge relationships were discontinued as a result of this change. New accounting policies are presented in Note 2.12. In addition, the Group changed the presentation of certain items in the statement of financial position and income statement. These changes are described in Note 2.27.

2.1. Accounting basis

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

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

The data for the year 2022 presented in these mBank S.A. Group consolidated 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 Group. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in Note 4.

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

The Management Board, in its assessment of the appropriateness of the going concern assumption by the Group, 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 by the Group in 2023 in the amount of PLN 24 058 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 consolidated financial statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Group is endangered in the period of at least 12 months from the reporting date.

2.2. Consolidated financial statement

These consolidated financial statement presents financial information of the Bank and subsidiaries. The acquisition method is used to account for the acquisition of subsidiaries other than those acquired from parties under common control.

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

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

2.3. Interest income and expenses

All interest income 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 Group calculates interest income using the effective interest rate to the gross carrying amount of the debt 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 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 the case when they relate to financial liabilities, and to interest expenses when they relate to financial assets.

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

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

Interest income and interest expenses 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 and interest expenses on derivatives under the cash flow hedge accounting.

2.4. Fee and commission income

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

The Group recognises immediately the fees not related directly to origination of loans and advances. Fees for services delivered over the period longer than 3 months are recognised by the Group over time.

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

Accounting principles related to recognition of fee income from sale of assurance products bundled with loans and advances are described in a separate Note 2.5.

Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the 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 Group has not retained any part of the credit risk on its own account or has retained a part of the risk of a similar level as other participants.

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

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

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

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

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

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

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

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

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in fee and commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service in accordance with five-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 Group estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

2.6. Financial assets

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

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

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

Financial assets measured at fair value through profit or loss

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

The Group 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 2.12.

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 2.3), except for derivatives the recognition of which is described in Note 2.12, 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. Valuation methods to fair value are described 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 Group has not designated them to fair value through profit or loss: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow characteristics and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are entered into books on the transaction date. At initial recognition financial assets classified to this category are valued at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets measured at fair value through other comprehensive income

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

Interest income and expense from financial assets measured at fair value through other comprehensive income are presented in net interest income. Gains and losses from sale of financial assets measured at fair value through other comprehensive income are presented in gains or losses from 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.

Valuation methods to fair value are described in Note 3.18.

Equity instruments

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

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

Modification of contractual terms for financial assets

The Group derecognises financial assets and re-recognises the financial assets in accordance with the measurement requirements for initial recognition in case of substantial modification of contractual terms of financial assets. As substantial modification the Group defines such a modification that meets one of the following criteria:

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

In the event of substantial modification the deferred income and expense related to this asset is recognised in the income statement and reversal of the loan loss allowance. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as not substantial modifications and the gain or loss on modification is recognised. The effects of all identified not substantial modifications of cash flows 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 the 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 case contract terms are modified as a result of a market-wide reform of the interest rate benchmark, including the replacement of the interest rate benchmark with an alternative benchmark, when:

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

Purchased or originated credit impaired financial assets (POCI assets)

POCI are financial assets measured at amortised cost that at initial recognition are credit impaired. POCI are also financial assets that are credit impaired at the moment of substantial modification. At the initial recognition POCI assets are recognised at fair value. The fair value of POCI assets at the initial recognition is calculated as present value of estimated future cash flows including credit risk discounted for the risk-free rate. After the initial recognition POCI assets are measured at amortised cost. With respect to these financial assets the Group uses credit adjusted effective interest rate in order to determine the amortised cost of financial asset and the interest income generated by these assets – CEIR. In the 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.

2.7. 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.

2.8. 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 in the case of:

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

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

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

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

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

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

2.9. Financial guarantee contracts

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

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

- the amount of the loss allowance determined in accordance with IFRS9, the methodology is described in Note 3.3.6,
- the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 when appropriate.

2.10. 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.

2.11. 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 and 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. For assets subject to repurchase agreements, the Group is exposed to the same risks as those associated with holding identical assets not subject to repurchase agreements.

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

Securities borrowed by the Group 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 Group, financial assets are transferred in such way that they do not qualify for derecognition. Thus, the Group retains substantially all risks and rewards of ownership of the financial assets.

2.12. 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 the whole shall be classified as a financial asset measured at fair value through profit or loss; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a host debt instrument in accordance with IAS 32. The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Group designates some derivative instruments either as fair value hedge against a recognised asset or liability or against a binding contractual obligation (fair value hedge), or as hedge 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 Group applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 2.3. The remaining result from fair value measurement of derivatives is recognised in Net trading income.

Hedge accounting

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

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

The IFRS 9 introduces also 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. The Group takes advantage of this option and includes in the line Other components of equity fair value changes of hedging CIRS contracts in the amount attributable to currency basis spread.

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 Group. In particular no hedge relations has been terminated as a result of these changes.

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2.13. Financial liabilities measured at amortised cost

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

2.14. Intangible assets

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

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 Group, 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.

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,
Investments in third party fixed assets	5-20 years, no longer than the period of the lease contract,
Office equipment, furniture	2-10 years.

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

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 Group to investment property, the difference between the carrying amount of the property determined in accordance with IAS 16 or IFRS 16 and its fair value is recognised by the Group 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. Inventories

Inventories comprise assets held for lease as well as assets taken over as a result of terminated lease agreements. Inventories are presented in the item Other assets. Inventory disposals are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. When the inventories are sold, the carrying amount of the inventories is recognised as other operating expenses in the period in which the related revenue is recognised, which is recognised as other operating income.

2.18. 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. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

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

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

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

2.19. 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, revaluation of certain financial assets and liabilities, including contracts concerning derivative instruments and forward transactions, provisions for retirement benefits and other post-employment benefits and also deductible tax losses.

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

In the case of the Bank, the deferred income tax assets and liabilities are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax.

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

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

2.20. Leasing

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

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

The Group determines the period of lease for non-cancellable leases, taking into account both:

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

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

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

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

At the commencement date, the Group 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 Group. After initial recognition, lease liability is measured at amortised cost.

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

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

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

mBank S.A. Group as a lessor

In operating lease

The Group recognises lease payments from operating leases as income on a straight-line basis or in another systematic manner. The Group recognises costs, including depreciation, incurred in order to obtain benefits from leasing. The Group adds the initial direct costs incurred in order to obtain operating leasing to the carrying value of the underlying asset and it recognises these costs as expenses incurred throughout the lease period on the same basis as lease revenues. The method of depreciation of leased out depreciable assets is the same as that foreseen by the normal depreciation rules adopted by the Group 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 Group applies IAS 36.

In finance lease

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

Provisions

Loan commitments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments. Method of guarantee valuation is presented in Note 2.9.

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

2.21. Post-employment benefits and other employee benefits

Post-employment benefits

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

Equity-settled share-based payment transactions

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

Cash-settled share-based payment transactions

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

Other employee benefits

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

2.22. Equity

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

Registered share capital

Share capital is presented at its nominal value, in accordance with the by-laws and with the entry in the National Court Register.

Own shares

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

Share premium

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

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

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

Retained earnings

Retained earnings include:

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

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

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

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

Other components of equity

Other components of equity result from recognition in the books of the Bank or the Group:

- valuation of financial assets at fair value through other comprehensive income,
- exchange differences on translation of foreign operations,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative financial instruments held for cash flow hedging in relation to the effective portion of the hedge,
- cost of hedge,
- 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 Group, including foreign branches of the Bank, are valued in the currency of the basic economic environment in which the given entity conducts its business ("functional currency"). The financial statements are presented in the Polish zloty, which is the presentation currency of the Group and the functional currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement. Foreign exchange differences arising on account of such monetary items as financial assets measured at fair value through profit or loss are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences arising on account of such monetary items as equity instruments measured at fair value through other comprehensive income are recognised in other comprehensive income.

At the end of each reporting period non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction, and non-monetary items that are measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was measured.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange differences component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange differences component of that gain or loss is recognised in profit or loss.

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

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

Companies belonging to the Group

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

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

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

Leasing business

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

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

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

2.24. Trust and fiduciary activities

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

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

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

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2.25. New standards, interpretations and amendments to published standards

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

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 Group'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 Practice Statement to IFRS 2 Disclosure of Accounting Policies	The amendments to IAS 1 and IFRS 2 Practice Statement 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, Income tax-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 standard 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 Group'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 Group'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 Group 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 Group'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	72 896	5 202	(14 106)
USD LIBOR	176	-	-
Others	1	-	-

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

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

2.26. Comparative data

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

Beginning with the condensed consolidated financial statements mBank S.A. Group for the first half of 2023, the Group 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 Group 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 Group 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 Group has changed the presentation of cash and cash equivalents in the statement of financial position. Previously, the Group 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 the Group presented in the item Loans and advances to banks. Currently, the Group presents all cash and cash equivalents in a single line item in the statement of financial position. In addition, as part of the restatement of comparative data, the amounts reported at the end of 2022 in the statement of cash flows under current accounts with other banks and term deposits with other banks with original maturities of up to three months, respectively, were adjusted.

The above changes were due to the adjustment of the presentation of selected assets and liabilities as well income and expenses 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 Group'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.

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

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Restatements in consolidated income statement 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
Interest income, including:		9 265 806	-	9 265 806
Interest income accounted for using the effective interest method		*9 093 789*	-	*9 093 789*
Income similar to interest on financial assets at fair value through profit or loss		*172 017*	-	*172 017*
Interest expenses	1	(3 356 567)	14 755	(3 341 812)
Net interest income		**5 909 239**	**14 755**	**5 923 994**
Fee and commission income		3 026 096	-	3 026 096
Fee and commission expenses		(906 019)	-	(906 019)
Net fee and commission income		**2 120 077**	**-**	**2 120 077**
Dividend income		5 236	-	5 236
Net trading income		97 198	-	97 198
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(50 924)	-	(50 924)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss		(91 548)	-	(91 548)
Other operating income		265 162	-	265 162
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	1	(803 217)	(14 755)	(817 972)
Costs of legal risk related to foreign currency loans		(3 112 265)	-	(3 112 265)
Overhead costs		(2 851 881)	-	(2 851 881)
Depreciation		(467 308)	-	(467 308)
Other operating expenses		(443 613)	-	(443 613)
Operating profit		**576 156**	**-**	**576 156**
Tax on the Bank's balance sheet items		(684 175)	-	(684 175)
Profit / (loss) before income tax		**(108 019)**	**-**	**(108 019)**
Income tax expense		(594 508)	-	(594 508)
Net profit / (loss)		**(702 527)**	**-**	**(702 527)**
Net profit / (loss) attributable to:				
- Owners of mBank S.A.		(702 691)	-	(702 691)
- Non-controlling interests		164	-	164

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Restatements in consolidated 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 balances with the Central Bank)	2	12 202 266	338 333	12 540 599
Financial assets at amortised cost, including:	*2*	139 919 159	(338 333)	139 580 826
Debt securities		*16 164 103*	-	*16 164 103*
Loans and advances to banks	*2*	*7 229 681*	*(338 333)*	*6 891 348*
Loans and advances to customers		*116 525 375*	-	*116 525 375*
Other items		46 251 949	-	46 251 949
TOTAL ASSETS		**198 373 374**	**-**	**198 373 374**

LIABILITIES AND EQUITY	No	01.01.2022 before restatement	restatement	01.01.2022 after restatement
TOTAL LIABILITIES AND EQUITY		**198 373 374**	**-**	**198 373 374**

Restatements in consolidated 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 balances with the Central Bank)	2	16 014 318	236 633	16 250 951
Financial assets at amortised cost, including:	*2*	148 138 819	(236 633)	147 902 186
Debt securities		*19 002 527*	-	*19 002 527*
Loans and advances to banks	*2*	*9 806 262*	*(236 633)*	*9 569 629*
Loans and advances to customers		*119 330 030*	-	*119 330 030*
Other items		45 738 976	-	45 738 976
TOTAL ASSETS		**209 892 113**	**-**	**209 892 113**

LIABILITIES AND EQUITY	No	31.12.2022 before restatement	restatement	31.12.2022 after restatement
TOTAL LIABILITIES AND EQUITY		**209 892 113**	**-**	**209 892 113**

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Restatements in consolidated 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		**(108 019)**	**-**	**(108 019)**
Adjustments, including:	***2***	***8 135 080***	***(41 073)***	***8 094 007***
Income taxes paid		(454 867)	-	(454 867)
Depreciation, including depreciation of fixed assets provided under operating lease		498 701	-	498 701
Foreign exchange (gains) losses related to financing activities		473 497	-	473 497
(Gains) losses on investing activities		2 490	-	2 490
Dividends received		(5 236)	-	(5 236)
Interest income (income statement)		(9 265 806)	-	(9 265 806)
Interest expense (income statement)		3 356 567	(14 755)	3 341 812
Interest received		9 227 748	-	9 227 748
Interest paid		(2 657 442)	14 755	(2 642 687)
Changes in loans and advances to banks	2	(2 486 657)	(41 073)	(2 527 730)
Changes in financial assets and liabilities held for trading and hedging derivatives		(954 096)	-	(954 096)
Changes in loans and advances to customers		(2 890 289)	-	(2 890 289)
Changes in financial assets at fair value through other comprehensive income		1 261 938	-	1 261 938
Changes in securities at amortised cost		(2 806 315)	-	(2 806 315)
Changes of non-trading securities mandatorily at fair value through profit or loss		57 934	-	57 934
Changes in other assets		(382 611)	-	(382 611)
Changes in amounts due to banks		(2 123 045)	-	(2 123 045)
Changes in amounts due to customers		16 669 811	-	16 669 811
Changes in lease liabilities		6 436	-	6 436
Changes in issued debt securities		(662 074)	-	(662 074)
Changes in provisions		528 816	-	528 816
Changes in other liabilities		739 580	-	739 580
A. Cash flows from operating activities	**2**	**8 027 061**	**(41 073)**	**7 985 988**
B. Cash flows from investing activities		**(495 740)**	**-**	**(495 740)**
C. Cash flows from financing activities		**(3 783 916)**	**-**	**(3 783 916)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**2**	**3 747 405**	**(41 073)**	**3 706 332**
Effects of exchange rate changes on cash and cash equivalents		4 020	-	4 020
Cash and cash equivalents at the beginning of the reporting period		12 540 599	-	12 540 599
Cash and cash equivalents at the end of the reporting period	**2**	**16 292 024**	**(41 073)**	**16 250 951**

3. Risk management

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

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

3.1. Risk management in mBank Group in 2023 – regulatory environment

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

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

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

On 27 October 2021, the European Commission has proposed a draft amendment to the CRR/CRD IV regulatory package to implement the updated Basel standards (Basel IV), primarily with regard to the calculation of capital requirements for individual types of risk. The new requirements will take effect in the European Union on 1 January 2025.

The Group analyses the proposed regulatory changes and assesses their impact in preparation for their implementation. The Group also follows the legislative work, as the published draft amendments despite the fact that it was agreed between the EU institutions has not yet been finally approved and published in the EU's Journal of Law.

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 Group capital position. Changes to the CRR Regulation involve changes to the way capital requirements are calculated in particular, in 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 standardised 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 all 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, which 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 the 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 characterised by default,
- guidelines for estimating the LGD parameter for economic downturns and the standard for estimating and identifying economic downturns in IRB modelling,
- 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 mBank submitted the application for approval of material changes in all PD, CCF and LGD parameters models in portfolios covered by AIRB approach to banking supervisory authorities. The implementation of AIRB models adapted to the aforementioned guidelines is planned for 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, the Group 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, standardise these rules and complementing European guidelines and technical standards (ESMA, EBA). Recommendation A has been implemented by the Group 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 data 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 exposures. 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 Group 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 Group is also involved in the work of the National Working Group on Benchmark Reform (NGR), which was established in connection with the planned reform of benchmarks in Poland and, among others, is to introduce a new interest rate benchmark, for which the input data is information representing O/N (overnight) transactions. The work of the NGR is aimed at ensuring the credibility, transparency and reliability of the development and application of the new reference interest rate index. The Bank has given this work an exceedingly high priority and is guided by the schedule published by the NGR.

Additional information on the impact of IBOR reform is presented in Note 2.26 and Note 20.

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

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

- revised guidelines on the interest rate risk in the banking book (IRRBB) and credit spread risk arising from banking book activities (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 Group 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 essential element of risk management was the update of the risk assessment rules for corporate clients in the environmental, social and governance areas to better reflect the specificity of the Polish economy and ESG risk factors in individual sectors. ESG risk assessment is one of the elements of customer credit risk assessment. The result of the ESG risk analysis is taken into account when making a credit decision on granting financing and every year when renewing the customer's PD-rating.

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

3.2. Principles of risk management

Managing credit risk, the Group focused on identifying factors that could significantly affect customers and the quality of the portfolio.

- In the corporate banking area, the Bank maintained cautious 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 intense pressure caused by high volatility of macroeconomic and geopolitical factors. The Bank adapts to this situation by maintaining a conservative credit policy, particularly in the area of creditworthiness.

3.2.1. Risk management culture

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

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

- The first line of defence 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 analyze and assess the risk. To ensure that the Business is supported and supervised in an objective manner, the second line of defense 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. 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 organisational structure of the Bank and allocates tasks and responsibilities to individual organisational units, ensuring the appropriate distribution of roles in the risk management. The Management Board is also responsible for developing, implementing, effectiveness and updating written strategies, policies and procedures for risk management system, internal capital adequacy assessment process, capital management and capital planning, and internal control system.

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

Chief Environmental Risk Officer (CERO) s 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 optimise financial result, as well as to shape and allocate capital in a way that maximises return on equity of the mBank Group.
- **Sustainable Development Committee of mBank Group** is a platform for making decisions, issuing recommendations and dialogue on sustainable development. The Committee shapes, promotes and monitors sustainable development in the mBank Group.
- **Credit Committee of the mBank Group** 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 as well 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 Group'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 Group'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 the limits on the utilisation of capital resources,
- capital planning and allocation,
- monitoring consisting in a permanent identification of risk involved in mBank Group operations and analysis of the level of capital for risk coverage,
- annual review of the process.

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

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

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

<u>Material risks in the 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 portfolio and securitisation risk. In addition, environmental risk is treated as a horizontal risk, i.e. one that can materialise 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 Group is willing and able to incur in pursuing its business objectives undergoing 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.

Risk Bearing Capacity

Risk bearing capacity is expressed in terms of capital, funding resources and liquidity reserves available for allocation so as to ensure safety in 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.

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

Risk limit system

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

3.2.5. Stress tests within ICAAP and ILAAP

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

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

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

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

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

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

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

The Group monitors the recovery plan indicators in the areas of liquidity, capital, profitability and assets quality in accordance with the governance stipulated in the Recovery Plan for mBank Group including the scope of meeting the trigger of recovery plan.

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

The profitability of core business model of the Group in 2023 remained at a high level. The results for 2023 were influenced by additional costs of legal risk related to FX mortgage loans.

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

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

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

3.3.3. Collateral accepted

Collateral accepted in the process of granting credit products

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

The most common collateral accepted are:

- mortgage on real estate,
- registered pledge,
- cession of receivables (cession of rights),
- monetary deposit,
- 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. Valuation 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 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.

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

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

- standard catalogue of collaterals applicable to credit risk products granted to K2 and K3 segment customers under the simple process and standard process,
- expanded catalogue of collateral 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 and Mezzanine finance,
  - collateral applies to specialised 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.

<u>Collaterals accepted by the mBank Group subsidiaries</u>

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

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

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

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

3.3.4. Rating system

The rating system is a key element of the credit risk management process in the corporate banking area. It consists of 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 contractual and customer factors, information from financial statement), recoveries from secured part of exposure (based on collateral factors),
- Exposure at Default (EAD) model, which includes Credit Conversion Factor (CCF) model and Limit Utilisation (LU) model. The components are based on contract and customer characteristics,
- credit rating (EL-rating) – describing expected loss (EL) and taking into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from default). EL can be described as PD*LGD. EL indicator is used mainly at the credit decision-making stage.

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

The rating system 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:

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- 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 specific of the loan products held/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 visualise 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+ till C	Not applicable	D
	Investment Grade								**Sub-investment Grade**			**Non-investment Grade**						**Default**

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

3.3.5. Monitoring and validation of models

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

The monitoring includes tests to check discriminatory power of individual models or their components, stability over time, the materiality of individual deviations of empirical values from theoretical values and the impact on portfolio parameters. The modelling unit recalibrates the respective models, i.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 other internal regulations of mBank and other Group subsidiaries. The validated models are those that are directly or indirectly used in the assessment of capital adequacy under the AIRB approach, those directly or indirectly used in the process of calculation of provisions under IFRS 9 and others listed in the Bank's List of Models PZM.

In case of AIRB models, 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 model concept and assumptions, correctness of their construction, implementation, their application process and effectiveness, together with the status of the remedial actions taken.

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

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

IRB Method Change Policy

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

3.3.6. Calculating expected credit losses

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

3.3.6.1. How exposures are classified to Stages

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

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

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

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

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

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

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

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

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

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

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

Qualitative criteria are:

- the number of days of delay in paying the amount due is greater than or equal to 31 days, taking into account materiality thresholds:
  - the absolute threshold refers to the past due exposure amount and amounts to PLN 400 for retail exposures in Polish branch and exposures of Private Banking debtors, registered in corporate systems, CZK 2 500 for retail exposures in the foreign branch of the Bank in the Czech Republic, EUR 100 for retail exposures in the foreign branch of the Bank in Slovakia and PLN 2 000 for exposures in the area of corporate and investment banking,
  - the relative threshold refers to the ratio of the past due exposure amount to the total balance sheet exposure amount and amounts to 1%,
- the number of days of delay in paying the amount due of exposure is greater than or equal to 91 days (without materiality thresholds),
- occurrence of the Forborne performing flag (the client status shows that they are experiencing difficulties in repaying the loan commitment, as defined by the Bank),
- 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

For exposures whose characteristics are indicative of low credit risks (LCR), expected credit losses are always determined on a 12-month basis. Exposures designated as LCR may not be transferred from Stage 1 to Stage 2, although they can be moved from Stage 1 to Stage 3 upon being recognised as credit-impaired. The Group applies the LCR criterion to clients from the government and central bank segment with investment grade ratings and to clients from Local Government Units segment. The LCR criterion 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%,
- the Bank's sale of the credit obligation with material economic loss related to change in creditworthiness of the debtor,
- the Bank performed distressed restructuring (the materiality threshold from which the Bank considers a diminished financial obligation to be defaulted is 1%),
- information about enforcement proceedings instigated against a debtor in the amount which in the Bank’s opinion is likely to result in a loss of creditworthiness,
- information about a petition for bankruptcy, liquidation of a debtor, dissolution or annulment of a company, or about appointment of a guardian,
- declaration of bankruptcy of a debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank,
- information about dismissal of a petition for bankruptcy of a debtor on grounds that the assets of the debtor are insufficient or are only sufficient to cover the costs of bankruptcy proceedings,
- debtor’s failure to repay the amount of surety provided by the Government,
- termination of part or whole credit agreement by the Bank or the beginning of restructuring/collection procedures,
- fraud (embezzlement) of the debtor,
- the Bank expecting a loss on the client,
- occurrence of cross default,
- information on filing a restructuring petition or instigating a restructuring proceedings with regard to a debtor within the meaning of the Restructuring Law Act,
- information on major financial problems suffered by a debtor.

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

3.3.6.1.4. Impairment triggers - retail receivables

The list of definite loss events in retail portfolio:

- the number of days past due of the principal, interest or fees is over 90 days. Number of days past due is calculated at the debtor level and commences when both absolute and relative materiality thresholds have been exceeded, where:
  - absolute threshold refers to the sum of all overdue amounts related to the debtor's liabilities towards the Bank and amounts to PLN 400 for Polish branch, CZK 2 500 for the foreign branch of the Bank in the Czech Republic and EUR 100 for the foreign branch of the Bank in Slovakia,
  - relative threshold refers to the ratio of all overdue amounts related to the debtor's liabilities towards the Bank to the sum of balance sheet exposures related to given debtor and amounts to 1%,
- the Bank performed distressed restructuring (the materiality threshold from which the Bank considers a diminished financial obligation to be defaulted is 1%),
- termination of the agreement by the Bank in the event of breach of the loan agreement by the debtor,
- obtaining information on the submission of a petition for consumer bankruptcy by the debtor, conducting court proceedings in this matter or a judgment by the court of consumer bankruptcy,

- obtaining information about the submission of an application by the debtor to initiate or to conduct bankruptcy/restructuring proceedings against the debtor, which, in the Bank's opinion, may result in delay or failure to repay the liability,
- recognition of the contract as fraudulent,
- the Bank's sale of the credit obligation with material economic loss related to change in creditworthiness of the debtor,
- uncollectable status of debt,
- pay-out of low-down payment insurance 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 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 at exposure/recovery source level, minimum 2 scenarios are considered obligatory, with additional condition that one of them reflects a partial loss on exposure/recovery source. Weight of particular scenario results from an expert assessment of the likelihood of scenarios based on the relevant facts of the case, in particular on existing security and their type, client's financial situation, client’s willingness to cooperate, the risks that may occur in the case and micro- and macroeconomic factors.

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

3.3.6.2.1. Use of macroeconomics scenarios in ECL estimation

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

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

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

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

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

3.3.6.2.2. Significant model and methodological changes

In 2023, the Group made the following significant changes to the models and methodologies used to determine expected credit risk 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 realised 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 recognised in the form of a write-down of PLN 15.2 million (negative impact on the result).

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- For the remaining loan portfolio, the macroeconomic indicators used in the expected credit loss model were updated.

  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-specialised loan portfolio was recognised through the deduction of allowances in the amount of PLN 47.2 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 recognised in the form of a write-down of PLN 70.2 million (negative impact on the result).
  - An additional qualitative criterion for transfer to Stage 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 74.5 million (negative impact on the result).

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

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

Portfolio measured at amortised cost

Sub - portfolio	31.12.2023		31.12.2022	
	Exposure (%)	Coverage by expected credit losses allowances (%)	Exposure (%)	Coverage by expected credit losses allowances (%)
1	5.60	0.07	8.64	0.05
2	32.66	0.05	33.65	0.04
3	14.26	0.20	17.55	0.17
4	24.07	0.54	19.76	0.53
5	13.33	2.20	10.77	1.69
6	0.55	5.93	0.40	4.58
7	2.04	10.89	1.59	10.07
8	0.84	0.09	1.20	0.05
Other	3.51	0.10	3.39	0.11
Default category	3.14	54.96	3.05	54.20
Total	**100.00**	**2.45**	**100.00**	**2.17**

As at 31 December 2023, 38.26% 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: 42.29%).

3.3.7. Fair value for credit assets

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

3.3.7.1. Fair value valuation of non-impaired credit assets

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

Future cash flows are determined taking into account:

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

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

3.3.7.2. Fair value valuation of impaired credit assets

Impaired credit assets are valuated based on expected recoveries. In the case of retail exposures the valuation reflected by LGD parameters, and in the 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 will be put up for sale on an appropriate market and sold at the earliest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified for individual types of repossessed collaterals.

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

In 2023 and 2022, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2023, value of repossessed collaterals was PLN 87 622 thousand (31 December 2022: PLN 67 046 thousand) included mainly leasing assets. The value of repossessed collaterals was included in the item inventories (Note 28).

3.3.9. The mBank Group Forbearance Policy

<u>Definition</u>

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

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

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

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

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

Instruments used

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

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

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

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

- maturity extension/extension of loan duration,
- restructuring (medium- or long-term refinancing),
- capitalisation of interest,
- interest deferrals,
- principal deferrals,
- full instalment deferrals,
- suspension, withdrawal from the implementation of activities resulting form additional conditions contained in the contract (covenant waiver),
- standstills.

Risk management

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

In corporate banking the Bank's 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 including classified as default have the forborne status. Non-default debtors, i.e. without recognised loss event, who received the concession (forbearance measures), are subject to close monitoring (Watch List – 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 Group does not use dedicated models to determine level of portfolio provision and special-purpose provision for forborne portfolio.

Forborne exit conditions – corporate banking area

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

- the debtor financial situation's analysis showed improvement and the exposure has been recognised as performing and it was reclassified from the non-performing category,
- at least two years after exposure had been recognised as performing have passed (probation period),
- for the last 12 months of probation period significant and regular capital or interest payments have been made by the borrowers,
- none of the debtor exposures is more than 30 days overdue at the end of probation period.

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Forborne exit conditions – retail banking area

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

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

Portfolio characteristics

	31.12.2023			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 at amortised cost	**116 584 779**	**(3 708 199)**	**112 876 580**	**122 584 242**	**(3 254 212)**	**119 330 030**
of which: forborne exposures	2 814 885	(502 193)	2 312 692	2 839 762	(657 473)	2 182 289
of which: defaulted	*1 164 879*	*(459 218)*	*705 661*	*1 505 721*	*(622 951)*	*882 770*
Loans and advances to customers mandatorily at fair value through profit or loss			**603 713**			**813 392**
of which: forborne exposures			1 128			2 233
of which: defaulted			*606*			*920*
Forborne exposures, total			**2 313 820**			**2 184 522**
of which: defaulted			*706 267*			*883 690*

Change of carrying value of forborne exposures	31.12.2023	31.12.2022
As at the beginning of the period	**2 184 522**	**1 564 754**
Outflow from forborne exposures	(715 962)	(440 835)
Inflow to forborne exposures	978 425	1 185 352
Changes in existing exposures	(133 165)	(124 749)
As at the end of the period	**2 313 820**	**2 184 522**

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

Forborne exposures by client segment	31.12.2023	31.12.2022
Individual customers	1 218 300	1 149 903
including: housing and mortgage loans	*948 354*	*856 714*
Corporate customers	1 095 520	1 034 619
Total	**2 313 820**	**2 184 522**

Forborne exposures by type of assistance	31.12.2023	31.12.2022
Refinancing	148 567	173 479
Modification of terms and conditions	2 165 253	2 011 043
Total	**2 313 820**	**2 184 522**

Forborne exposures by geographical breakdown	31.12.2023	31.12.2022
Poland	2 120 966	2 010 738
Other countries	192 854	173 784
Total	**2 313 820**	**2 184 522**

Forborne exposures by days past due	31.12.2023	31.12.2022
Not past due	128 879	307 534
Past due less than 30 days	1 756 500	1 522 450
Past due 31 - 90 days	117 756	92 142
Past due over 90 days	310 685	262 396
Total	**2 313 820**	**2 184 522**

Forborne exposures by industry	31.12.2023	31.12.2022
Individual customers	1 218 300	1 149 903
Construction	209 812	262 656
Real estate	114 698	307 810
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 industries	203 188	137 854
Total	**2 313 820**	**2 184 522**

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

Client type	Credit exposure 2023 (PLN million)	Credit exposure 2022 (PLN million)
Bank CSA	1 410	1 556
Central counterparties	498	442
Corporate customers with limit	1 196	1 568
Non-banking financial institutions	314	234
Corporate customers with cash collateral and others*	(2)	(5)

**negative exposure means overcollateralization*

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

(PLN million)	Banks*		CCP*		Corporates and others			
					CSA	w/o CSA**	CSA	w/o CSA**
	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 posted (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 initial margin adjustment for banks, CCPs and corporates with CSA*

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

Geographic concentration risk

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

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

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

Sector concentration risk

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

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

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

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

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

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

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

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

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

31.12.2023

No.	Sectors	Carrying amount	Gross carrying amount				%	Accumulated impairment			
			Stage 1	Stage 2	Stage 3	POCI		Stage 1	Stage 2	Stage 3	POCI
1.	Individual customers	63 642 537	54 168 098	8 986 652	2 410 392	158 019	56.37%	(193 087)	(520 983)	(1 336 639)	(29 915)
2.	Real estate	6 321 030	5 288 120	865 845	444 702	17 680	5.68%	(36 655)	(50 211)	(227 658)	19 207
3.	Construction	4 616 829	3 923 440	496 613	481 884	11 722	4.21%	(23 648)	(9 615)	(271 435)	7 868
4.	Food sector	3 330 682	2 874 320	423 340	115 650	-	2.93%	(8 529)	(15 154)	(58 945)	-
5.	Transport and logistics	3 247 718	2 782 211	403 475	147 882	834	2.86%	(7 308)	(5 894)	(86 662)	13 180
6.	Power and heating distribution	2 389 976	2 384 193	22 159	69 805	-	2.12%	(30 149)	(335)	(55 697)	-
7.	Metals	2 297 587	1 894 098	389 582	36 537	14 091	2.00%	(5 486)	(4 581)	(26 172)	(482)
8.	Financial activities	2 156 460	2 108 757	50 446	10 791	16	1.86%	(2 812)	(755)	(9 983)	-
9.	Motorisation	2 137 351	1 903 344	218 663	41 892	-	1.86%	(3 812)	(1 745)	(21 927)	936
10.	Scientific and technical activities	2 025 214	1 853 450	162 978	68 135	6 372	1.79%	(14 499)	(3 849)	(41 011)	(6 362)
11.	Construction materials	1 979 311	1 520 686	449 412	41 944	10 853	1.74%	(4 154)	(2 693)	(30 587)	(6 150)
12.	Chemicals and plastic products	1 640 981	1 441 377	165 341	108 355	247	1.47%	(2 838)	(1 430)	(73 398)	3 327
13.	Retail trade	1 438 006	1 258 603	157 117	66 788	9	1.27%	(3 288)	(2 552)	(38 671)	-
14.	Wholesale trade	1 354 753	1 133 374	184 170	140 477	-	1.25%	(2 948)	(1 672)	(98 648)	-
15.	Human health	1 329 502	1 186 138	156 519	10 029	3	1.16%	(11 916)	(3 831)	(7 440)	-
16.	Wood, furniture and paper products	1 158 284	833 026	274 150	97 901	2	1.03%	(2 631)	(2 483)	(85 185)	43 504
17.	Rental and leasing activities	1 086 180	917 003	166 637	24 745	-	0.95%	(2 458)	(1 106)	(18 641)	-
18.	Fuel	1 083 435	934 854	153 882	12 213	99	0.94%	(2 451)	(19 552)	(2 645)	7 035
19.	IT	993 231	946 796	42 659	36 605	1	0.88%	(5 281)	(713)	(26 836)	-
20.	Other	8 647 513	7 046 823	1 580 729	242 773	6 251	7.63%	(32 202)	(27 929)	(169 798)	866
Total		**112 876 580**	**96 398 711**	**15 350 369**	**4 609 500**	**226 199**	**100.00%**	**(396 152)**	**(677 083)**	**(2 687 978)**	**53 014**

31.12.2022

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

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

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

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

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

The Bank monitors large exposures that are subject to exposure limit i.e. exposures after taking into account the effect of the credit risk mitigation (in accordance with art. 401-403 of CRR Regulation) and exemptions (art. 390 paragraph 6, art. 400, art. 493, paragraph 3 of CRR Regulation), which are equal or exceed 10% of Tier 1. At the end of 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 Tier1,
- for the Bank Gospodarstwa Krajowego in the amount of PLN 1 392 million, which accounted for 11.1% of mBank Group's Tier 1.

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

3.5. Market risk

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

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

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

3.5.1. Organisation of market risk management

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

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

3.5.2. Tools and measures

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

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

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

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

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

- sensitivity of the economic value of capital (delta EVE);
- sensitivity of net interest income (delta NII);
- 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 mBank Group's portfolios and resulting from changes of prices and values of market parameters.

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

Stress tests consist of two parts: standard stress tests designated for standard risk factors (foreign exchange rates, interest rates, stock prices and their volatility), as well as stress tests, which involve changes in credit spreads. 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 Group is exposed to, due to maintaining the portfolio of Treasury bonds.

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

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

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

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

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

- VaR at 97.5% confidence level for a 1-day holding period;
- stress tests results;
- sensitivity measures IR BPV and CS BPV.

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

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

3.5.3. Risk measurement

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

Value at Risk

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

The table below presents VaR and Stressed VaR for the Group's and mBank's portfolios.

PLN 000's	2023				2022			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2023	Mean	31.12.2023	Mean	31.12.2022	Mean	31.12.2022	Mean
VaR IR	13 944	15 588	14 065	15 147	16 300	15 448	16 102	15 913
VaR FX	1 245	683	1 243	661	1 051	1 515	1 104	1 485
VaR CS	53 871	74 789	53 394	73 608	90 321	89 876	88 835	87 931
VaR	**49 861**	**77 807**	**50 869**	**77 098**	**91 139**	**91 924**	**89 048**	**90 313**
Stressed VaR	**100 141**	**89 755**	**98 210**	**88 529**	**91 415**	**110 049**	**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 interest rates and the credit spread - mainly the portfolios of Treasury debt securities (in banking and trading book) and positions resulting from interest rate exchange transactions. The 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.) measures for the Group's and mBank's portfolios, broken down into banking and trading book.

PLN 000's	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Banking book	(1 501)	129	(1 455)	230	(8 481)	(7 297)	(8 401)	(7 136)
Trading book	(38)	(118)	(38)	(118)	(282)	(242)	(282)	(242)
Total	**(1 539)**	**11**	**(1 493)**	**112**	**(8 763)**	**(7 539)**	**(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 prices 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 Group is exposed to changes in currency exchange rates due to other than PLN financial assets and liabilities. The following tables present the exposure of the Group to currency risk as at 31 December 2023 and 31 December 2022. They present carrying amount of assets and liabilities of the Group broken down by currency.

31.12.2023	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash equivalents	16 828 524	19 370 366	145 464	2 427	319 947	35 699	36 702 427
Financial assets held for trading and hedging derivatives	1 638 495	108 519	12 791	137	-	91	1 760 033
Non-trading financial assets mandatorily at fair value through profit or loss, including:	811 521	16 990	69 455	-	832	-	898 798
Equity instruments	*242 421*	*1 688*	-	-	*832*	-	*244 941*
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	36 805 635	81 448	77 994	-	-	-	36 965 077
Financial assets at amortised cost, including:	106 425 206	21 212 082	1 128 768	2 109 034	12 304 708	139 531	143 319 329
Debt securities	*21 377 625*	*1 791 218*	*154 847*	-	-	-	*23 323 690*
Loans and advances to banks	*310 963*	*448 541*	*199 281*	-	*6 160 212*	*62*	*7 119 059*
Loans and advances to customers	*84 736 618*	*18 972 323*	*774 640*	*2 109 034*	*6 144 496*	*139 469*	*112 876 580*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	20 204	-	-	-	-	-	20 204
Intangible assets	1 699 588	127	-	-	2 224	-	1 701 939
Tangible assets	1 441 223	5 778	-	-	34 400	-	1 481 401
Investment properties	111 964	-	-	-	-	-	111 964
Current income tax assets	-	4 557	-	-	36 478	-	41 035
Deferred income tax assets	1 369 469	7 870	-	-	2 201	-	1 379 540
Other assets	1 954 445	475 487	9 674	213	158 606	344	2 598 769
TOTAL ASSETS	**169 106 274**	**41 283 224**	**1 444 146**	**2 111 811**	**12 859 396**	**175 665**	**226 980 516**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	1 165 468	286 666	24 594	18 686	-	340	1 495 754
Financial liabilities measured at amortised cost, including:	138 384 001	39 522 805	7 952 008	4 494 789	11 715 308	1 389 664	203 458 575
Amounts due to banks	*677 861*	*625 404*	*73 595*	*1 938 380*	*1*	*61*	*3 315 302*
Amounts due to customers	*134 340 754*	*29 379 764*	*7 878 413*	*806 668*	*11 689 228*	*1 372 628*	*185 467 455*
Lease liabilities	*120 355*	*692 316*	-	-	*26 079*	*16 975*	*855 725*
Debt securities issued	*1 702 252*	*8 825 321*	-	*577 592*	-	-	*11 105 165*
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	737 421	15 084	11 323	1 574 685	7 067	4	2 345 584
Current income tax liabilities	130 727	19 166	-	-	51 291	-	201 184
Other liabilities	5 280 553	414 980	240 240	184 323	166 533	21 549	6 308 178
TOTAL LIABILITIES	**145 059 396**	**40 331 490**	**8 228 165**	**6 272 483**	**11 940 199**	**1 411 557**	**213 243 290**
Net on-balance sheet position	**24 046 878**	**951 734**	**(6 784 019)**	**(4 160 672)**	**919 197**	**(1 235 892)**	**13 737 226**
Loan commitments and other commitments	30 552 486	3 000 487	279 795	3	493 472	31 987	**34 358 230**
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 914 921	1 836 601	430 718	170	71	19 192	**8 201 673**

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31.12.2022	PLN	EUR	USD	CHF	CZK	Other	Total
ASSETS							
Cash and cash equivalents	3 393 210	12 253 274	245 050	3 352	321 968	34 097	16 250 951
Financial assets held for trading and hedging derivatives	2 088 813	401 543	26 720	5 182	1 878	516	2 524 652
Non-trading financial assets mandatorily at fair value through profit or loss, including:	934 779	42 225	66 696	-	489	-	1 044 189
Equity instruments	*183 478*	*1 821*	-	-	*489*	-	*185 788*
Debt securities	-	-	*45 009*	-	-	-	*45 009*
Loans and advances to customers	*751 301*	*40 404*	*21 687*	-	-	-	*813 392*
Financial assets at fair value through other comprehensive income	34 864 893	18 511	213 774	-	20 272	-	35 117 450
Financial assets at amortised cost, including:	104 632 567	20 766 867	1 324 447	6 440 772	14 563 944	173 589	147 902 186
Debt securities	*19 002 527*	-	-	-	-	-	*19 002 527*
Loans and advances to banks	*653 645*	*1 215 575*	*190 459*	-	*7 505 048*	*4 902*	*9 569 629*
Loans and advances to customers	*84 976 395*	*19 551 292*	*1 133 988*	*6 440 772*	*7 058 896*	*168 687*	*119 330 030*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3 064	-	-	-	-	-	3 064
Non-current assets and disposal groups classified as held for sale	26 747	-	-	-	-	-	26 747
Intangible assets	1 389 759	12	-	-	1 936	-	1 391 707
Tangible assets	1 433 425	7 711	-	-	43 797	-	1 484 933
Investment properties	136 909	-	-	-	-	-	136 909
Current income tax assets	-	457	-	-	27 845	-	28 302
Deferred income tax assets	1 869 813	3 147	-	-	2 768	-	1 875 728
Other assets	1 654 431	200 743	13 005	142	236 849	125	2 105 295
TOTAL ASSETS	**152 428 410**	**33 694 490**	**1 889 692**	**6 449 448**	**15 221 746**	**208 327**	**209 892 113**
LIABILITIES							
Financial liabilities held for trading and hedging derivatives	1 431 588	570 043	27 149	56 783	-	548	2 086 111
Financial liabilities measured at amortised cost, including:	129 673 220	34 078 984	7 799 379	5 570 505	12 112 841	1 332 732	190 567 661
Amounts due to banks	*599 715*	*723 986*	*35 446*	*1 910 911*	-	*165*	*3 270 223*
Amounts due to customers	*125 139 916*	*26 902 115*	*7 763 933*	*933 166*	*12 081 249*	*1 310 535*	*174 130 914*
Lease liabilities	*126 129*	*780 571*	-	-	*31 592*	*22 032*	*960 324*
Debt securities issued	*2 259 760*	*5 672 312*	-	*1 533 407*	-	-	*9 465 479*
Subordinated liabilities	*1 547 700*	-	-	*1 193 021*	-	-	*2 740 721*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1 528 582)	-	-	-	-	-	(1 528 582)
Liabilities classified as held for sale	7 375	-	-	-	-	-	7 375
Provisions	752 232	7 431	654	595 312	6 629	1	1 362 259
Current income tax liabilities	511 847	8 160	-	-	51 449	-	571 456
Other liabilities	3 427 562	402 582	162 260	6 344	87 760	24 294	4 110 802
TOTAL LIABILITIES	**134 275 242**	**35 067 200**	**7 989 442**	**6 228 944**	**12 258 679**	**1 357 575**	**197 177 082**
Net on-balance sheet position	**18 153 168**	**(1 372 710)**	**(6 099 750)**	**220 504**	**2 963 067**	**(1 149 248)**	**12 715 031**
Loan commitments and other commitments	29 387 015	2 991 861	206 688	3	576 929	1 519	33 164 015
Guarantees, banker's acceptances, documentary and commercial letters of credit	5 891 110	1 671 974	512 950	238	176	36 137	8 112 585

3.7. Interest rate risk

mBank S.A.

In the process of management of interest rate risk in the banking book, the Group ensures independence of risk identification, measurement, monitoring and control functions from 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 (PFSA), 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.

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

- the repricing gap (the difference between assets, liabilities and off-balance sheet banking book positions, measured in defined repricing buckets, based on repricing date of the interest rate sensitive products);
- sensitivity of net interest income (delta NII), i.e. the difference of net interest income between the base and alternative scenarios, assuming different shifts in the yield curve and changes in the balance sheet structure, 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, delta 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 changes resulting from legal provisions;
- behavioural options including deposit termination and loan prepayments are calculated on the basis of the historical average.

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

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

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

The Bank aims at stabilisation of the net interest income (NII) and optimisation of profit and loss and EVE changes within the accepted risk appetite.

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

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

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	(821 386)	(498 048)
Sudden parallel down by 200 bp	895 105	548 877
Parallel shock up	(995 042)	(588 426)
Parallel shock down	1 098 899	653 462
Steepened shock	81 676	34 315
Flattener shock	(274 768)	(144 514)
Short rates shock up	(601 574)	(335 028)
Short rates shock down	624 664	348 674
Maximum	(995 042)	(588 426)
Tier I Capital	12 719 997	12 153 665

The year-on-year increase in ΔNII measure was due to increase of short-term assets that are sensitive to changes in interest rates. 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. 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 investing in 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 Hipoteczny S.A.

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

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

EaR (PLN thousand)	31.12.2023	31.12.2022
for position in PLN	3 119	1 975
for position in USD	3	2
for position in EUR	937	816

To calculate these values, there was assumed that the structure of financial assets and liabilities disclosed in the financial statements as at 31 December 2023 and 31 December 2022 would be fixed and the mBank Hipoteczny S.A. would not take any measures to change related exposure to interest rate change risk.

mLeasing Sp. z o.o.

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

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

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

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

The amount of VaR (97.5% confidence level, holding period 1 day) cannot exceed the basic VaR limit for mLeasing applied by mBank SA in a given period (PLN 0.6 million at the end of 2023 and 2022).

The table below presents VaR values as at 31 December 2023 and 31 December 2022, calculated using the parameters specified above.

PLN thousand	VaR	
	31.12.2023	31.12.2022
Interest rate risk	169	115
Currency risk	29	126
Total VaR	**198**	**241**

mBank S.A. Group interest rate risk

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

31.12.2023	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	35 413 551	-	-	-	-	1 288 876	**36 702 427**
Loans and advances to banks	4 261 157	2 548 406	48 585	259 818	-	1 093	**7 119 059**
Debt and equity securities and investments in subsidiaries	22 002 800	4 567 733	15 971 511	16 844 169	1 587 538	255 483	**61 229 234**
Loans and advances to customers	59 591 892	35 764 174	3 403 439	13 644 699	925 946	190 641	**113 520 791**
Other assets and derivative financial instruments	147 433	17 645	82 542	54 512	34 463	3 336 327	**3 672 922**
Total assets	**121 416 833**	**42 897 958**	**19 506 077**	**30 803 198**	**2 547 947**	**5 072 420**	**222 244 433**
LIABILITIES							
Amounts due to banks	1 292 066	71 901	1 468	1 938 343	-	11 524	**3 315 302**
Amounts due to customers	167 652 171	14 293 890	2 515 453	99 173	22 813	883 955	**185 467 455**
Lease liabilities	2 497	1 400	5 378	6 178	-	840 272	**855 725**
Debt securities issued	878 128	3 520 805	577 592	5 978 349	150 291	-	**11 105 165**
Subordinated liabilities	1 952 597	-	762 331	-	-	-	**2 714 928**
Other liabilities and derivative financial instruments	108 100	47 917	62 750	99 425	127 952	7 200 181	**7 646 325**
Total liabilities	**171 885 559**	**17 935 913**	**3 924 972**	**8 121 468**	**301 056**	**8 935 932**	**211 104 900**
Total interest repricing gap	**(50 468 726)**	**24 962 045**	**15 581 105**	**22 681 730**	**2 246 891**		

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	14 158 266	-	-	-	-	2 092 685	**16 250 951**
Loans and advances to banks	9 232 836	97 037	54 929	50 889	-	133 938	**9 569 629**
Debt and equity securities and investments in subsidiaries	22 205 051	2 834 036	12 734 838	13 540 773	3 828 446	191 867	**55 335 011**
Loans and advances to customers	63 443 841	40 999 502	2 794 092	11 823 625	1 085 134	36 948	**120 183 142**
Other assets and derivative financial instruments	242 767	117 355	120 327	3 783	5 433	3 116 325	**3 605 990**
Total assets	**109 282 761**	**44 047 930**	**15 704 186**	**25 419 070**	**4 919 013**	**5 571 763**	**204 944 723**
LIABILITIES							
Amounts due to banks	1 128 281	26 267	202 824	1 910 721	-	2 130	**3 270 223**
Amounts due to customers	155 313 271	13 597 144	4 698 919	40 514	302	480 764	**174 130 914**
Lease liabilities	1 884	1 323	5 227	7 137	-	944 753	**960 324**
Debt securities issued	684 336	2 250 674	534 250	5 797 039	199 180	-	**9 465 479**
Subordinated liabilities	1 975 193	-	765 528	-	-	-	**2 740 721**
Other liabilities and derivative financial instruments	133 779	31 135	42 708	421 998	237 442	5 069 313	**5 936 375**
Total liabilities	**159 236 744**	**15 906 543**	**6 249 456**	**8 177 409**	**436 924**	**6 496 960**	**196 504 036**
Total interest repricing gap	**(49 953 983)**	**28 141 387**	**9 454 730**	**17 241 661**	**4 482 089**		

3.8. Liquidity risk

Sources of liquidity risk

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

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

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

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

A source of risk for off-balance sheet liabilities is a risk posed by clients' behaviour and unexpected drawdown of granted lines. It also concerns the use of intraday and overdraft lines by custody and corporate clients. 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 risk, the Group assesses it as immaterial from the perspective of liquidity risk, but takes it 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. In the Group a centralised approach to the management of financing was introduced in order to increase the effectiveness of the used liquidity resources and to ensure better tenor match of financing with assets.

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

Organisation of risk management

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

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

mBank S.A.

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

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, the supervisory limits were not exceeded. Moreover, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits (management action triggers) on involvement in long-term assets.

Internal limits and appropriate buffers are also imposed on supervisory measures. Relevant analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts are performed. Additionally the Bank analyses the volatility of balance sheet and off-balance sheet items, in particular open credit line facilities and current accounts and overdrafts limits utilisation.

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

The Bank has also adequate procedures in case mBank is threatened with financial liquidity loss. Base on severity of risk factors and the degree of the threat of financial loss relevant actions are defined either in the Contingency Plan in the case of a threat of losing financial liquidity by mBank Group (Contingency Plan) or in the Recovery Plan of mBank Group (Recovery Plan). Scenarios used in both plans are consistent with the above stress tests. 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 the balance sheet structure of future cash flows and keeping liquidity reserves adequate to the liquidity needs, resulting from the activity and structure of the balance sheet of the Bank, obligations to subsidiaries and the current market situation as well as the demand for liquid assets, resulting from the conducted stress tests. For this purpose, the Bank keeps a surplus of liquid and unencumbered assets constituting the Liquidity Reserves, for which there is a possibility of pledging, transaction on repo market or selling at any time without significant loss in value. Liquidity reserves were composed mainly of the Polish government debt securities in PLN and EUR, bills issued by National Bank of Poland in PLN, government debt securities in CZK, EUR 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 31 December 2023 the Bank accumulated a total of approximately PLN 35.2 billion on nostro accounts and interbank deposits.

In the Group the liquidity reserves are held also by mBank Hipoteczny. Liquidity reserves of mBank Hipoteczny were composed of the Polish Government debt securities in PLN and bills issued by the National Bank of Poland in PLN and amounted to:

Value of liquidity reserves (in PLN million)	
31.12.2023	**31.12.2022**
845	1 190

In order to support the process of liquidity risk management, a system of early warnings indicators and recovery indicators was developed in the Bank. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the Bank's balance sheet structure. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan.

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

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

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

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

The measurement, limiting and reporting the liquidity risk

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

Daily reporting covers:

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

The following measures are reported weekly:

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

Monthly reporting covers:

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

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

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

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

Value of realistic, bucket and cumulative gap of cash flows mismatch (in PLN million)				
Time range	gap LAB Base Case - 31.12.2023		gap 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, an increase of deposit base and the low dynamics of 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 to prepay outstanding obligations if Banks's credit rating deteriorates. The amount of the maximum liability resulting therefrom, in the event that the Bank's rating is downgraded to BB+ or lower by two rating agencies, as at the 31 December 2023, amounted 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 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 2022 and values of regulatory measures LCR and NSFR 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 regulatory measures remained on safe level, significantly exceeding 100%.

Funding sources

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the financial plan of the mBank Group defined by selected measures, e.g. L/D ratio (Loans to Deposits). The Bank measures a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. From the end of 2022 to the end of 2023 the L/D ratio declined from 62.1% to 56.2% for the Bank and from 69.0% to 61.2% for the Group. The Bank aims at building a stable deposit base by offering to the clients the deposit and investment products, regular and specific-purpose savings offerings. Funds acquired from the Bank's clients constitute the major funding source for the business activity along with the portfolio of long-term loans from banks and issuances of debt securities (with maturities over 1 year) (Note 29). The loans and issuances together with subordinated loans (Note 29) are the core funding source for the portfolio of mortgage loans in CHF. According to the suspension of granting new mortgage loans in CHF and an increase in level of provisions for legal risk related to loans denominated in this currency, the Bank's receivables and obligations in this currency have been decreasing successively.

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

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

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

The financing strategy is based on the following assumptions:

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

mBank S.A. Group

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

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

Value of realistic, bucket and cumulative gap of cash flows mismatch (in PLN million)				
Time range	gap LAB Base Case - 31.12.2023		gap LAB Base Case - 31.12.2022	
	bucket	cumulative	bucket	cumulative
up to 1 working day	59 098	59 098	42 168	42 168
up to 3 working days	54	59 152	1 714	43 882
up to 7 calendar days	1 617	60 769	10	43 892
up to 15 calendar days	(3 074)	57 695	(2 109)	41 783
up to 1 month	(4 979)	52 716	(2 406)	39 377
up to 2 months	(376)	52 340	756	40 133
up to 3 months	(2 461)	49 879	(2 997)	37 136
up to 4 months	(1 239)	48 640	(504)	36 632
up to 5 months	(1 858)	46 782	(1 428)	35 204
up to 6 months	(1 184)	45 598	(956)	34 248
up to 7 months	(1 531)	44 067	(922)	33 326
up to 8 months	(1 463)	42 604	(1 094)	32 232
up to 9 months	(1 215)	41 389	(1 089)	31 143
up to 10 months	(982)	40 407	(258)	30 885
up to 11 months	(1 577)	38 830	(1 266)	29 619
up to 12 months	(1 479)	37 351	(1 273)	28 346

LAB gaps mismatch in terms up to 1 month and up to 1 year within 2023 and 2022 and supervisory liquidity measure LCR on Group level are presented in the following table.

	31.12.2023	31.12.2022
LAB Base Case 1M	52 716	39 377
LAB Base Case 1Y	37 351	28 346
LCR Group	225%	201%
NSFR Group	158%	150%

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

For other subsidiaries, due to lower total assets and simpler products, the process of monitoring has been worked out based on the following criteria:

- the size of the balance sheet,
- the amount of net external outflows of the subsidiary (excluding intra-group transactions),
- the amount of external financing of the subsidiary,
- the share of the financing granted to customers for more than a year in the total value of financing in the subsidiary.

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

The table below shows cash flows the Group is required to settle, resulting from financial liabilities. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows.

31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	1 258 274	36 213	30 816	2 005 981	-	**3 331 284**
Amounts due to customers	168 330 127	14 994 571	2 610 990	16 741	1 738	**185 954 167**
Lease liabilities	15 206	25 809	118 525	489 356	233 838	**882 734**
Debt securities issued	320 422	204 456	2 014 487	12 986 056	193 250	**15 718 671**
Subordinated liabilities	78 621	13 180	128 915	2 898 873	230 121	**3 349 710**
Other liabilities	4 424 798	1 125 759	12 104	457	-	**5 563 118**
Total liabilities	**174 427 448**	**16 399 988**	**4 915 837**	**18 397 464**	**658 947**	**214 799 684**
Total assets	**75 665 055**	**9 406 967**	**30 714 921**	**103 972 325**	**72 654 262**	**292 413 530**
Net liquidity gap	**(98 762 393)**	**(6 993 021)**	**25 799 084**	**85 574 861**	**71 995 315**	**77 613 846**

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31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to banks	1 011 168	32 891	215 200	2 047 115	-	**3 306 374**
Amounts due to customers	153 657 628	15 266 973	5 920 674	39 966	804	**174 886 045**
Lease liabilities	16 738	28 219	113 573	505 337	339 329	**1 003 196**
Debt securities issued	142 042	1 291 052	1 021 430	7 605 640	409 599	**10 469 763**
Subordinated liabilities	84 976	9 389	133 588	1 288 631	2 059 395	**3 575 979**
Other liabilities	2 544 557	11 131	122	270	2	**2 556 082**
Total liabilities	**157 457 109**	**16 639 655**	**7 404 587**	**11 486 959**	**2 809 129**	**195 797 439**
Total assets	**47 029 399**	**10 082 173**	**31 519 556**	**97 767 147**	**90 623 206**	**277 021 481**
Net liquidity gap	**(110 427 710)**	**(6 557 482)**	**24 114 969**	**86 280 188**	**87 814 077**	**81 224 042**

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

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

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

3.8.2. Cash flows from derivatives

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

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

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

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

The table below shows derivative financial liabilities of the Group, the valuation of which was negative as of end of 2023 and 2022. Cash flows from these instruments are grouped by appropriate remaining maturities as at the balance sheet date and are presented in undiscounted values.

31.12.2023	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)	284 345	683 588	1 858 769	2 289 923	267 255	**5 383 880**
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	**399 606**	**844 163**	**2 172 551**	**2 500 152**	**266 171**	**6 182 643**

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	8 778	396	13 015	-	-	**22 189**
Overnight Index Swap (OIS)	3 189	9 736	26 804	104 290	-	**144 019**
Interest Rate Swaps (IRS)	492 025	1 257 164	4 835 098	7 480 858	719 649	**14 784 794**
Cross Currency Interest Rate Swaps (CIRS)	(704)	(9 014)	(40 774)	(47 126)	-	**(97 618)**
Options	4 645	6 167	21 398	20 454	313	**52 977**
Other	8 013	14 715	22 520	13 477	-	**58 725**
Total derivatives settled on a net basis	**515 946**	**1 279 164**	**4 878 061**	**7 571 953**	**719 962**	**14 965 086**

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Derivative financial instruments settled in gross amounts

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

The table below shows derivative financial liabilities/assets of the Group, which are settled on a gross basis, grouped by appropriate remaining maturities as at the balance sheet date.

31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	32 887 441	10 573 630	6 479 715	1 948 283	-	**51 889 069**
- inflows	32 855 643	10 595 231	6 498 983	1 879 000	-	**51 828 857**

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	26 105 075	10 845 587	7 283 157	3 615 017	-	**47 848 836**
- inflows	26 033 382	10 814 899	7 321 120	3 619 234	-	**47 788 635**

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

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 20 shows nominal values of all open derivative transactions.

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

3.9. Operational risk

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

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

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

- legal risk,
- conduct risk,
- IT risk,
- risk of cyber threats,
- risk of external fraud,
- risk of internal fraud,
- outsourcing risk,
- personnel and organisational risk,
- physical security risk,
- the risk of errors in implementation, delivery and process management,
- 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 mBank to develop appropriate risk management mechanisms and thus increase the security of the Group's activities.

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

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

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

The mBank Group has a system of regular monitoring of operational risks and events, which enables the monitoring of the operational risk profile and ensures regular remedial actions. Regular monitoring allows to quickly detect weaknesses in the risk management system. Thanks to the identification and analysis of the circumstances related to the recorded event and the operational loss, the Group can better understand the reasons for the occurrence of an operational event and adequately prevent their repetition also in other areas of the organisation.

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

Operational losses

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

The vast majority of the Group’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 Group. The objective of compliance risk management is the minimisation of this risk.

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

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

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

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

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

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

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

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

3.11. Business risk

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

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

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

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

3.12. Model risk

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

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

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

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

3.13. Reputational risk

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

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

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

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

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

3.14. Capital risk

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

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

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

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

3.15. FX loans portfolio risk

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

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

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

In managing this risk, the Group takes action to protect the Bank's interests in court proceedings, aimed at obtaining decisions favourable to the Bank as well as runs settlement program for customers with CHF indexed loans.

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

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

More information on legal risk related to mortgage and housing loans granted to individual customers in foreign currencies is included in the Note 34.

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

3.16. Securitisation risk

The Group carried out securitisation transactions in order to reduce the credit risks incurred and to free up some capital. The securitization risk include, in case of the mBank Group, 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 materialise after the conclusion of securitisation transactions and the risks that may materialise in connection with the planned execution of the subsequent securitisation 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 Group 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 Group 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 Group do not treat it as a separate type, but as a so-called horizontal risk, which affects the risks identified and managed in the Group to date to varying degrees and through varying channels of transmission. In addition, the Group distinguish 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 Group's operations do not have a significant direct impact on the climate. The industry in which the Group operates is not one of the sectors with high greenhouse gas emissions. The Group takes care to ensure that its activities do not lead to the destruction of natural ecosystems and biodiversity. According to the Group, this impact manifests itself primarily indirectly, through the financing provided to customers. The Group has an impact on the climate through its decisions related to providing financing to customers in specific industries. The Group 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 Group has completely excluded financing for entities operating in the mining, coal-fired power and fossil-fuel-based heating sectors.

The Group’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 Group uses tools that analyse and quantifies environmental, social and corporate governance risks at the industry level based on a standardised 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, which is part of ESG risk, is the risk of negative, including financial, consequences caused by the actions of the mBank Group or its employees that violate the norms and rules of social relations between the Group's employees, the Group's relations with its contractors, legal entities with which the Group cooperates or customers.

Within social risks, can be distinguish:

- cyber threats, hacking attacks on both mBank Group systems and its customers,
- consequences arising from violations of human rights (including violations of labor rights, rights or freedoms of individuals in terms of personal data protection, bullying, discrimination),
- litigation with the Group'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 Group 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 Group'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 Group's failure to timely comply with new corporate governance regulations,
- reputational risk – the occurrence of this type of risk can materialise through the occurrence of events that affect the Bank's stakeholders' perception of the Group.

For effective management of governance risk, the mBank Group ensures that its operations comply with a transparent system of internal regulations, in accordance with the Internal Governance Policy. In managing this risk, the Group 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 to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction of selling the asset or transferring a liability occurs either:

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

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

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

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

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

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Financial assets and liabilities at amortised cost

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

	31.12.2023		31.12.2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Debt securities	**23 323 690**	**22 266 854**	**19 002 527**	**16 716 128**
Loans and advances to banks	**7 119 059**	**7 126 873**	**9 569 629**	**9 571 960**
Loans and advances to customers, including:	**112 876 580**	**112 776 830**	**119 330 030**	**118 635 928**
Individual customers	**63 642 537**	**64 240 599**	**68 586 288**	**68 379 524**
Current receivables	7 182 778	7 568 606	7 334 567	7 776 122
Term loans	56 293 952	56 506 186	61 230 344	60 582 025
Other	165 807	165 807	21 377	21 377
Corporate customers	**49 109 195**	**48 438 128**	**50 637 195**	**50 150 850**
Current receivables	6 022 731	5 743 616	6 522 197	6 368 367
Term loans, including finance lease	38 571 901	38 179 949	39 179 352	38 846 942
Reverse repo or buy/sell back transactions	899 340	899 340	1 611 154	1 611 154
Other loans and advances	3 507 157	3 507 157	3 258 910	3 258 805
Other	108 066	108 066	65 582	65 582
Public sector customers	**124 848**	**98 103**	**106 547**	**105 554**
Financial liabilities at amortised cost				
Amounts due to other banks	**3 315 302**	**3 315 302**	**3 270 223**	**3 270 223**
Amounts due to customers	**185 467 455**	**185 465 086**	**174 130 914**	**174 126 884**
Debt securities issued	**11 105 165**	**10 972 334**	**9 465 479**	**9 216 032**
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 Group for estimation of the fair values of financial instruments.

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

The fair value for loans and advances to banks and loans and advances to customers is disclosed as the estimated value of future cash flows (including the effect of prepayments) using current interest rates, taking into account the level of the credit spread, the cost of liquidity and the cost of capital. The level of credit spread is determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Bank. To reflect the fact that the majority of the Group's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Group applied appropriate adjustments. Moreover, as the benchmark for valuation of mortgage loans in PLN fair value of mortgage loans classified as valuated through fair value in accordance with IFRS 9 was used, with an adjustment relating to credit quality of the portfolio. For exposures in mBank Hipoteczny the adjustment included also a factor relating to the gap in revenue margin between the valuated portfolio and the portfolio of similar loans in mBank.

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.

<u>Financial liabilities</u>

Financial instruments representing liabilities for the Group include the following:

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

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

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In the case of deposits, the Group has applied the curve constructed on the basis of quotations of money market rates as well as FRA and IRS contracts for appropriate currencies and maturities. In case of subordinated liabilities, the 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 Notes) the Group uses the method of discounting the expected cash flows from bonds. In the part related to the discounting factor, the valuation also includes a component that takes into account mBank's credit spread and a liquidity margin. Due to the fact that the bondholders are secured in terms of the issuer's credit risk with the deposited securities, an assumption was made that these parameters would remain unchanged during the life of the bond.

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

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

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

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

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

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	22 266 854	18 199 454	-	4 067 400
Loans and advances to banks	7 126 873	-	-	7 126 873
Loans and advances to customers	112 776 830	-	-	112 776 830
Total financial assets	**142 170 557**	**18 199 454**	**-**	**123 971 103**
Financial liabilities				
Amounts due to banks	3 315 302	-	1 938 343	1 376 959
Amounts due to customers	185 465 086	-	231 230	185 233 856
Debt securities issued	10 972 334	5 996 197	-	4 976 137
Subordinated liabilities	2 559 783	-	-	2 559 783
Total financial liabilities	**202 312 505**	**5 996 197**	**2 169 573**	**194 146 735**

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31.12.2022	Including:	Level 1 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
Financial assets				
Debt securities	16 716 128	14 185 080	-	2 531 048
Loans and advances to banks	9 571 960	-	-	9 571 960
Loans and advances to customers	118 635 928	-	-	118 635 928
Total financial assets	**144 924 016**	**14 185 080**	**-**	**130 738 936**
Financial liabilities				
Amounts due to banks	3 270 223	-	1 910 721	1 359 502
Amounts due to customers	174 126 884	-	222 295	173 904 589
Debt securities issued	9 216 032	3 601 103	-	5 614 929
Subordinated liabilities	2 631 352	-	-	2 631 352
Total financial liabilities	**189 244 491**	**3 601 103**	**2 133 016**	**183 510 372**

Level 1

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

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

Level 2

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

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

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;
- mortgage bonds and other debt securities issued by mBank Hipoteczny. For the valuation the Group has applied the technique of estimation of interest flow using swap curve and discounting with the rate amended by credit spread which is obtainable in case of issue depending on currency and maturity of financial instrument;
- liabilities due to banks and to customers with maturity up to one year, for which the Group assumed that their fair value is equal to the carrying value;
- liabilities due to banks, liabilities due to customers and liabilities due to debt securities issued with maturity exceeding one year, for which were used valuation methods using at least one significant input data not based on observable market data;
- subordinated liabilities.

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Financial assets and liabilities at fair value and investment properties

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

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	**1 760 033**	**407 875**	**1 074 153**	**278 005**
Loans and advances to customers	40 498	-	-	40 498
Debt securities	634 840	397 333	-	237 507
Equity instruments	10 542	10 542	-	-
Derivative financial instruments, including:	1 074 153	-	1 074 153	-
Derivative financial instruments held for trading	1 256 605	-	1 256 605	-
Hedging derivative financial instruments	245 212	-	245 212	-
Offsetting effect	(427 664)	-	(427 664)	-
Non-trading financial assets mandatorily at fair value through profit or loss	**898 798**	**893**	**-**	**897 905**
Loans and advances to customers	603 713	-	-	603 713
Debt securities	50 144	-	-	50 144
Equity securities	244 941	893	-	244 048
Financial assets at fair value through other comprehensive income	**36 965 077**	**17 250 628**	**18 437 136**	**1 277 313**
Debt securities	36 965 077	17 250 628	18 437 136	1 277 313
Total financial assets	**39 623 908**	**17 659 396**	**19 511 289**	**2 453 223**
Investment properties	**111 964**	**-**	**-**	**111 964**
Financial liabilities				
Financial liabilities held for trading and hedging derivative financial instruments	**1 495 754**	**157 607**	**1 299 702**	**38 445**
Derivative financial instruments, including:	1 338 147	-	1 299 702	38 445
Derivative financial instruments held for trading	1 455 145	-	1 455 145	-
Hedging derivative financial instruments	1 215 504	-	1 177 059	38 445
Offsetting effect	(1 332 502)	-	(1 332 502)	-
Liabilities from short sale of securities	157 607	157 607	-	-
Total financial liabilities	**1 495 754**	**157 607**	**1 299 702**	**38 445**

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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			Debt securities at fair value through other comprehensive income	Investment properties
	Loans and advances	Debt securities	Derivative financial instruments	Loans and advances	Debt securities	Equity securities		
As at the beginning of the period	**39 720**	**307 881**	**31 890**	**813 392**	**45 009**	**185 042**	**1 215 909**	**136 909**
Gains and losses for the period:	**308**	**40 867**	**(70 335)**	**(28 754)**	**5 135**	**43 884**	**8 954**	**(24 945)**
Recognised in profit or loss:	308	40 867	(101 269)	(28 754)	5 135	43 884	-	(24 945)
Net trading income	*308*	*40 867*	*(101 269)*	-	*(4 934)*	*(132)*	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	*(28 754)*	*10 069*	*52 638*	-	-
Other operating income/other operating expenses	-	-	-	-	-	*(8 622)*	-	*(24 945)*
Recognised in other comprehensive income:	-	-	30 934	-	-	-	8 954	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	*8 954*	-
Cash flow hedges	-	-	*30 934*	-	-	-	-	-
Purchases / origination	-	699 124	-	58 780	-	21 903	1 143 395	-
Redemptions / total repayments	-	(190 333)	-	(134 963)	-	-	(254 238)	-
Sales	-	(2 805 232)	-	-	-	-	(2 051 020)	-
Issues	-	2 185 200	-	-	-	-	1 214 313	-
Change in scope of consolidation	-	-	-	-	-	(6 781)	-	-
Other changes	470	-	-	(104 742)	-	-	-	-
As at the end of the period	**40 498**	**237 507**	**(38 445)**	**603 713**	**50 144**	**244 048**	**1 277 313**	**111 964**

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

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Financial assets measured at fair value and investment properties at Level 3 - changes from 1 January to 31 December 2022	Financial assets held for trading and hedging derivatives			Non-trading financial assets mandatorily at fair value through profit or loss			Debt securities at fair value through other comprehensive income	Investment properties
	Loans and advances	Debt securities	Derivative financial instruments	Loans and advances	Debt securities	Equity securities		
As at the beginning of the period	**40 426**	**347 716**	**92 243**	**1 111 674**	**81 128**	**223 519**	**989 811**	**127 510**
Gains and losses for the period:	**1 419**	**17 049**	**(60 353)**	**(31 296)**	**6 095**	**(28 950)**	**(24 245)**	**9 399**
Recognised in profit or loss:	1 419	17 049	59 425	(31 296)	6 095	(28 950)	-	9 399
Net trading income	*1 419*	*17 049*	*59 425*	-	*9 299*	*34*	-	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	*(31 296)*	*(3 204)*	*(27 272)*	-	-
Other operating income/other operating expenses	-	-	-	-	-	*(1 712)*	-	*9 399*
Recognised in other comprehensive income:	-	-	(119 778)	-	-	-	(24 245)	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	*(24 245)*	-
Cash flow hedges	-	-	*(119 778)*	-	-	-	-	-
Purchases / origination	-	857 123	-	42 873	-	2 812	1 168 416	-
Redemptions / total repayments	(3 813)	(70 526)	-	(251 960)	-	-	(319 950)	-
Sales	-	(1 553 320)	-	-	-	(14 168)	(1 032 893)	-
Issues	-	709 839	-	-	-	-	434 770	-
Change in scope of consolidation	-	-	-	-	-	2 101	-	-
Other changes	1 688	-	-	(57 899)	(42 214)	(272)	-	-
As at the end of the period	**39 720**	**307 881**	**31 890**	**813 392**	**45 009**	**185 042**	**1 215 909**	**136 909**

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 the Group 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 at fair value through other comprehensive income in the amount of PLN 15 883 079 thousand (31 December 2022: PLN 670 227 thousand and PLN 15 101 553 thousand, respectively). Level 1 includes the fair value 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 in amount of PLN 10 542 thousand (31 December 2022: PLN 6 129 thousand).

As at 31 December 2023 Level 1 also 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 includes the fair value of bills issued by NBP in the amount of PLN 18 437 136 thousand (31 December 2022: PLN 17 483 362 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).

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Level 3

As at 31 December 2023 Level 3 of the hierarchy presents the fair value of commercial debt securities issued by local banks and companies (bonds and deposit certificates) in the amount of PLN 1 564 964 thousand (31 December 2022: PLN 1 568 799 thousand), including the fair value of a debt instrument measured at fair value through profit or loss, resulting from the reclassification of Visa Inc. preferred shares.

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

Level 3 as at 31 December 2023 includes the value of loans and advances to customers in the amount of PLN 644 211 thousand (31 December 2022: PLN 853 112 thousand). The principles for fair value calculation for loans and advances to customers is described in Note 3.3.7.

Moreover, as at 31 December 2023 Level 3 covers mainly the fair value of equity securities amounting to PLN 244 048 thousand (31 December 2022: PLN 185 042 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 in the range from 12.3% to 13.8% (as at the end of 2022: from 13.9% to 14.4%).

As at 31 December 2023 Level 3 also includes fair value 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 (as at 31 December 2022: 6.75%).

Level 3 also includes the valuation of CIRS contracts concluded under cash flow hedge accounting of the PLN mortgage loan portfolio and covered bonds issued by mBank Hipoteczny (Note 20). As at 31 December 2023, the valuation of these contracts in liabilities amounted to PLN 38 445 thousand (as at 31 December 2022 – assets: PLN 31 890 thousand).

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

Portfolio	Fair value 31.12.2023	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Equity instruments	244 048	(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	1 277 313	(26 848)	26 848	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	237 507	(6 681)	6 681	
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	

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Portfolio	Fair value 31.12.2022	Sensitivity to change of unobservable parameter		Description
		(-)	(+)	
Equity instruments	185 042	(13 346)	16 364	The valuation model uses the cost of own capital as the unobservable discount parameter. Sensitivity was calculated assuming a change in the 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	1 215 868	(24 761)	24 761	The unobservable parameter is the credit spread. Sensitivity was calculated assuming a change in the credit spread by 100 bp. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Corporate debt securities measured at fair value through profit or loss	307 881	(5 790)	5 790	
Loans and advances to customers held for trading	39 720	(460)	443	The valuation model uses credit risk parameters (PD and LGD). Sensitivity was calculated assuming a change in PD and LGD by +/- 10%. As the value of the parameter increases, the Bank expects a loss (-), as it decreases, the Bank expects a profit (+).
Loans and advances to customers mandatorily at fair value through profit or loss	813 392	(10 007)	9 966	

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

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

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

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business ventures and aid to borrowers, which introduced the possibility of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays"). Credit holidays may have applied 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 Group believes that the amendment to the contractual terms of the mortgage loans implemented by the Act constituted an insignificant modification of these financial assets in accordance with IFRS 9.5.4.3.

In 2022, the Group recognised the impact of credit holidays in the total amount of PLN 1 334.4 million, out of which PLN 1 322.4 million decreased the interest income of the Group and PLN 12.0 million related to the effect on hedge accounting and decreased the net trading income. In 2023, due to an updated calculation of the impact of credit holidays, the Group recognised PLN 57.5 million gain on non-substantial modification, which increased net interest income, 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 75.9% of the value of the assumed eligible mortgage loan portfolio had submitted applications applying for an average of 7.4 months of credit holidays. As of 31 December 2023 the gross carrying value of the loans being subject to the credit holidays amounted to PLN 23 376.7 million.

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Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. The methodology and the assumptions, on the basis of which the estimated cash flow amounts and their anticipated timing are determined, are regularly verified. If the current value of estimated cash flows (discounted recoveries from payments of capital, discounted recoveries from interests, discounted recoveries from off-balance sheet liabilities and discounted recoveries from collaterals for on-balance and off-balance sheet loans and advances, weighed by the probability of realisation of specific scenarios) for portfolio of loans and advances which are impaired, change by +/- 10%, the estimated loans and advances impairment would either decrease by PLN 52.8 million or increase by PLN 56.1 million as at 31 December 2023, respectively (as at 31 December 2022: PLN 74.5 million and PLN 81.3 million, respectively). This estimation was performed for portfolio of loans and advances and for off-balance sheet liabilities individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral – Stage 3. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 3.3.6.

Actions taken in relation to the current situation in Ukraine

In 2023, the Group continued to monitor its portfolio of exposures exposed to risk connected with the war in Ukraine. The review concerned the Group's involvement in war countries (Ukraine, Russia) or in conflict - related countries (Belarus), taking into account sanctions imposed by the European Union, the United Kingdom and the USA. 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				Off-balance sheet exposure				Accumulated impairment / off-balance loan loss provision			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Ukraine	-	-	-	-	-	-	-	-	-	-	-	-
Russia	-	-	150	-	-	-	-	-	-	-	(150)	43 504
Belarus	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(150)**	**43 504**

There was also identified an indirect exposure: a balance sheet exposure of PLN 274.0 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				Off-balance sheet exposure				Accumulated impairment / off-balance loan loss provision			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Ukraine	77 990	33 686	1 043	-	81 357	2 360	0	-	(595)	(643)	(404)	-
Russia	17 157	31 219	98 390	-	118 488	8 346	8 696	-	(270)	(9 943)	(86 793)	-
Belarus	13 828	655	80	-	489	-	-	-	(39)	(8)	(80)	-
Total	**108 975**	**65 560**	**99 513**	-	**200 334**	**10 706**	**8 696**	-	**(904)**	**(10 594)**	**(87 277)**	-

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

In the first half of 2023, the Group 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 Group determined the ECL value separately for each of the scenarios used for the purposes of calculating the expected credit risk losses. The impact of 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.

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

Scenario as of 31.12.2023		**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
WIBOR3M	end of the year	6.95%	6.20%	8.25%	8.20%	5.75%	4.70%

Scenario as of 31.12.2022		**base**		**optimistic**		**pessimistic**	
Probability		**60%**		**20%**		**20%**	
		The first year of the forecast	**The second year of the forecast**	**The first year of the forecast**	**The second year of the forecast**	**The first year of the forecast**	**The second year of the forecast**
GDP	y/y	0.2%	2.6%	1.9%	4.0%	-3.5%	3.3%
Unemployment rate	end of the year	5.7%	5.5%	4.3%	3.5%	5.5%	5.9%
Real estate price index	y/y	102.7	106.0	105.8	105.8	101.8	102.1
WIBOR3M	end of the year	7.20%	6.20%	9.00%	7.00%	5.77%	4.77%

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	48 187	56 990	174	**105 351**
pessimistic	(80 755)	(79 436)	(174)	**(160 365)**

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 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 deferral over time based on the analysis of the stage of completion of the service. Expenses directly linked to the sale of insurance products are recognised using the same pattern.

Liabilities due to post-employment benefits

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

Leasing classification

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

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

5. Business segments

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

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

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

- The Retail Banking segment, which offers a full range of products and services to individual customers, including Private Banking customers and micro-businesses. The key products and services offered to customers in this segment include lending products (mortgage loans, overdrafts, cash loans, car loans, credit cards), deposit products (current and savings accounts, term deposits), debit cards, insurance products, brokerage services, investment advice, asset management services and leasing services. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of mFinanse S.A., mFinanse CZ s.r.o., mFinanse SK s.r.o., mTowarzystwo Funduszy Inwestycyjnych S.A., LeaseLink Sp. z o.o. as well as the results of retail segments of mLeasing Sp. z o.o., Asekum Sp. z o.o., mElements S.A. and mBank Hipoteczny S.A.
- The Corporate and Investment Banking segment, which offers financial services to small, medium and large-sized companies, public sector entities, financial institutions and banks. The key products offered to these customers include transactional banking (cash management, current accounts, term deposits, internet banking, trade finance services, letters of credit and guarantees), working capital and investment loans, project finance, structured and mezzanine finance services as well as custody, leasing and factoring services. The products of this segment include operations in foreign currencies, capital and derivatives markets, both proprietary and on behalf of customers, as well as services for arranging and financing securities issues, financial consulting and brokerage services for financial institutions. The Corporate and Investment Banking segment also generates result of foreign exchange risk management. This segment includes the results of the following subsidiaries: mFaktoring S.A. as well as the results of corporate segments of mLeasing Sp. z o. o., Asekum Sp. z o.o., mElements S.A. and mBank Hipoteczny S.A. until the date of separation of part of its activities and its transfer to the mBank which is described in Note 45.
- The Treasury and Other segment consists primarily of treasury and money markets operations, liquidity and interest rate risks management of the Bank and its investment portfolio. The results of the segment include the result of internal settlements of fund transfer pricing, the result of items classified as hedge accounting and results not allocated to other segments. This segment also includes the results of mLeasing Sp. z o.o and mBank Hipoteczny S.A. with regard to activities concerning funding and the results of Future Tech Fundusz Inwestycyjny Zamknięty.

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- FX Mortgage Loans segment consists primarily of foreign currency mortgage loans with indexation clauses granted to individual customers. These types of loans are no longer offered to customers. The segment's assets include only the portfolio of active mortgage loans originally granted in foreign currencies (mainly in CHF, EUR and USD). The segment's liabilities do not include the financing of the portfolio of such loans, which was included in the liabilities of other segments.

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

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

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

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

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

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

Business segment reporting on the activities of mBank S.A. Group for the period from 1 January to 31 December 2023 – data regarding consolidated income statement.

period from 1 January to 31 December 2023	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	5 688 247	2 508 728	658 009	18 487	8 873 471
- sales to external clients	3 632 265	2 536 842	2 381 489	322 875	8 873 471
- sales to other segments	2 055 982	(28 114)	(1 723 480)	(304 388)	-
Net fee and commission income	956 854	1 038 658	(44 177)	(35 427)	1 915 908
Dividend income	-	-	9 486	-	9 486
Trading income	101 889	265 450	(240 828)	(53 168)	73 343
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	32 656	(4 275)	6 277	(558)	34 100
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(4 406)	1 015	(47 650)	100	(50 941)
Other operating income	153 904	134 839	25 543	3 426	317 712
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(868 398)	(224 240)	(2 608)	18 468	(1 076 778)
Costs of legal risk related to foreign currency loans	-	-	-	(4 908 205)	(4 908 205)
Overhead costs	(1 609 774)	(886 844)	(39 133)	(34 682)	(2 570 433)
Amortisation	(350 949)	(147 071)	(5 092)	(904)	(504 016)
Other operating expenses	(143 874)	(169 790)	(85 450)	(393)	(399 507)
Operating profit	**3 956 149**	**2 516 470**	**234 377**	**(4 992 856)**	**1 714 140**
Taxes on Group balance sheet items	(453 494)	(245 677)	(19 385)	(24 996)	(743 552)
Gross profit of the segment	**3 502 655**	**2 270 793**	**214 992**	**(5 017 852)**	**970 588**
Income tax					(946 530)
Net profit / (loss) attributable to Owners of mBank S.A.					24 054
Net profit / (loss) attributable to non-controlling interests					4

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

period from 1 January to 31 December 2022 - restated	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Net interest income	3 064 525	1 989 433	794 672	75 364	5 923 994
- sales to external clients	3 038 997	2 119 313	602 494	163 190	5 923 994
- sales to other segments	25 528	(129 880)	192 178	(87 826)	-
Net fee and commission income	1 065 848	1 113 352	(43 715)	(15 408)	2 120 077
Dividend income	-	-	5 236	-	5 236
Trading income	69 646	351 362	(313 846)	(9 964)	97 198
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(27 909)	(4 566)	(15 702)	(2 747)	(50 924)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(4 548)	(6 655)	(80 345)	-	(91 548)
Other operating income	101 170	123 380	40 293	319	265 162
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(575 385)	(202 676)	(3 764)	(36 147)	(817 972)
Costs of legal risk related to foreign currency loans	-	-	-	(3 112 265)	(3 112 265)
Overhead costs	(1 681 501)	(814 781)	(311 713)	(43 886)	(2 851 881)
Amortisation	(311 753)	(150 240)	(4 597)	(718)	(467 308)
Other operating expenses	(265 597)	(100 511)	(43 009)	(34 496)	(443 613)
Operating profit	**1 434 496**	**2 298 098**	**23 510**	**(3 179 948)**	**576 156**
Taxes on Group balance sheet items	(391 793)	(237 491)	(13 480)	(41 411)	(684 175)
Gross profit of the segment	**1 042 703**	**2 060 607**	**10 030**	**(3 221 359)**	**(108 019)**
Income tax					(594 508)
Net profit / (loss) attributable to Owners of mBank S.A.					(702 691)
Net profit / (loss) attributable to non-controlling interests					164

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

31.12.2023	Retail Banking	Corporate and Investment Banking	Treasury and Other	FX Mortgage Loans	Total figure for the Group
Assets of the segment	69 706 463	48 643 170	104 881 163	3 749 720	**226 980 516**
Liabilities of the segment	129 176 019	59 232 127	22 962 582	1 872 562	**213 243 290**

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

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Information about geographical areas on the activities of mBank S.A. Group for the period from 1 January to 31 December 2023 and for the period from 1 January to 31 December 2022.

	from 1 January to 31 December 2023			from 1 January to 31 December 2022- restated		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Net interest income	8 339 132	534 339	**8 873 471**	5 498 372	425 622	**5 923 994**
Net fee and commission income	1 861 418	54 490	**1 915 908**	2 056 642	63 435	**2 120 077**
Dividend income	9 486	-	**9 486**	5 236	-	**5 236**
Trading income	69 229	4 114	**73 343**	92 400	4 798	**97 198**
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	34 100	-	**34 100**	(50 924)	-	**(50 924)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(50 439)	(502)	**(50 941)**	(91 384)	(164)	**(91 548)**
Other operating income	308 982	8 730	**317 712**	260 932	4 230	**265 162**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(1 035 246)	(41 532)	**(1 076 778)**	(798 698)	(19 274)	**(817 972)**
Costs of legal risk related to foreign currency loans	(4 908 205)	-	**(4 908 205)**	(3 112 265)	-	**(3 112 265)**
Overhead costs	(2 374 842)	(195 591)	**(2 570 433)**	(2 674 684)	(177 197)	**(2 851 881)**
Amortisation	(490 450)	(13 566)	**(504 016)**	(453 772)	(13 536)	**(467 308)**
Other operating expenses	(389 430)	(10 077)	**(399 507)**	(432 018)	(11 595)	**(443 613)**
Operating profit	**1 373 735**	**340 405**	**1 714 140**	**299 837**	**276 319**	**576 156**
Taxes on Group balance sheet items	(687 726)	(55 826)	**(743 552)**	(632 381)	(51 794)	**(684 175)**
Gross profit of the segment	**686 009**	**284 579**	**970 588**	**(332 544)**	**224 525**	**(108 019)**
Income tax			(946 530)			(594 508)
Net profit / (loss) attributable to Owners of mBank S.A.			24 054			(702 691)
Net profit / (loss) attributable to non-controlling interests			4			164

Information about geographical areas on the activities of mBank S.A. Group as at 31 December 2023 and as at 31 December 2022.

	31.12.2023			31.12.2022		
	Poland	Foreign Countries	Total	Poland	Foreign Countries	Total
Assets of the segment, including:	217 452 308	9 528 208	**226 980 516**	199 392 516	10 499 597	**209 892 113**
- tangible assets	3 252 775	42 529	**3 295 304**	2 960 017	53 532	**3 013 549**
- deferred income tax assets	1 369 606	9 934	**1 379 540**	1 870 220	5 508	**1 875 728**
Liabilities of the segment	197 104 470	16 138 820	**213 243 290**	180 017 783	17 159 299	**197 177 082**

6. Net interest income

	Year ended 31 December	
	2023	2022
Interest income		
Interest income accounted for using the effective interest method	**14 522 983**	**9 093 789**
Interest income of financial assets at amortised cost, including:	12 583 363	8 251 999
- Loans and advances	*10 802 020*	*8 572 447*
- Debt securities	*701 675*	*447 746*
- Cash and short-term placements	*882 910*	*380 588*
- Gains or losses on non-substantial modification (net)	*44 815*	*(1 328 932)*
- Other	*151 943*	*180 150*
Interest income on financial assets at fair value through other comprehensive income, including:	1 939 620	841 790
- Debt securities	*1 939 620*	*841 790*
Income similar to interest on financial assets at fair value through profit or loss, including:	**303 782**	**172 017**
Financial assets held for trading, including:	75 066	46 992
- Loans and advances	*5 198*	*3 968*
- Debt securities	*69 868*	*43 024*
Non-trading financial assets mandatorily at fair value through profit or loss, including:	109 231	125 025
- Loans and advances	*109 231*	*125 025*
Interest income on derivatives classified into banking book	119 485	-
Total interest income	**14 826 765**	**9 265 806**

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The items Gains or losses on non-substantial modification (net) in 2022 include a loss of PLN 1 322.4 million resulting from the recognition of suspending the execution of mortgage contracts granted in Polish currency (so-called "credit holidays"). In 2023, due to an updated calculation of the impact of credit holidays, the Group recognised in this item a profit of PLN 57.5 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.

Interest income on financial assets at amortised cost includes interest on leasing activities in the amount of PLN 1 164 771 thousand (for the period ended 31 December 2022: PLN 885 866 thousand).

	Year ended 31 December	
	2023	**2022**
Interest expenses		
Financial liabilities held for trading	(19 428)	(13 686)
Financial liabilities measured at amortised cost, including:	(4 461 489)	(2 182 714)
- Deposits	*(3 771 828)*	*(1 742 941)*
- Loans received	*(4 523)*	*(4 515)*
- Issue of debt securities	*(459 330)*	*(270 919)*
- Subordinated liabilities	*(182 502)*	*(126 325)*
- Other financial liabilities	*(40 849)*	*(35 487)*
- Lease liabilities	*(2 457)*	*(2 527)*
Interest expenses on derivatives classified into banking book	-	(81 955)
Interest expenses on derivatives concluded under the fair value hedge	(875 719)	(502 506)
Interest expenses on derivatives concluded under the cash flow hedge	(595 143)	(537 995)
Other	(1 515)	(22 956)
Total interest expense	**(5 953 294)**	**(3 341 812)**

Net interest income per client groups is as follows:

	Year ended 31 December	
	2023	**2022**
Interest income		
From banking sector	3 367 468	1 041 505
From other customers, including:	11 459 297	8 224 301
- individual clients	*5 975 708*	*3 864 227*
- corporate clients	*4 509 313*	*3 604 818*
- public sector	*974 276*	*755 256*
Total interest income	**14 826 765**	**9 265 806**

	Year ended 31 December	
	2023	**2022**
Interest expenses		
From banking sector	(424 473)	(84 543)
From other customers, including:	(4 886 989)	(2 860 025)
- individual clients	*(2 558 002)*	*(954 490)*
- corporate clients	*(2 261 427)*	*(1 840 975)*
- public sector	*(67 560)*	*(64 560)*
Debt securities issued	(459 330)	(270 919)
Subordinated liabilities	(182 502)	(126 325)
Total interest expense	**(5 953 294)**	**(3 341 812)**

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7. 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	610 250	612 117
Commissions from currency transactions	496 457	516 540
Commissions from bank accounts	286 523	383 770
Commissions from money transfers	239 056	223 895
Fees from brokerage activity and debt securities issue	162 567	172 374
Commissions for agency service regarding sale of insurance products of external financial entities	135 495	129 883
Commissions due to guarantees granted and trade finance commissions	113 659	109 980
Commissions for agency service regarding sale of other products of external financial entities	84 697	74 329
Fees from cash services	61 916	53 963
Commissions on trust and fiduciary activities	30 247	32 919
Fees from portfolio management services and other management-related fees	27 036	25 127
Other	82 481	61 376
Total fee and commission income	**3 015 912**	**3 026 096**

In relation to finance leases, income relating to variable lease payments not included in the measurement of the net investment in the lease in 2023 amounted to PLN 5 199 thousand (2022: PLN 4 718 thousand). For operating leases, lease income relating to variable lease payments that do not depend on an index or a rate, in 2023 amounted to PLN 919 thousand (2022: PLN 893 thousand). The above-mentioned amounts are included in Credit-related fees and commissions.

	Year ended 31 December	
	2023	**2022**
Fee and commission expense		
Payment cards-related fees	(332 626)	(292 815)
Commissions paid to external entities for sale of the Group’s products	(206 254)	(185 976)
Commissions of insurance products	(14 505)	(13 944)
Commissions paid for sale of external financial entities’ products	(48 051)	(36 181)
Discharged brokerage fees	(39 044)	(36 823)
Cash services	(60 638)	(56 655)
Fees to NBP, KIR and GPW Benchmark	(24 611)	(21 785)
Other discharged fees	(374 275)	(261 840)
Total fee and commission expense	**(1 100 004)**	**(906 019)**

8. 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 non-consolidated subsidiaries accounted for using other than the equity method	5 101	900
Total dividend income	**9 486**	**5 236**

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9. Net trading income

	Year ended 31 December	
	2023	**2022**
Foreign exchange result	**(22 192)**	**(98 533)**
Net exchange differences on translation	214 733	(243 507)
Net transaction gains/losses	(236 925)	144 974
Gains or losses on financial assets and liabilities held for trading	**99 409**	**208 879**
Derivatives, including:	89 050	195 387
- Interest-bearing instruments	*59 228*	*167 945*
- Market risk instruments	*29 822*	*27 442*
Equity instruments	(1 367)	(100)
Debt securities	12 033	12 173
Loans and advances	308	1 419
Financial liabilities	(615)	-
Gains or losses from hedge accounting	**(3 874)**	**(13 148)**
Net profit on hedged items	(1 219 553)	1 058 283
Net profit on fair value hedging instruments	1 212 322	(1 050 479)
Ineffective portion of cash flow hedge	3 357	(20 952)
Total net trading income	**73 343**	**97 198**

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

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

10. 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	(28 754)	(31 296)
Total gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**34 100**	**(50 924)**

In the item Equity instruments, in 2023 the Group 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).

11. Gains or 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:	(50 941)	(91 548)
- Financial assets measured at fair value through other comprehensive income	*(46 634)*	*(85 771)*
- Financial assets at amortised cost	*(4 307)*	*(5 777)*
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**(50 941)**	**(91 548)**

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

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

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

	Year ended 31 December 2023		Year ended 31 December 2022	
	Gains	Losses	Gains	Losses
Debt securities	8 986	(55 620)	1 886	(87 658)
Loans and advances	7 670	(11 977)	36 293	(42 069)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**16 656**	**(67 597)**	**38 179**	**(129 727)**

12. Other operating income

	Year ended 31 December	
	2023	2022
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	88 545	63 019
Income from services provided	14 050	14 547
Net income from operating lease and sublease of right-of-use assets	9 585	9 006
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	41 852	17 637
Income from recovered receivables designated previously as prescribed, remitted or uncollectible	14 627	5 414
Income from compensations, penalties and fines received	935	450
Gains from the sale of an organised part of the company mFinanse S.A.	18 280	40 200
Net revenues from the sale and revaluation of investments in subsidiaries and associates	14 115	21 371
Other	114 936	80 433
Total other operating income	**317 712**	**265 162**

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

Net revenues from the sale of an organised part of the company mFinanse S.A. relate to sale transaction in 2018 by mBank S.A. of 100% shares in Latona S.A. to Phoebe IVS based in Denmark, and subsequent sale by mFinanse S.A. of an organised part of the mFinanse S.A. to Latona S.A. The organised part of the enterprise was a separate activity under which, on the basis of agency agreements, mFinanse S.A. performed insurance intermediation activities in the field of group insurance contracts as an insurance agent. As a result of the transaction, till 31 December 2023 mBank Group recognised profit before tax in the amount of PLN 402.1 million, of which PLN 18.3 million in 2023.

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

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

Net income from operating lease and sublease of right-of-use assets generated for 2023 and for 2022 is presented below.

	Year ended 31 December	
	2023	2022
Net income from operating lease and sublease of right-of-use assets including:		
- Income from operating lease	26 845	29 663
- Income from sublease of right-of-use assets	11 862	10 736
- Amortisation cost of assets in operating lease and subleased right-of-use assets	(29 122)	(31 393)
Total net income from operating lease and sublease of right-of-use assets	**9 585**	**9 006**

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13. Overhead costs

	Year ended 31 December	
	2023	**2022**
Staff-related expenses	(1 447 285)	(1 226 891)
Material costs, including:	(886 765)	(729 149)
- costs of administration and real estate services	*(333 680)*	*(273 249)*
- IT costs	*(250 664)*	*(205 553)*
- marketing costs	*(194 941)*	*(149 107)*
- consulting costs	*(87 091)*	*(82 814)*
- other material costs	*(20 389)*	*(18 426)*
Taxes and fees	(41 453)	(35 622)
Contributions and transfers to the Bank Guarantee Fund	(181 837)	(247 424)
Contributions to the Borrowers Support Fund	-	(170 938)
Contributions to the Social Benefits Fund	(13 018)	(13 786)
Institutional Protection Scheme	(75)	(428 071)
Total overhead costs	**(2 570 433)**	**(2 851 881)**

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

In 2022, the Group also recognised the cost of contributions to the Borrowers Support Fund in the amount of PLN 170 938 thousand. The obligation to pay a contribution to the Borrowers Support Fund in 2022 was introduced by the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers.

In 2023, the item Material costs includes costs related to short-term leasing contracts in the amount of PLN 210 thousand (2022: PLN 204 thousand), costs related to leasing contracts of low-value assets that are not short-term contracts in the amount of PLN 645 thousand (2022: PLN 381 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	(1 149 725)	(985 929)
Social security expenses	(203 174)	(170 703)
Employee contributions related to post-employment benefits	(17)	(756)
Remuneration concerning share-based payments, including:	(11 284)	(13 014)
- share-based payments settled in mBank S.A. shares	*(10 920)*	*(12 673)*
- cash-settled share-based payments	*(364)*	*(341)*
Other staff expenses	(83 085)	(56 489)
Staff-related expenses, total	**(1 447 285)**	**(1 226 891)**

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

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14. Other operating expenses

	Year ended 31 December	
	2023	**2022**
Losses arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(77 795)	(58 397)
Provisions for future commitments	(159 321)	(223 714)
Costs arising from provisions created for other receivables (excluding loans and advances)	(5 162)	(4 703)
Donations made	(5 666)	(6 259)
Compensation, penalties and fines paid	(1 607)	(3 297)
Cost arising from write-offs of time-barred, waived and irrecoverable receivables and liabilities	(721)	-
Losses from changes in fair value of investment properties	(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	(539)	(4 500)
Debt collection expenses	(19 915)	(29 432)
Losses on sale and revaluation of investments in subsidiaries and associates	(23 726)	(22 961)
Other operating costs	(73 216)	(79 605)
Total other operating expenses	**(399 507)**	**(443 613)**

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

In 2023, the item "Provisions for future commitments" includes 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 judgement. 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, this item included among other things the cost of a provision set up by mFinanse in connection with an inspection of the Social Insurance Institution in the amount of PLN 98 223 thousand (Note 33), as well as the cost of a provision in the amount of PLN 84 000 thousand for the reimbursement of additional bridge insurance costs charged to customers who were granted mortgage loans for the period before the mortgage was registered in the land register. The obligation to reimburse such costs stems from the amendment to the Law on Mortgage Loan and Supervision of Mortgage Loan Brokers and Agents, which came into effect on 17 September 2022.

15. 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:	**(1 175 693)**	**(839 443)**
Debt securities	(1 020)	(885)
Stage 1	*(1 020)*	*(885)*
Loans and advances	(1 174 673)	(838 558)
Stage 1	*1 628*	*34 115*
Stage 2	*(291 429)*	*(36 695)*
Stage 3	*(918 715)*	*(840 476)*
POCI	*33 843*	*4 498*
Financial assets at fair value through other comprehensive income, including:	**(2 187)**	**239**
Debt securities	(2 187)	239
Stage 1	*(1 325)*	*(349)*
Stage 2	*(862)*	*588*
Commitments and guarantees given	**101 102**	**21 232**
Stage 1	*(3 745)*	*8 576*
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	**(1 076 778)**	**(817 972)**

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

16. Income tax expense

	Year ended 31 December	
	2023	**2022**
Current tax	(695 534)	(1 012 453)
Deferred income tax (Note 32)	(250 996)	417 945
Total income tax	**(946 530)**	**(594 508)**
Profit / (loss) before tax	**970 588**	**(108 019)**
Tax calculated at Polish current tax rate (19%)	(184 412)	20 524
Effect of different tax rates in other countries	3	(16)
Income not subject to tax	21 030	9 594
Costs other than tax deductible costs, thereof:	(770 158)	(627 470)
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	*(141 275)*	*(129 993)*
Contributions and other mandatory payments that are not deductible (including the Bank Guarantee Fund)	*(34 549)*	*(79 489)*
Other	*(75 513)*	*(34 482)*
Other positions affecting income tax	(13 136)	2 860
Inactive tax losses	143	-
Total tax liability	**(946 530)**	**(594 508)**
Effective tax rate calculation		
Profit (loss) before income tax	970 588	(108 019)
Income tax	(946 530)	(594 508)
Effective tax rate (%)	**97.52%**	**n/a**

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

From 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, based on Corporate Income Tax Act, Tax Capital Group of mBank ("TCG"). According to the Corporate Income Tax Act, mBank – as a dominant entity – represents TCG with respect described by tax law. In a year preceding establishing the TCG, there was no tax losses in either of the entity that is a member of TCG. The TCG agreement has been concluded for 4 years.

The current tax breakdown by country is presented below.

	Year ended 31 December	
	2023	**2022**
Poland	(629 763)	(952 603)
Czech Republic	(51 092)	(52 620)
Slovakia	(14 679)	(7 230)
Total current tax	**(695 534)**	**(1 012 453)**

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

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17. Earnings / (loss) per share

Earnings per share for 12 months

	Year ended 31 December	
	2023	2022
Basic:		
Net profit / (loss) attributable to Owners of mBank S.A.	24 054	(702 691)
Weighted average number of ordinary shares	42 451 562	42 403 048
Net basic profit / (loss) per share (in PLN per share)	**0.57**	**(16.57)**
Diluted:		
Net profit / (loss) attributable to Owners of mBank S.A., applied for calculation of diluted earnings per share	24 054	(702 691)
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 net profit / (loss) per share (in PLN per share)	**0.57**	**(16.55)**

According to IAS 33, the Bank prepares a calculation of the diluted earnings per share taking into account contingently issuable shares as part of the incentive programmes described in the Note 43 of these consolidated statements. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented reporting periods that could potentially dilute basic earnings per share in the future.

The basic earnings per share is computed as the quotient of the Bank stockholders' share of the profit and the weighted average number of ordinary shares during the year.

The diluted earnings per share is calculated as ratio of net profits attributable to Bank's shareholder and the weighted average number of ordinary shares as if all possible ordinary shares were replaced with shares causing the dilution. The Group has one category of potential ordinary shares causing the dilution – the subscription warrants, the exercise of which enables the acquisition of shares. The number of diluting shares is computed as the number of shares that would be issued if all rights to shares were executed at the market price, determined as the average annual closing price of the Bank's shares.

18. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 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	**1 235 247**	**(241 625)**	**993 622**	**(390 448)**	**73 752**	**(316 696)**
Exchange differences on translation of foreign operations	(36 667)	-	(36 667)	6 194	-	6 194
Cash flow hedges	595 562	(113 157)	482 405	(366 254)	69 588	(296 666)
Cost of hedge	(25 573)	4 859	(20 714)	33 463	(6 358)	27 105
Debt instruments at fair value through other comprehensive income	701 925	(133 327)	568 598	(63 851)	10 522	(53 329)
Items that will not be reclassified to the income statement	**(8 069)**	**1 532**	**(6 537)**	**4 285**	**(814)**	**3 471**
Actuarial gains and losses relating to post-employment benefits	(8 069)	1 532	(6 537)	4 285	(814)	3 471
Total other comprehensive income	**1 227 178**	**(240 093)**	**987 085**	**(386 163)**	**72 938**	**(313 225)**

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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	**993 622**	**(316 696)**
Exchange differences on translating foreign operations	**(36 667)**	**6 194**
Gains or losses on exchange differences on translation of foreign operations included in other comprehensive income	(36 667)	6 194
Unrealised gains (positive differences) arising during the year (net)	*45 043*	*10 393*
Unrealised losses (negative differences) arising during the year (net)	*(81 710)*	*(4 199)*
Cash flows hedges (effective part)	**482 405**	**(296 666)**
Gains or losses included in other comprehensive income	(82 743)	(710 451)
Unrealised gains arising during the year (net)	*29 786*	*80 520*
Unrealised losses arising during the year (net)	*(112 529)*	*(790 971)*
Reclassification to the income statement (net)	565 148	413 785
Cost of hedge	**(20 714)**	**27 105**
Gains or losses included in other comprehensive income	(20 214)	27 105
Unrealised gains arising during the year (net)	-	*27 105*
Unrealised losses (negative differences) arising during the year (net)	*(20 214)*	-
Reclassification to the income statement (net)	(500)	-
Valuation of debt instruments at fair value through other comprehensive income	**568 598**	**(53 329)**
Gains or losses on valuation of debt instruments included in other comprehensive income	530 824	(122 804)
Unrealised gains on debt instruments arising during the year (net)	*530 824*	*5 564*
Unrealised losses on debt instruments arising during the year (net)	-	*(128 368)*
Reclassification to the income statement (net)	37 774	69 475
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(6 537)**	**3 471**
Actuarial gains and losses relating to post-employment benefits	**(6 537)**	**3 471**
Actuarial gains (net)	-	*3 471*
Actuarial losses (net)	*(6 537)*	-
Total other comprehensive income (net)	**987 085**	**(313 225)**

19. Cash and cash equivalents

	31.12.2023	31.12.2022
Cash on hand	1 545 034	1 645 857
Cash balances at central banks	34 993 283	14 368 461
Current accounts (payable on demand) and overnight deposits with other banks	164 110	196 041
Deposits with banks up to 3 months	-	40 592
Total cash and cash equivalents	**36 702 427**	**16 250 951**

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

Financial assets held for trading and hedging derivatives

	31.12.2023	31.12.2022
Derivatives	**1 074 153**	**1 500 695**
- Derivatives held for trading classified into banking book	550 507	593 653
- Derivatives held for trading classified into trading book	706 098	1 199 748
- Derivatives designated as fair value hedges	241 597	121 875
- Derivatives designated as cash flow hedges	3 615	36 814
- Offsetting effect	(427 664)	(451 395)
Equity instruments	**10 542**	**6 129**
- Other financial corporations	10 542	-
- Non-financial corporations	-	6 129
Debt securities	**634 840**	**978 108**
- General governments, including:	397 333	670 227
pledged securities	*280 193*	*278 219*
- Credit institutions	-	24 212
- Other financial corporations	101 660	101 887
- 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	**1 760 033**	**2 524 652**

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	**1 338 147**	**1 825 573**
- Derivatives held for trading classified into banking book	207 540	395 883
- Derivatives held for trading classified into trading book	1 247 605	1 767 202
- Derivatives designated as fair value hedges	946 888	2 106 851
- Derivatives designated as cash flow hedges	268 616	679 253
- Offsetting effect	(1 332 502)	(3 123 616)
Liabilities from short sale of securities	**157 607**	**260 538**
Total financial liabilities held for trading and hedging derivatives	**1 495 754**	**2 086 111**

Derivative financial instruments

The Group has the following types of derivative instruments:

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

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

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

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

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

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

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

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

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

31.12.2023	Contract amount		Fair value	
	Purchase	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	18 967 527	19 464 658	58 714	489 266
- Currency swaps	33 567 168	32 990 491	629 174	107 990
- Cross-currency interest rate swaps	2 231 267	2 258 585	18 073	19 833
- OTC currency options	5 418 102	7 025 333	42 051	193 732
Total OTC derivatives	**60 184 064**	**61 739 067**	**748 012**	**810 821**
- Currency futures	990 998	992 403	-	-
Total foreign exchange derivatives	**61 175 062**	**62 731 470**	**748 012**	**810 821**
Interest rate derivatives				
- Interest rate swap, OIS	165 619 933	165 619 933	343 771	489 211
- 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	**181 582 580**	**179 660 944**	**355 830**	**505 330**
Market risk transactions	2 491 815	2 589 457	152 763	138 994
Total derivative assets / liabilities held for trading	**245 249 457**	**244 981 871**	**1 256 605**	**1 455 145**
Hedging derivatives				
Derivatives designated as fair value hedges	25 973 848	25 973 848	241 597	946 888
- Interest rate swap, OIS	25 973 848	25 973 848	241 597	946 888
Derivatives designated as cash flow hedges	7 059 400	7 033 930	3 615	268 616
- Interest rate swaps	5 755 000	5 755 000	3 615	230 171
- Cross-currency interest rate swaps	1 304 400	1 278 930	-	38 445
Total hedging derivatives	**33 033 248**	**33 007 778**	**245 212**	**1 215 504**
Offsetting effect			**(427 664)**	**(1 332 502)**
Total	**278 282 705**	**277 989 649**	**1 074 153**	**1 338 147**
Short-term (up to 1 year)	129 557 529	127 619 203	846 034	1 000 372
Long-term (over 1 year)	148 725 176	150 370 446	228 119	337 775

31.12.2022	Contract amount		Fair value	
	Purchase	Sell	Assets	Liabilities
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	16 392 618	16 774 537	126 093	323 682
- Currency swaps	29 898 482	29 463 451	543 867	257 619
- Cross-currency interest rate swaps	5 966 841	6 002 521	65 070	49 730
- OTC currency options	9 264 440	9 640 383	115 946	137 310
Total OTC derivatives	**61 522 381**	**61 880 892**	**850 976**	**768 341**
- Currency futures	916 806	921 064	-	-
Total foreign exchange derivatives	**62 439 187**	**62 801 956**	**850 976**	**768 341**
Interest rate derivatives				
- Interest rate swap, OIS	253 886 494	253 888 028	580 542	1 045 893
- Forward rate agreements	9 520 000	10 660 000	524	2 894
- OTC interest rate options	203 733	769 903	12 965	24 334
Total interest rate derivatives	**263 610 227**	**265 317 931**	**594 031**	**1 073 121**
Market risk transactions	2 866 762	2 995 905	348 394	321 623
Total derivative assets / liabilities held for trading	**328 916 176**	**331 115 792**	**1 793 401**	**2 163 085**
Hedging derivatives				
Derivatives designated as fair value hedges	22 248 365	22 248 365	121 875	2 106 851
- Interest rate swaps, OIS	22 248 365	22 248 365	121 875	2 106 851
Derivatives designated as cash flow hedges	10 851 970	10 723 930	36 814	679 253
- Interest rate swaps	9 445 000	9 445 000	4 924	679 253
- Cross-currency interest rate swaps	1 406 970	1 278 930	31 890	-
Total hedging derivatives	**33 100 335**	**32 972 295**	**158 689**	**2 786 104**
Offsetting effect			**(451 395)**	**(3 123 616)**
Total	**362 016 511**	**364 088 087**	**1 500 695**	**1 825 573**
Short-term (up to 1 year)	136 153 864	137 603 825	827 417	914 078
Long-term (over 1 year)	225 862 647	226 484 262	673 278	911 495

Apart from 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.

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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	922 368	-	1 322 803	-
2	306 747	-	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	(427 664)		(451 395)	
Total	**1 074 153**	**40 498**	**1 500 695**	**39 720**

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	175 427	240 812
3.0 – 3.8	62 079	36 886
Total	**634 840**	**978 108**

The 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 Group applies fair value hedge accounting and cash flow hedge accounting.

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

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

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

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

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

Fair value hedge accounting

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

At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk in order to confirm that hedging relationships are effective in accordance with the accounting policy described in Note 2.12.

Description of the hedging relation

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

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

Hedged items

The hedged items are:

- fixed interest rate mortgage bonds issued by mBH with a nominal value of EUR 426 900 thousand,
- fixed interest rate loans received by mBank from European Investment Bank with a nominal value of respectively CHF 113 110 thousand, CHF 175 560 thousand and CHF 138 388 thousand,
- fixed rate bonds issued by mBank S.A. with a nominal value of CHF 125 000 thousand,
- senior non-preferred bonds issued by mBank S.A., fixed rate during three years since the issue date, with nominal value of EUR 750 000 thousand,
- senior non-preferred bonds issued by mBank S.A., fixed rate during five years since the issue date, with nominal value of EUR 500 000 thousand,
- part of the fixed interest rate housing and consumer portfolio, denominated in CZK, granted by mBank's foreign branch in the Czech Republic,
- part of the portfolio of deposits modelled by the Bank in PLN with economic characteristics of fixed rate deposits,
- part of the fixed interest rate mortgage portfolio owned by mBH.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

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

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Hedged items – fair value hedge

31.12.2023	The carrying amount of the hedged item	The accumulated amount of fair value hedge adjustments on the hedged item	The line item in the statement of financial position that includes the hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Micro hedges				
Bonds issued by mBank S.A. with a fixed interest rate	(5 996 198)	100 429	Financial liabilities measured at amortised cost – Debt securities issued	(200 752)
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 mortgage bonds issued by mBH	1 816 216	55 500	Financial liabilities measured at amortised cost – Debt securities issued	(62 730)
Fixed interest rate housing and consumer portfolio denominated 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				
Fixed interest rate mortgage portfolio owned by mBH	412 594	20 204	Financial assets at amortised cost – Loans and advances to customers	17 140
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				**(1 219 553)**

31.12.2022	The carrying amount of the hedged item	The accumulated amount of fair value hedge adjustments on the hedged item	The line item in the statement of financial position that includes the hedged item	The change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
Micro hedges				
Bonds issued by mBank S.A. with a fixed interest rate (including those subject to substitution)	(3 601 103)	303 787	Financial liabilities measured at amortised cost – Debt securities issued	288 056
Fixed interest rate loans received by mBank from European Investment Bank	(1 910 721)	127 340	Financial liabilities measured at amortised cost – Amounts due to banks - Loans and advances received	132 471
Fixed interest rate mortgage bonds issued by mBH	(1 899 806)	118 228	Financial liabilities measured at amortised cost – Debt securities issued	185 224
Fixed interest rate housing and consumer portfolio denominated in CZK	971 816	(134 278)	Financial assets at amortised cost – Loans and advances to customers	(23 636)
Hedging the fair value of a portfolio of financial assets and liabilities against interest rate risk				
Fixed interest rate mortgage portfolio owned by mBH	425 515	3 064	Financial assets at amortised cost – Loans and advances to customers	3 064
Deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	(13 375 000)	1 528 582	Financial liabilities measured at amortised cost – Amounts due to customers - Deposits	473 104
TOTAL				**1 058 283**

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

	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 mortgage bonds issued by mBH	54 567	(188 833)
Instruments hedging fixed interest rate mortgage portfolio denominated in CZK	(36 613)	10 922
Instruments hedging fixed interest rate mortgage portfolio owned by mBH	(14 757)	13 848
Instruments hedging deposits modelled by mBank in PLN with economic characteristics of fixed-rate deposits	948 399	(471 950)
TOTAL	**1 212 322**	**(1 050 479)**

Nominal values of hedging derivatives - fair value hedge

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31.12.2023	1 207 198	500 000	1 985 350	22 173 035	108 265	**25 973 848**
31.12.2022	-	1 203 580	600 000	20 444 785	-	**22 248 365**

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

	Year ended 31 December	
	2023	2022
Interest income/expense on derivatives concluded under the fair value hedge accounting (Note 6)	(875 719)	(502 506)
Net profit on hedged items (Note 9)	(1 219 553)	1 058 283
Net profit on fair value hedging instruments (Note 9)	1 212 322	(1 050 479)
The total results of fair value hedge accounting recognised in the income statement	**(882 950)**	**(494 702)**

Cash flow hedge accounting

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

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

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

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

The nominal values of hedging derivatives - cash flow hedge

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 (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	425 000	200 000	2 390 000	2 740 000	-	**5 755 000**
The average rate of fixed leg	2,364%	2,468%	1,546%	1,421%	-	

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

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

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

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

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

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

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

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

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

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

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

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

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

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from January 2024 to September 2025.

Hedged items – cash flow hedge

	Nominal value of hedged items		Change in the fair value due to hedge accounting since the date of designation of the hedged instrument	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Loans in PLN with a variable interest rate	1 278 930	1 278 930	68 093	148 385
Mortgage bonds issued in a convertible currency at a fixed rate	1 304 400	1 406 970	(24 217)	(150 199)

Hedging instruments – cash flow hedge

	Nominal value of hedging instruments		Change in the fair value due to hedge accounting from the date of designation of the hedging instrument		Other equity items – effective part of CIRS valuation	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
CIRS variable leg PLN	1 278 930	1 278 930	(66 373)	(146 160)	(67 305)	(147 168)
CIRS fixed leg EUR	1 304 400	1 406 970	20 275	145 442	(1 197)	22 158

The nominal values of hedging derivatives - cash flow hedge

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 (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	-	-	1 278 930	-	**1 278 930**
The average rate of fixed leg	-	-	-	2.4299%	-	
CURRENCY RISK						
Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds						
Nominal value (PLN '000)	-	-	-	1 304 400	-	**1 304 400**
The average rate of fixed leg	-	-	-	0.302%	-	

31.12.2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swaps (IRS) hedging cash flows arising from granted loans with a variable interest rate denominated in PLN						
Nominal value (PLN '000)	-	-	-	1 278 930	-	**1 278 930**
The average rate of fixed leg	-	-	-	2.4299%	-	
CURRENCY RISK						
Foreign exchange swap (CIRS) hedging cash flows arising from issued mortgage bonds						
Nominal value (PLN '000)	-	-	-	1 406 970		**1 406 970**
The average rate of fixed leg	-	-	-	0.302%	-	

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

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

The main sources of hedge ineffectiveness are:

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

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

The following note presents other comprehensive income due to cash flow hedge and cost of hedge for the period from 1 January to 31 December 2023 and for the period from 1 January to 31 December 2022.

	Year ended 31 December	
	2023	**2022**
CASH FLOW HEDGE		
Other gross comprehensive income from cash flow hedge at the beginning of the period	**(983 788)**	**(617 534)**
Gains/losses included in other gross comprehensive income during the reporting period	(102 151)	(877 099)
The amount transferred in the period from other comprehensive income to profit and loss	697 713	510 845
- net interest income	*595 143*	*537 995*
- foreign exchange result	*102 570*	*(27 150)*
Accumulated other gross comprehensive income from cash flow hedge at the end of the reporting period	**(388 226)**	**(983 788)**
Income tax on accumulated other comprehensive income at the end of the reporting period	73 763	186 920
Accumulated other net comprehensive income from cash flow hedge at the end of the reporting period	**(314 463)**	**(796 868)**
Impact on other comprehensive income in the reporting period (gross)	595 562	(366 254)
Income tax on cash flow hedges	(113 157)	69 588
Impact of cash flow hedge on other comprehensive income in the reporting period (net)	**482 405**	**(296 666)**
COST OF HEDGE		
Other gross comprehensive income from cost of hedge at the beginning of the period	**33 463**	**-**
Gains/losses included in other gross comprehensive income during the reporting period	(24 815)	33 842
The amount transferred in the period from other comprehensive income to profit and loss	(758)	(379)
- Amount of amortisation from separate component of equity to profit or loss related to the foreign currency basis spread from the time of designation	*(758)*	*(379)*
Accumulated other gross comprehensive income from cost of hedge at the end of the reporting period	**7 890**	**33 463**
Income tax on accumulated other comprehensive income at the end of the reporting period	(1 499)	(6 358)
Accumulated other net comprehensive income from cost of hedge at the end of the reporting period	**6 391**	**27 105**
Impact on other comprehensive income in the reporting period (gross)	(25 573)	33 463
Income tax on cost of hedges	4 859	(6 358)
Impact of cost of hedge on other comprehensive income in the reporting period (net)	**(20 714)**	**27 105**

	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)	569 989	(332 791)
Results of cash flow hedge accounting recognised in the income statement	(694 356)	(531 797)
- amount included as interest income/expense in income statement during the reporting period (Note 6)	*(595 143)*	*(537 995)*
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 9)	*3 357*	*(20 952)*
- foreign exchange result	*(102 570)*	*27 150*
Impact on comprehensive income in the reporting period (gross)	**(124 367)**	**(864 588)**

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Impact of the IBOR reform

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

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

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

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

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

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

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

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

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

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

	31.12.2023	31.12.2022
Equity instruments	**244 941**	**185 788**
- Other financial corporations	191 395	133 100
- Non-financial corporations	53 546	52 688
Debt securities	**50 144**	**45 009**
- Other financial corporations	50 144	45 009
Loans and advances to customers	**603 713**	**813 392**
- Individual customers	536 920	690 795
- Corporate customers	66 676	122 509
- Public sector customers	117	88
Total non-trading financial assets mandatorily at fair value through profit or loss	**898 798**	**1 044 189**
Short-term (up to 1 year)	517 858	692 237
Long-term (over 1 year)	380 940	351 952

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

Rating	Debt securities	
	31.12.2023	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	103 220
3	47 521	120 743
4	211 194	282 694
5	183 458	210 395
6	12 499	11 404
7	47 532	47 612
default	54 087	37 012
Total	**603 713**	**813 392**

The rating system is described in Note 3.3.4.

22. 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	**36 965 077**	**36 947 018**	**28 800**	**-**	**-**	**(9 879)**	**(862)**	**-**	**-**
- Central banks	18 437 136	18 440 343	-	-	-	(3 207)	-	-	-
- General governments, including:	15 883 079	15 885 813	-	-	-	(2 734)	-	-	-
pledged securities	*618 614*	*618 614*	-	-	-	-	-	-	-
- Credit institutions	479 769	480 464	-	-	-	(695)	-	-	-
- Other financial institutions	1 567 142	1 540 594	28 800	-	-	(1 390)	(862)	-	-
pledged securities	*383 022*	*383 022*	-	-	-	-	-	-	-
- Non-financial corporations	597 951	599 804	-	-	-	(1 853)	-	-	-
Total financial assets at fair value through other comprehensive income	**36 965 077**	**36 947 018**	**28 800**	**-**	**-**	**(9 879)**	**(862)**	**-**	**-**

Short-term (up to 1 year) gross	23 401 182
Long-term (over 1 year) gross	13 574 636

31.12.2022	Carrying amount	Gross carrying amount including valuation to fair value				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**35 117 450**	**35 126 009**	**-**	**-**	**-**	**(8 559)**	**-**	**-**	**-**
- Central banks	17 483 362	17 486 266	-	-	-	(2 904)	-	-	-
- General governments, including:	15 101 553	15 104 112	-	-	-	(2 559)	-	-	-
pledged securities	*677 551*	*677 551*	-	-	-	-	-	-	-
- Credit institutions	375 548	375 921	-	-	-	(373)	-	-	-
- Other financial institutions	1 445 590	1 446 001	-	-	-	(411)	-	-	-
pledged securities	*415 618*	*415 618*	-	-	-	-	-	-	-
- Non-financial corporations	711 397	713 709	-	-	-	(2 312)	-	-	-
Total financial assets at fair value through other comprehensive income	**35 117 450**	**35 126 009**	**-**	**-**	**-**	**(8 559)**	**-**	**-**	**-**

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

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As at 31 December 2023, the gross carrying amounts of debt securities with fixed interest rates amounted to PLN 26 650 434 thousand and debt securities with variable interest rates PLN 10 325 384 thousand (31 December 2022, respectively: PLN 28 665 250 thousand and PLN 6 460 759 thousand).

The above note includes government bonds pledged under the Bank Guarantee Fund (BFG) and government bonds pledged as collateral for the loans received from the European Investment Bank.

In accordance with the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution, with further amendments, as at 31 December 2023 the Group held government bonds 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, respectively: PLN 579 990 thousand and PLN 645 000 thousand).

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

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	Changes in credit risk	Other movements	As at the end of the period
Debt securities	**(8 559)**	**-**	**-**	**-**	**(43 001)**	**43 322**	**(2 508)**	**5**	**(10 741)**
Stage 1	(8 559)	(256)	355	-	(43 001)	43 051	(1 474)	5	(9 879)
Stage 2	-	256	(355)	-	-	271	(1 034)	-	(862)
Expected credit losses allowance, total	**(8 559)**	**-**	**-**	**-**	**(43 001)**	**43 322**	**(2 508)**	**5**	**(10 741)**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Other movements	As at the end of the period
Debt securities	**(8 823)**	**-**	**-**	**-**	**(11 296)**	**10 543**	**992**	**25**	**(8 559)**
Stage 1	(8 235)	-	-	-	(11 296)	9 955	992	25	(8 559)
Stage 2	(588)	-	-	-	-	588	-	-	-
Expected credit losses allowance, total	**(8 823)**	**-**	**-**	**-**	**(11 296)**	**10 543**	**992**	**25**	**(8 559)**

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

Change from 1 January to 31 December 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 movements	As at the end of the period
Debt securities	**35 126 009**	**-**	**-**	**-**	**238 874 139**	**(243 096 412)**	**6 072 082**	**36 975 818**
Stage 1	35 126 009	20 486	(66 590)	-	238 874 139	(243 078 427)	6 071 401	36 947 018
Stage 2	-	(20 486)	66 590	-	-	(17 985)	681	28 800
Gross carrying amount, total	**35 126 009**	**-**	**-**	**-**	**238 874 139**	**(243 096 412)**	**6 072 082**	**36 975 818**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Other movements	As at the end of the period
Debt securities	**36 214 882**	**-**	**-**	**-**	**22 203 004**	**(23 102 699)**	**(189 178)**	**35 126 009**
Stage 1	36 170 934	-	-	-	22 203 004	(23 058 751)	(189 178)	35 126 009
Stage 2	43 948	-	-	-	-	(43 948)	-	-
Gross carrying amount, total	**36 214 882**	**-**	**-**	**-**	**22 203 004**	**(23 102 699)**	**(189 178)**	**35 126 009**

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

31.12.2023	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 – 1.2	923 871	-	-	-	923 871
1.4 – 1.6	1 367 706	-	-	-	1 367 706
1.8 – 2.0	33 656 424	-	-	-	33 656 424
2.2 – 2.8	583 913	-	-	-	583 913
3.0 – 3.8	365 938	-	-	-	365 938
4.0 – 5.0	49 166	28 800	-	-	77 966
Gross carrying amount	**36 947 018**	**28 800**	**-**	**-**	**36 975 818**
Accumulated impairment	(9 879)	(862)	-	-	(10 741)
Total carrying amount	**36 937 139**	**27 938**	**-**	**-**	**36 965 077**

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at fair value through other comprehensive income					
1.0 – 1.2	213 774	-	-	-	213 774
1.4 – 1.6	1 316 783	-	-	-	1 316 783
1.8 – 2.0	32 376 604	-	-	-	32 376 604
2.2 – 2.8	822 763	-	-	-	822 763
3.0 – 3.8	396 085	-	-	-	396 085
Gross carrying amount	**35 126 009**	**-**	**-**	**-**	**35 126 009**
Accumulated impairment	(8 559)	-	-	-	(8 559)
Total carrying amount	**35 117 450**	**-**	**-**	**-**	**35 117 450**

The rating system is described in Note 3.3.4.

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23. 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	**23 323 690**	**23 327 618**	**-**	**-**	**-**	**(3 928)**	**-**	**-**	**-**
- General governments, including:	15 666 682	15 669 481	-	-	-	(2 799)	-	-	-
pledged securities	*1 495 645*	*1 495 645*	-	-	-	-	-	-	-
- Credit institutions	3 386 338	3 386 920	-	-	-	(582)	-	-	-
- Other financial institutions	4 270 670	4 271 217	-	-	-	(547)	-	-	-
pledged securities	*1 487 396*	*1 487 396*	-	-	-	-	-	-	-
Loans and advances to banks	**7 119 059**	**7 117 631**	**1 805**	**-**	**-**	**(345)**	**(32)**	**-**	**-**
Loans and advances to customers	**112 876 580**	**96 398 711**	**15 350 369**	**4 609 500**	**226 199**	**(396 152)**	**(677 083)**	**(2 687 978)**	**53 014**
Individual customers	63 642 537	54 168 098	8 986 652	2 410 392	158 019	(193 087)	(520 983)	(1 336 639)	(29 915)
Corporate customers	49 109 195	42 163 462	6 298 089	2 199 108	68 180	(202 945)	(148 289)	(1 351 339)	82 929
Public sector customers	124 848	67 151	65 628	-	-	(120)	(7 811)	-	-
Total financial assets at amortised cost	**143 319 329**	**126 843 960**	**15 352 174**	**4 609 500**	**226 199**	**(400 425)**	**(677 115)**	**(2 687 978)**	**53 014**

Short-term (up to 1 year) gross	48 574 543
Long-term (over 1 year) gross	98 457 290

31.12.2022	Carrying amount	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**19 002 527**	**19 005 458**	**-**	**-**	**-**	**(2 931)**	**-**	**-**	**-**
- General governments, including:	13 412 161	13 414 361	-	-	-	(2 200)	-	-	-
pledged securities	*1 089 602*	*1 089 602*	-	-	-	-	-	-	-
- Credit institutions	2 140 957	2 141 310	-	-	-	(353)	-	-	-
- Other financial institutions	3 449 409	3 449 787	-	-	-	(378)	-	-	-
pledged securities	*1 041 894*	*1 041 894*	-	-	-	-	-	-	-
Loans and advances to banks	**9 569 629**	**9 568 871**	**2 261**	**-**	**-**	**(563)**	**(940)**	**-**	**-**
Loans and advances to customers	**119 330 030**	**109 531 005**	**8 311 891**	**4 512 035**	**229 311**	**(402 616)**	**(385 880)**	**(2 511 202)**	**45 486**
Individual customers	68 586 288	64 086 758	3 967 237	2 224 949	152 423	(221 770)	(290 339)	(1 303 175)	(29 795)
Corporate customers	50 637 195	45 337 677	4 344 640	2 286 016	76 888	(180 755)	(95 541)	(1 207 011)	75 281
Public sector customers	106 547	106 570	14	1 070	-	(91)	-	(1 016)	-
Total financial assets at amortised cost	**147 902 186**	**138 105 334**	**8 314 152**	**4 512 035**	**229 311**	**(406 110)**	**(386 820)**	**(2 511 202)**	**45 486**

Short-term (up to 1 year) gross	49 963 982
Long-term (over 1 year) gross	101 196 850

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

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

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

Loans and advances to banks

	31.12.2023	31.12.2022
Loans and advances	133 350	211 743
Reverse repo or buy/sell back	6 323 328	8 223 722
Other receivables	662 758	1 135 667
Total (gross) loans and advances to banks	**7 119 436**	**9 571 132**
Accumulated impairment	(377)	(1 503)
Total (net) loans and advances to banks	**7 119 059**	**9 569 629**
Short-term (up to 1 year) gross	7 074 479	9 514 549
Long-term (over 1 year) gross	44 957	56 583

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

As at 31 December 2023, the variable rate loans to banks amounted to PLN 17 270 thousand (31 December 2022: PLN 40 782 thousand) and the fixed rate loans to banks amounted to PLN 116 080 thousand (31 December 2022: PLN 170 961 thousand).

As at 31 December 2023 and 31 December 2022 the placements with other banks were fixed rated. An average interest rate for placements in other banks and loans granted to other banks amounted to 5.81% (in 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	248 465	6 870 971	632 458	8 938 674
Accumulated impairment	(164)	(213)	(280)	(1 223)
Loans and advances to banks, net	**248 301**	**6 870 758**	**632 178**	**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	14 255 338	8 015 731	6 231 569	8 038
Term loans, including:	83 353 746	57 541 623	25 687 382	124 741
- housing and mortgage loans to natural persons	*43 121 382*	*43 121 382*		
Reverse repo or buy/sell back	899 340	-	899 340	-
Finance leases	14 234 472	-	14 234 472	-
Other loans and advances	3 561 752	-	3 561 752	-
Other receivables	280 131	165 807	114 324	-
Total gross carrying amount	**116 584 779**	**65 723 161**	**50 728 839**	**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:	(2 035 613)	(1 247 671)	(780 057)	(7 885)
- housing and mortgage loans to natural persons	*(486 982)*	*(486 982)*		
Finance leases	(569 896)	-	(569 896)	-
Other loans and advances	(54 595)	-	(54 595)	-
Other receivables	(6 258)	-	(6 258)	-
Total accumulated impairment	**(3 708 199)**	**(2 080 624)**	**(1 619 644)**	**(7 931)**

Total gross carrying amount	**116 584 779**	**65 723 161**	**50 728 839**	**132 779**
Total accumulated impairment	(3 708 199)	(2 080 624)	(1 619 644)	(7 931)
Total carrying amount	**112 876 580**	**63 642 537**	**49 109 195**	**124 848**

Short-term (up to 1 year) gross	37 643 371
Long-term (over 1 year) gross	78 941 408

Loans and advances to customers 31.12.2022	Gross carrying amount	including: Individual customers	Corporate customers	Public sector customers
Current receivables	14 702 210	8 015 011	6 680 908	6 291
Term loans, including:	89 526 212	62 394 979	27 029 870	101 363
- housing and mortgage loans to natural persons	*48 094 082*	*48 094 082*		
Reverse repo or buy/sell back	1 611 154	-	1 611 154	-
Finance leases	13 351 537	-	13 351 537	-
Other loans and advances	3 301 814	-	3 301 814	-
Other receivables	91 315	21 377	69 938	-
Total gross carrying amount	**122 584 242**	**70 431 367**	**52 045 221**	**107 654**

Loans and advances to customers 31.12.2022	Accumulated impairment	including: Individual customers	Corporate customers	Public sector customers
Current receivables	(839 171)	(680 444)	(158 711)	(16)
Term loans, including:	(1 890 949)	(1 164 635)	(725 223)	(1 091)
- housing and mortgage loans to natural persons	*(501 397)*	*(501 397)*		
Finance leases	(476 832)	-	(476 832)	-
Other loans and advances	(42 904)	-	(42 904)	-
Other receivables	(4 356)	-	(4 356)	-
Total accumulated impairment	**(3 254 212)**	**(1 845 079)**	**(1 408 026)**	**(1 107)**

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

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

As at 31 December 2023, gross amount of variable interest rate loans amounted to PLN 111 968 046 thousand and fixed interest rate loans amounted to PLN 4 616 733 thousand (31 December 2022: PLN 117 789 223 thousand and PLN 4 795 019 thousand, respectively). The average interest rate for loans granted to customers (excluding reverse repo) amounted to 7.87% (31 December 2022: 6.00%).

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 as at 31 December 2023 the item Other loans and advances includes cash collaterals in the amount of PLN 371 881 thousand placed by the Group under derivatives transactions (Note 36) (31 December 2022: PLN 408 163 thousand).

Loans and advances include receivables under finance leases.

	31.12.2023	31.12.2022
Gross investment in finance leases, receivable:	**16 386 700**	**15 403 000**
- not later than 1 year	6 117 609	5 719 831
- later than 1 year and not later than 2 years	4 049 610	4 058 682
- later than 2 years and not later than 3 years	2 976 397	2 606 468
- later than 3 years and not later than 4 years	1 693 234	1 672 376
- later than 4 years and not later than 5 years	1 097 529	829 890
- later than 5 years	452 321	515 753
Unearned future finance income on finance leases (negative amount)	(2 152 228)	(2 051 463)
Net investment in finance leases	**14 234 472**	**13 351 537**
Net investment in finance leases, receivable:	**14 234 472**	**13 351 537**
- not later than 1 year	5 178 877	4 823 531
- later than 1 year and not later than 2 years	3 462 030	3 496 580
- later than 2 years and not later than 3 years	2 634 006	2 293 976
- later than 3 years and not later than 4 years	1 518 539	1 511 295
- later than 4 years and not later than 5 years	1 023 783	759 724
- later than 5 years	417 237	466 431
Net investment in finance leases	**14 234 472**	**13 351 537**
Impairment provisions for finance leases receivable	**(569 896)**	**(476 832)**
Net carrying amount of finance leases receivable	**13 664 576**	**12 874 705**
Unguaranteed residual value accruing to the lessor	**1 212 949**	**1 195 240**

The currency structure of housing and mortgage loans granted to natural persons

	31.12.2023	31.12.2022
Net housing and mortgage loans to natural persons (in PLN '000), including:	**42 634 400**	**47 592 685**
- PLN	32 993 018	31 930 717
- CHF	1 852 703	6 141 673
- EUR	3 361 632	4 035 996
- CZK	4 330 701	5 301 068
- USD	86 934	169 647
- Other	9 412	13 584
Net housing and mortgage loans to natural persons in original currencies (main currencies in '000)		
- PLN	32 993 018	31 930 717
- CHF	395 640	1 288 130
- EUR	773 144	860 572
- CZK	24 620 244	27 296 952
- USD	22 093	38 540

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

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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	84 268	-	-	-	84 268
Gross carrying amount	**23 327 618**	**-**	**-**	**-**	**23 327 618**
Accumulated impairment	(3 928)	-	-	-	(3 928)
Total carrying amount	**23 323 690**	**-**	**-**	**-**	**23 323 690**
Loans and advances to banks at amortised cost					
1	6 819 010	-	-	-	6 819 010
2	195 970	-	-	-	195 970
3	84 954	-	-	-	84 954
4	17 697	1 805	-	-	19 502
Gross carrying amount	**7 117 631**	**1 805**	**-**	**-**	**7 119 436**
Accumulated impairment	**(345)**	**(32)**	**-**	**-**	**(377)**
Total carrying amount	**7 117 286**	**1 773**	**-**	**-**	**7 119 059**
Loans and advances to customers at amortised cost					
1	3 494 775	20 717	-	-	3 515 492
2	39 299 662	1 878 007	-	13 486	41 191 155
3	13 570 834	1 717 380	-	4 269	15 292 483
4	23 127 806	3 355 002	-	30 748	26 513 556
5	12 340 187	5 236 496	-	20 042	17 596 725
6	224 519	580 524	-	2 064	807 107
7	610 299	2 462 224	-	8 033	3 080 556
8	1 066 083	-	-	-	1 066 083
other	2 664 546	100 019	-	-	2 764 565
default	-	-	4 609 500	147 557	4 757 057
Gross carrying amount	**96 398 711**	**15 350 369**	**4 609 500**	**226 199**	**116 584 779**
Accumulated impairment	**(396 152)**	**(677 083)**	**(2 687 978)**	**53 014**	**(3 708 199)**
Total carrying amount	**96 002 559**	**14 673 286**	**1 921 522**	**279 213**	**112 876 580**

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	Total
Debt securities at amortised cost					
1.4 – 1.6	2 394 663	-	-	-	2 394 663
1.8 – 2.0	16 610 795	-	-	-	16 610 795
Gross carrying amount	**19 005 458**	**-**	**-**	**-**	**19 005 458**
Accumulated impairment	(2 931)	-	-	-	(2 931)
Total carrying amount	**19 002 527**	**-**	**-**	**-**	**19 002 527**
Loans and advances to banks at amortised cost					
1	8 886 535	-	-	-	8 886 535
2	336 150	-	-	-	336 150
3	79 324	-	-	-	79 324
4	16 827	22	-	-	16 849
5	4 312	-	-	-	4 312
7	-	2 239	-	-	2 239
8	230 002	-	-	-	230 002
other	15 721	-	-	-	15 721
Gross carrying amount	**9 568 871**	**2 261**	**-**	**-**	**9 571 132**
Accumulated impairment	(563)	(940)	-	-	(1 503)
Total carrying amount	**9 568 308**	**1 321**	**-**	**-**	**9 569 629**
Loans and advances to customers at amortised cost					
1	9 350 907	43 940	-	278	9 395 125
2	42 297 570	871 567	-	19 086	43 188 223
3	17 792 963	979 092	-	5 858	18 777 913
4	22 831 076	1 562 249	-	34 331	24 427 656
5	12 023 762	2 634 011	-	10 039	14 667 812
6	314 073	318 652	-	2 917	635 642
7	659 243	1 799 717	-	19 072	2 478 032
8	1 721 435	-	-	-	1 721 435
other	2 539 976	102 663	-	-	2 642 639
default	-	-	4 512 035	137 730	4 649 765
Gross carrying amount	**109 531 005**	**8 311 891**	**4 512 035**	**229 311**	**122 584 242**
Accumulated impairment	(402 616)	(385 880)	(2 511 202)	45 486	(3 254 212)
Total carrying amount	**109 128 389**	**7 926 011**	**2 000 833**	**274 797**	**119 330 030**

The 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	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Debt securities	**(2 931)**	**-**	**-**	**-**	**(1 359)**	**948**	**(609)**	**-**	**23**	**(3 928)**
Stage 1	(2 931)	-	-	-	(1 359)	948	(609)	-	23	(3 928)
Loans and advances to banks	**(1 503)**	**-**	**-**	**-**	**(1 131)**	**1 604**	**282**	**-**	**371**	**(377)**
Stage 1	(563)	(84)	38	-	(713)	822	(15)	-	170	(345)
Stage 2	(940)	84	(38)	-	(418)	782	297	-	201	(32)
Loans and advances to customers	**(3 254 212)**	**-**	**-**	**-**	**(295 402)**	**225 783**	**(1 105 809)**	**893 690**	**(172 249)**	**(3 708 199)**
Stage 1	(402 616)	(264 783)	171 201	7 936	(131 754)	69 592	149 388	-	4 884	(396 152)
Stage 2	(385 880)	256 258	(233 788)	303 178	(21 585)	18 884	(615 083)	-	933	(677 083)
Stage 3	(2 511 202)	8 525	62 587	(311 114)	(162 325)	169 499	(685 887)	882 822	(140 883)	(2 687 978)
POCI	45 486	-	-	-	20 262	(32 192)	45 773	10 868	(37 183)	53 014
Expected credit losses allowance, total	**(3 258 646)**	**-**	**-**	**-**	**(297 892)**	**228 335**	**(1 106 136)**	**893 690**	**(171 855)**	**(3 712 504)**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Changes due to new default definition	Write-offs	Other movements	As at the end of the period
Debt securities	**(2 046)**	**-**	**-**	**-**	**(355)**	**104**	**(634)**	**-**	**-**	**-**	**(2 931)**
Stage 1	(2 046)	-	-	-	(355)	104	(634)	-	-	-	(2 931)
Loans and advances to banks	**(983)**	**-**	**-**	**-**	**(3 835)**	**3 646**	**(1 429)**	**-**	**-**	**1 098**	**(1 503)**
Stage 1	(983)	(8)	93	-	(2 937)	2 087	104	-	-	1 081	(563)
Stage 2	-	8	(93)	-	(898)	1 559	(1 533)	-	-	17	(940)
Loans and advances to customers	**(3 178 110)**	**-**	**-**	**-**	**(542 587)**	**691 473**	**(980 807)**	**(5 019)**	**941 088**	**(180 250)**	**(3 254 212)**
Stage 1	(434 872)	(324 613)	147 430	13 323	(200 888)	153 206	220 455	25 863	-	(2 520)	(402 616)
Stage 2	(346 255)	312 293	(190 094)	264 231	(45 885)	52 537	(398 544)	(30 276)	-	(3 887)	(385 880)
Stage 3	(2 440 501)	12 320	42 664	(277 554)	(298 937)	485 013	(803 983)	1	914 638	(144 863)	(2 511 202)
POCI	43 518	-	-	-	3 123	717	1 265	(607)	26 450	(28 980)	45 486
Expected credit losses allowance, total	**(3 181 139)**	**-**	**-**	**-**	**(546 777)**	**695 223**	**(982 870)**	**(5 019)**	**941 088**	**(179 152)**	**(3 258 646)**

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

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

Change from 1 January to 31 December 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	Write-offs	Other movements	As at the end of the period
Debt securities	**19 005 458**	**-**	**-**	**-**	**7 820 296**	**(5 922 252)**	**-**	**2 424 116**	**23 327 618**
Stage 1	19 005 458	-	-	-	7 820 296	(5 922 252)	-	2 424 116	23 327 618
Loans and advances to banks	**9 571 132**	**-**	**-**	**-**	**130 067 448**	**(132 207 795)**	**-**	**(311 349)**	**7 119 436**
Stage 1	9 568 871	19 031	(18 418)	-	130 014 553	(132 156 807)	-	(309 599)	7 117 631
Stage 2	2 261	(19 031)	18 418	-	52 895	(50 988)	-	(1 750)	1 805
Loans and advances to customers	**122 584 242**	**-**	**-**	**-**	**82 068 419**	**(75 551 871)**	**(893 690)**	**(11 622 321)**	**116 584 779**
Stage 1	109 531 005	5 835 657	(16 143 215)	(459 933)	80 078 806	(72 137 393)	-	(10 306 216)	96 398 711
Stage 2	8 311 891	(5 773 860)	16 489 682	(1 645 768)	1 492 365	(2 357 100)	-	(1 166 841)	15 350 369
Stage 3	4 512 035	(61 797)	(346 467)	2 105 701	414 652	(997 194)	(882 822)	(134 608)	4 609 500
POCI	229 311	-	-	-	82 596	(60 184)	(10 868)	(14 656)	226 199
Financial assets at amortised cost, gross	**151 160 832**	**-**	**-**	**-**	**219 956 163**	**(213 681 918)**	**(893 690)**	**(9 509 554)**	**147 031 833**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Write-offs	Other movements	As at the end of the period
Debt securities	**16 166 149**	**-**	**-**	**-**	**3 462 370**	**(557 120)**	**-**	**(65 941)**	**19 005 458**
Stage 1	16 166 149	-	-	-	3 462 370	(557 120)	-	(65 941)	19 005 458
Loans and advances to banks	**6 892 331**	**-**	**-**	**-**	**8 936 981**	**(6 169 353)**	**-**	**(88 827)**	**9 571 132**
Stage 1	6 892 331	-	(4 378)	-	8 936 958	(6 169 353)	-	(86 687)	9 568 871
Stage 2	-	-	4 378	-	23	-	-	(2 140)	2 261
Loans and advances to customers	**119 703 485**	**-**	**-**	**-**	**31 677 760**	**(21 524 796)**	**(941 088)**	**(6 331 119)**	**122 584 242**
Stage 1	108 905 581	1 374 190	(4 251 119)	(1 084 514)	29 933 552	(19 432 892)	-	(5 913 793)	109 531 005
Stage 2	6 223 882	(1 332 547)	4 406 448	(725 066)	1 269 963	(1 274 134)	-	(256 655)	8 311 891
Stage 3	4 339 863	(41 643)	(155 329)	1 802 585	414 937	(787 662)	(914 638)	(146 078)	4 512 035
POCI	234 159	-	-	6 995	59 308	(30 108)	(26 450)	(14 593)	229 311
Financial assets at amortised cost, gross	**142 761 965**	**-**	**-**	**-**	**44 077 111**	**(28 251 269)**	**(941 088)**	**(6 485 887)**	**151 160 832**

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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 6).

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 4 274.1 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 434.5 million from the Stage 2 to the Stage 1, and PLN 672.6 million PLN from the Stage 1 to the Stage 2.
- Recalibration of the transfer logic model in connection with the implementation of the new behavioural rating model in Bank's retail area. This change resulted in reclassification of the credit exposure portfolio of PLN 752.2 million from the Stage 2 to the Stage 1, and PLN 779.9 million PLN from the Stage 1 to the Stage 2.

Financial effect of collaterals

31.12.2023	Gross amount	Accumulated impairment	Accumulated impairment without cash flow from collaterals	Financial effect of collaterals
Balance sheet data				
Loans and advances to banks	7 119 436	(377)	(4 577)	4 200
Loans and advances to customers	116 584 779	(3 708 199)	(4 868 306)	1 160 107
Individual customers	65 723 161	(2 080 624)	(2 187 971)	107 347
- housing and mortgage loans to natural persons	*43 121 382*	*(486 982)*	*(555 460)*	*68 478*
Corporate customers	50 728 839	(1 619 644)	(2 671 418)	1 051 774
Public sector customers	132 779	(7 931)	(8 917)	986
Total balance sheet data	**123 704 215**	**(3 708 576)**	**(4 872 883)**	**1 164 307**
Total balance sheet data, Stage 3	4 609 500	(2 687 978)	(3 458 963)	770 985
Total balance sheet data, POCI	226 199	53 014	(59 624)	112 638
Off-balance sheet data				
Loan commitments and other commitments	34 358 230	(102 376)	(123 845)	21 469
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 201 673	(95 042)	(114 016)	18 974
Total off-balance sheet data	**42 559 903**	**(197 418)**	**(237 861)**	**40 443**
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	9 571 132	(1 503)	(3 991)	2 488
Loans and advances to customers	122 584 242	(3 254 212)	(4 261 020)	1 006 808
Individual customers	70 431 367	(1 845 079)	(1 970 947)	125 868
- housing and mortgage loans to natural persons	*48 094 082*	*(501 397)*	*(592 344)*	*90 947*
Corporate customers	52 045 221	(1 408 026)	(2 288 570)	880 544
Public sector customers	107 654	(1 107)	(1 503)	396
Total balance sheet data	**132 155 374**	**(3 255 715)**	**(4 265 011)**	**1 009 296**
Total balance sheet data, Stage 3	4 512 035	(2 511 202)	(3 281 903)	770 701
Total balance sheet data, POCI	229 311	45 486	40 075	5 411
Off-balance sheet data				
Loan commitments and other commitments	33 164 015	(78 091)	(96 073)	17 982
Guarantees, banker's acceptances, documentary and commercial letters of credit	8 112 585	(223 501)	(278 874)	55 373
Total off-balance sheet data	**41 276 600**	**(301 592)**	**(374 947)**	**73 355**
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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As at 31 December 2023 the carrying amount of loans and advances to customers for which the Group has not recognised a loss allowance because of the collateral amounted to PLN 56 606 thousand (31 December 2022: PLN 1 910 672 thousand).

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

In December 2021, the Bank's Management Board approved the sale of real estate in Katowice at 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 property.

The financial data regarding 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
Goodwill	24 228	24 228
Patents, licences and similar assets, including:	1 326 410	1 093 558
- computer software	*1 124 975*	*975 468*
Other intangible assets	1 114	15 770
Intangible assets under development	350 187	258 151
Total intangible assets	**1 701 939**	**1 391 707**

In 2023 and 2022, the Group performed impairment tests of intangible assets under development and goodwill.

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2023	Patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
		Computer software				
Gross value of intangible assets as at the beginning of the period	**2 013 566**	**1 696 959**	**35 235**	**258 151**	**24 228**	**2 331 180**
Increase (due to):	**464 821**	**308 127**	**-**	**408 629**	**-**	**873 450**
- purchase	158 692	8 337	-	318 161	-	476 853
- transfer from intangible assets under development	283 766	278 989	-	-	-	283 766
- development costs	-	-	-	73 767	-	73 767
- other increases	22 363	20 801	-	16 701	-	39 064
Decrease (due to):	**(178 783)**	**(35 865)**	**(20 800)**	**(316 593)**	**-**	**(516 176)**
- liquidation	(177 469)	(34 551)	-	-	-	(177 469)
- transfer to intangible assets given to use	-	-	-	(283 766)	-	(283 766)
- other decreases	(1 314)	(1 314)	(20 800)	(32 827)	-	(54 941)
Gross value of intangible assets as at the end of the period	**2 299 604**	**1 969 221**	**14 435**	**350 187**	**24 228**	**2 688 454**
Accumulated amortisation as at the beginning of the period	**(916 492)**	**(717 975)**	**(19 465)**	**-**	**-**	**(935 957)**
Amortisation for the period (due to):	**(55 515)**	**(125 084)**	**6 144**	**-**	**-**	**(49 371)**
- amortisation	(218 015)	(144 545)	(101)	-	-	(218 116)
- other increases	(6 288)	(6 277)	-	-	-	(6 288)
- liquidation	168 278	25 348	-	-	-	168 278
- other decreases	510	390	6 245	-	-	6 755
Accumulated amortisation as at the end of the period	**(972 007)**	**(843 059)**	**(13 321)**	**-**	**-**	**(985 328)**
Impairment losses as at the beginning of the period	**(3 516)**	**(3 516)**	**-**	**-**	**-**	**(3 516)**
- increase	(434)	(434)	-	-	-	(434)
- decrease	2 763	2 763	-	-	-	2 763
Impairment losses as at the end of the period	**(1 187)**	**(1 187)**	**-**	**-**	**-**	**(1 187)**
Net value of intangible assets as at the end of the period	**1 326 410**	**1 124 975**	**1 114**	**350 187**	**24 228**	**1 701 939**

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

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26. Tangible assets

	31.12.2023	31.12.2022
Fixed assets, including:	**668 259**	**651 403**
- land	202	653
- buildings and structures	31 585	42 885
- equipment	222 133	218 885
- vehicles	205 539	175 851
- other fixed assets	208 800	213 129
Fixed assets under construction	**84 479**	**47 091**
The right-of-use, including:	**728 663**	**786 439**
- real estate	723 764	781 408
- perpetual usufruct of land	2 114	2 146
- cars	2 234	1 924
- other	551	961
Total tangible assets	**1 481 401**	**1 484 933**

Movements in fixed assets

Movements in fixed 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**	**105 397**	**648 206**	**244 327**	**471 226**	**47 115**	**1 516 924**
Increase (due to):	**-**	**1 146**	**97 531**	**124 772**	**39 815**	**131 642**	**394 906**
- purchase	-	-	60 834	124 772	7 398	110 884	303 888
- transfer from fixed assets under construction	-	1 146	36 007	-	32 384	-	69 537
- other increases	-	-	690	-	33	20 758	21 481
Decrease (due to):	**(451)**	**(22 732)**	**(62 942)**	**(96 566)**	**(28 350)**	**(94 231)**	**(305 272)**
- sale	(451)	(21 854)	(7 347)	(96 566)	(1 089)	(4)	(127 311)
- liquidation	-	(878)	(54 189)	-	(24 822)	-	(79 889)
- transfer to fixed assets	-	-	-	-	-	(69 537)	(69 537)
- other decreases	-	-	(1 406)	-	(2 439)	(24 690)	(28 535)
Gross value of fixed assets as at the end of the period	**202**	**83 811**	**682 795**	**272 533**	**482 691**	**84 526**	**1 606 558**
Accumulated depreciation as at the beginning of the period	**-**	**(41 732)**	**(429 321)**	**(68 476)**	**(257 874)**	**-**	**(797 403)**
Depreciation for the period (due to):	**-**	**6 416**	**(31 341)**	**1 482**	**(15 935)**	**-**	**(39 378)**
- depreciation charge	-	(2 964)	(93 286)	(29 129)	(42 922)	-	(168 301)
- other increases	-	-	(116)	-	-	-	(116)
- sale	-	8 972	6 903	30 611	1 046	-	47 532
- liquidation	-	408	54 052	-	23 974	-	78 434
- other decreases	-	-	1 106	-	1 967	-	3 073
Accumulated depreciation as at the end of the period	**-**	**(35 316)**	**(460 662)**	**(66 994)**	**(273 809)**	**-**	**(836 781)**
Impairment losses as at the beginning of the period	**-**	**(20 780)**	**-**	**-**	**(223)**	**(24)**	**(21 027)**
- increase	-	-	-	-	(82)	(23)	(105)
- decrease	-	3 870	-	-	223	-	4 093
Impairment losses as at the end of the period	**-**	**(16 910)**	**-**	**-**	**(82)**	**(47)**	**(17 039)**
Net value of fixed assets as at the end of the period	**202**	**31 585**	**222 133**	**205 539**	**208 800**	**84 479**	**752 738**

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Movements in fixed assets from 1 January to 31 December 2022	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of fixed assets as at the beginning of the period	**653**	**105 130**	**666 751**	**261 638**	**477 053**	**66 452**	**1 577 677**
Increase (due to):	**-**	**1 035**	**120 979**	**53 136**	**31 096**	**66 382**	**272 628**
- purchase	-	-	71 011	53 136	6 214	59 017	189 378
- transfer from fixed assets under construction	-	1 035	49 369	-	23 858	-	74 262
- other increases	-	-	599	-	1 024	7 365	8 988
Decrease (due to):	**-**	**(768)**	**(139 524)**	**(70 447)**	**(36 923)**	**(85 719)**	**(333 381)**
- sale	-	(287)	(45 297)	(70 332)	(5 269)	(12)	(121 197)
- liquidation	-	(481)	(17 282)	(115)	(16 402)	(60)	(34 340)
- transfer to fixed assets	-	-	-	-	-	(74 262)	(74 262)
- other decreases	-	-	(76 945)	-	(15 252)	(11 385)	(103 582)
Gross value of fixed assets as at the end of the period	**653**	**105 397**	**648 206**	**244 327**	**471 226**	**47 115**	**1 516 924**
Accumulated depreciation as at the beginning of the period	**-**	**(38 701)**	**(480 529)**	**(61 081)**	**(250 131)**	**-**	**(830 442)**
Depreciation for the period (due to):	**-**	**(3 031)**	**51 208**	**(7 395)**	**(7 743)**	**-**	**33 039**
- depreciation charge	-	(3 493)	(86 782)	(28 983)	(42 781)	-	(162 039)
- other increases	-	-	(410)	-	(760)	-	(1 170)
- sale	-	267	45 047	21 496	5 032	-	71 842
- liquidation	-	195	16 894	92	15 554	-	32 735
- other decreases	-	-	76 459	-	15 212	-	91 671
Accumulated depreciation as at the end of the period	**-**	**(41 732)**	**(429 321)**	**(68 476)**	**(257 874)**	**-**	**(797 403)**
Impairment losses as at the beginning of the period	**-**	**(20 780)**	**-**	**-**	**(172)**	**-**	**(20 952)**
- increase	-	-	-	-	(223)	(36)	(259)
- decrease	-	-	-	-	172	12	184
Impairment losses as at the end of the period	**-**	**(20 780)**	**-**	**-**	**(223)**	**(24)**	**(21 027)**
Net value of fixed assets as at the end of the period	**653**	**42 885**	**218 885**	**175 851**	**213 129**	**47 091**	**698 494**

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

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

	31.12.2023	31.12.2022
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	26 267	24 141
Over 1 year up to 2 years	18 521	11 665
Over 2 years up to 3 years	11 914	6 344
Over 3 years up to 4 years	4 880	2 685
Over 4 years up to 5 years	25	547
Total	**61 607**	**45 382**

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

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Movements in right-of-use assets

Movements in rights-of-use from 1 January to 31 December 2023	Real estate	Perpetual usufruct of land	Vehicles	Other	Total
Gross value of rights-of-use as at the beginning of the period	**1 235 116**	**2 271**	**3 709**	**2 033**	**1 243 129**
Increase (due to):	**181 582**	**-**	**72 528**	**147**	**254 257**
- new contract	19 104	-	35 487	147	54 738
- modification of contract	133 472	-	2 427	-	135 899
- other increases	29 006	-	34 614	-	63 620
Decrease (due to):	**(141 013)**	**-**	**(71 625)**	**(589)**	**(213 227)**
- termination of contract	(49 328)	-	(13 869)	(237)	(63 434)
- modification of contract	(85 656)	-	(57 263)	(305)	(143 224)
- other decreases	(6 029)	-	(493)	(47)	(6 569)
Gross value of rights-of-use as at the end of the period	**1 275 685**	**2 271**	**4 612**	**1 591**	**1 284 159**
Accumulated depreciation as at the beginning of the period	**(453 708)**	**(125)**	**(1 785)**	**(1 072)**	**(456 690)**
Depreciation for the period (due to):	**(98 213)**	**(32)**	**(593)**	**32**	**(98 806)**
- depreciation charge	(145 391)	(32)	(1 077)	(221)	(146 721)
- other increases	(10 114)	-	(62)	-	(10 176)
- modification of contract	9 128	-	(12 406)	-	(3 278)
- termination of contract	45 086	-	11 942	237	57 265
- other decreases	3 078	-	1 010	16	4 104
Accumulated depreciation as at the end of the period	**(551 921)**	**(157)**	**(2 378)**	**(1 040)**	**(555 496)**
Net value of rights-of-use as at the end of the period	**723 764**	**2 114**	**2 234**	**551**	**728 663**

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

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27. Investment properties

The Investment properties includes the value of the 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**
- revaluation gains from fair value adjustments	-	12 862
Decrease (due to):	**(24 945)**	**(3 463)**
- revaluation losses from fair value adjustments	(24 945)	(3 463)
As at the end of the period	**111 964**	**136 909**

28. Other assets

	31.12.2023	31.12.2022
Other financial assets, including:	**1 453 718**	**1 192 404**
- debtors, including:	1 201 057	1 005 845
- settlements of cash deposit machines and cash sorting companies	*560 843*	*484 463*
- settlements of payment cards	*57 664*	*54 543*
- accrued income	151 165	117 741
- interbank balances	56 334	40 694
- settlements of securities transactions	45 162	28 124
Other non-financial assets, including:	**1 145 051**	**912 891**
- other accruals	150 790	139 038
- inventories	368 686	312 614
- non-financial receivables due to final verdicts in legal proceedings relating to loans in foreign currencies	499 198	388 832
- other	126 377	72 407
Total other assets	**2 598 769**	**2 105 295**
Short-term (up to 1 year)	2 450 403	1 993 481
Long-term (over 1 year)	148 366	111 814

In 2023 and in 2022, the item Settlements of securities transactions is connected in its entirety with the Brokerage Office activity.

As at 31 December 2023 and as at 31 December 2022, the value of inventories primarily results from the business of the company mLeasing.

Throughout the year 2023 and 2022, the Group did not capitalise borrowing costs.

Financial assets included in other assets

	31.12.2023	31.12.2022
Gross financial assets, including:	**1 477 909**	**1 213 748**
- Not past due	1 458 195	1 205 168
- Past due from 1 to 90 days	3 368	948
- Past due over 90 days	16 346	7 632
Provisions for impaired assets (negative amount)	(24 191)	(21 344)
Net financial assets	**1 453 718**	**1 192 404**

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Movements of impairment allowance for financial assets

	31.12.2023	31.12.2022
As at the beginning of the period	**(21 344)**	**(17 081)**
Change in the period (due to)	(2 847)	**(4 263)**
- increase of provisions	(3 858)	(4 652)
- release of provisions	316	12
- write-offs	697	378
- foreign exchange differences	(2)	(1)
As at the end of the period	**(24 191)**	**(21 344)**

29. Financial liabilities measured at amortised cost

Amounts due to banks and customers

31.12.2023	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**672 902**	**183 923 224**	**128 162 427**	**55 144 648**	**616 149**
Current accounts	353 417	147 695 054	103 034 512	44 066 526	594 016
Term deposits	191 337	36 052 744	25 127 915	10 902 696	22 133
Repo or sell/buy back transactions	128 148	175 426	-	175 426	-
Loans and advances received	**1 938 343**	**-**	-	**-**	-
Other financial liabilities	**704 057**	**1 544 231**	**249 923**	**1 294 305**	**3**
Liabilities in respect of cash collaterals	557 017	537 095	37 600	499 495	-
Other	147 040	1 007 136	212 323	794 810	3
Total financial liabilities measured at amortised cost	**3 315 302**	**185 467 455**	**128 412 350**	**56 438 953**	**616 152**

Short-term (up to 1 year)	1 320 063	185 234 011
Long-term (over 1 year)	1 995 239	233 444

31.12.2022	Amount due to banks	Amount due to customers	including:		
			Individual customers	Corporate customers	Public sector customers
Deposits	**546 654**	**172 979 819**	**122 669 186**	**49 050 409**	**1 260 224**
Current accounts	273 832	133 712 049	95 642 108	37 626 052	443 889
Term deposits	254 972	38 957 844	27 027 078	11 114 431	816 335
Repo or sell/buy back transactions	17 850	309 926	-	309 926	-
Loans and advances received	**1 910 721**	**-**	-	**-**	-
Other financial liabilities	**812 848**	**1 151 095**	**220 848**	**930 238**	**9**
Liabilities in respect of cash collaterals	715 959	509 204	39 715	469 489	-
Other	96 889	641 891	181 133	460 749	9
Total financial liabilities measured at amortised cost	**3 270 223**	**174 130 914**	**122 890 034**	**49 980 647**	**1 260 233**

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

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

The average interest rate for deposits and loans received from other banks in 2023 amounted to 4.47% (31 December 2022: 2.84%).

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

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As at 31 December 2023 and as at 31 December 2022, the majority of the deposits of retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repo transactions) amounted to 2.01% (31 December 2022: 0.99%).

As at 31 December 2023, the balance of loans and advances received includes the loan received from European Investment Bank in the amount of PLN 1 938 343 thousand (31 December 2022: PLN 1 910 721 thousand). The loan was collateralised with treasury bonds, which have been presented as pledged assets under Note 23 and Note 36.

Lease liabilities

	31.12.2023	31.12.2022
Lease liabilities	855 725	960 324

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

Debt securities issued

31.12.2023 Debt securities issued by type	Nominal value (currency of issue)	Carrying value of the liability according to the maturity date					Total carrying value of the liability
		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Bonds, including:		**167 533**	-	**1 023 048**	**6 064 732**	**355 086**	**7 610 399**
- PLN	1 315 164	68 763	-	431 739	622 471	205 056	1 328 029
- 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
Mortgage bonds (public), including:		-	**108 863**	**242 640**	**2 927 669**	**215 594**	**3 494 766**
- PLN	371 597	-	-	242 640	103 268	28 315	374 223
- EUR	726 900	-	108 863	-	2 824 401	187 279	3 120 543
Total		**167 533**	**108 863**	**1 265 688**	**8 992 401**	**570 680**	**11 105 165**

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

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

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

Movements in debt securities issued

Movements from 1 January to 31 December	2023	2022
As at the beginning of the period	**9 465 479**	**13 429 782**
Additions (issue)	4 884 161	1 792 187
Disposals (redemption)	(2 955 623)	(5 366 177)
Exchange differences	(662 871)	272 067
Other changes	374 019	(662 380)
Debt securities issued as at the end of the period	**11 105 165**	**9 465 479**

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 Bank of New York Mellon. 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.

- mLeasing Sp. z.o.o. issued 7 series of short-term discount bonds in the amount of PLN 700 000 thousand.

Redemption 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.
- mLeasing Sp. z.o.o. redeemed short-term discount bonds with a total nominal value of PLN 900 000 thousand.
- mBank Hipoteczny S.A. redeemed variable rate short-term bonds with a nominal value of PLN 40 000 thousand and redeemed variable rate mortgage bonds in amount of PLN 1 047 501 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 a credit linked notes. 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. On 24 March 2022, CLNs were introduced to trading on the Vienna MTF operated by the Vienna Stock Exchange.

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- On 23 December 2022, the Bank concluded a synthetic securitisation transaction referencing a portfolio of corporate as well as small and medium enterprises loans with a total value of EUR 801 million of which 55.3% were credit exposures secured on commercial real estate (CRE). The securitised portfolio has been divided into three tranches determining the order of allocation of credit losses. The junior and senior tranche was acquired by mBank. The credit risk associated with the mezzanine tranche has been transferred to an external investor. As part of the transaction, the Bank transferred a significant part of the credit risk of a selected securitised portfolio to an investor. The risk transfer of the securitised portfolio is performed through a recognised credit protection instrument, in the form of a credit linked notes. The CLN provides coverage of losses from credit risk on the securitisation portfolio up to the amount of the mezzanine tranche.

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

Redemption in 2022

- On 7 June 2022 mBank S.A. redeemed fixed rate bonds with a nominal value of CHF 180 000 thousand which were issued on 7 June 2018 under EMTN scheme.
- On 5 September 2022, mBank S.A. redeemed fixed rate bonds with a nominal value of EUR 460 030 thousand which were issued on 5 September 2018 under EMTN scheme.
- mLeasing Sp. z o.o. redeemed short-term discount bonds with a total value of PLN 1 000 000 thousand.
- mBank Hipoteczny S.A. redeemed variable rate short-term bonds with a nominal value of PLN 62 000 thousand, redeemed fixed rate mortgage bonds with a value of EUR 90 000 thousand and redeemed variable rate mortgage bonds with a value of PLN 925 000 thousand.

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

		Mortgage bonds	
		31.12.2023	31.12.2022
1.	Mortgage bonds listed on the market	5 870 561	6 569 088
2.	Core assets from assets used as collateral	8 058 268	8 130 326
3.	Substitute assets from assets used as collateral	240 000	270 000
4.	Derivatives from assets used as collateral	25 470	128 040
5.	Level of collateral for mortgage bonds from assets used as collateral (2/1)	137.27%	123.77%
6.	Total mortgage bonds collateral level (2+3+4) / 1	141.79%	129.83%
7.	The value of receivables as collateral issue of mortgage bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	-	-
8.	The value of receivables as collateral issue of mortgage bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	7 795 910	7 838 621

		Mortgage bonds	
		31.12.2023	31.12.2022
1.	Cash listed in Article 18 (3) of the Law entered in the collateral register of mortgage bonds (in nominal value)	240 000	270 000
2.	Maximum cumulative net liquidity outflow over the next 180 days in accordance with Article 18 (3a) of the Law (Surplus)	-	-
3.	Permissible value of substitute collateral (1-2)	240 000	270 000

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

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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	550 000	PLN	6M WIBOR + 1.8%	7.52	10.10.2028	558 995
Investors not associated with mBank	200 000	PLN	6M WIBOR + 1.95%	7.67	10.10.2030 [1)]	203 336
Investors not associated with mBank	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	550 000	PLN	6M WIBOR + 1.8%	9.29	10.10.2028	561 338
Investors not associated with mBank	200 000	PLN	6M WIBOR + 1.95%	9.44	10.10.2030 [1)]	204 189
Investors not associated with mBank	750 000	PLN	6M WIBOR + 2.1%	9.39	17.01.2025	782 173
						2 740 721

[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

Change 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 a consent for qualifying funds from subordinated loan in the amount of CHF 250 000 thousand received on 21 March 2018 as instruments in the Bank's Tier 2 capital. The amount of CHF 250 000 thousand according to the average exchange rate of the National Bank of Poland of 29 March 2018 is the equivalent of PLN 893 200 thousand.

On 9 October 2018, mBank S.A. issued two series of subordinated bonds with a total nominal value of PLN 750 000 thousand. 1 100 pieces of 10-year subordinated bonds with a nominal value of PLN 500 thousand each were issued, with maturity on 10 October 2028, and 400 pieces of 12-year subordinated bonds with a nominal value of PLN 500 thousand each, with maturity on 10 October 2030.

The Bank applied to the Polish Financial Supervision Authority for permission to be included in the supplementary capital of the Bank, in accordance with art. 127 par. 3 point 2 letter b) of the Banking Law Act, a monetary liability in the amount of PLN 750 000 thousand obtained by the Bank for the above-mentioned subordinated bond issue. The Bank obtained such consent on 28 November 2018.

According to the decision dated 8 January 2015 mBank obtained permission of the PFSA to include in Tier 2 capital the amount of PLN 750 000 thousand constituting subordinated liability from the bonds issue dated 17 December 2014 on total nominal value of PLN 750 000 thousand with redemption date on 17 January 2025 on terms that meet the requirements arising from the CRR Regulation.

In 2023 and 2022, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

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30. Other liabilities

	31.12.2023	31.12.2022
Other financial liabilities, including:	**5 052 354**	**3 047 748**
Interbank settlements	3 299 886	1 514 812
Creditors, including:	1 365 812	1 254 578
- settlements of payment cards	*51 575*	*45 202*
- liabilities payable to BFG	*321 453*	*321 453*
Accrued expenses	386 656	278 358
Other non-financial liabilities, including:	**1 255 824**	**1 063 054**
Tax liabilities	184 617	134 948
Deferred income	302 860	351 133
Provisions for holiday equivalents	32 971	33 112
Provisions for other liabilities to employees	198 627	177 287
Non-financial liabilities due to final verdicts in legal proceedings relating to loans in foreign currencies	504 063	345 126
Other	32 686	21 448
Total other liabilities	**6 308 178**	**4 110 802**

Cash flows resulting from financial liabilities are presented in 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:	1 940 610	767 508
- provisions for legal proceedings relating to loans in foreign currencies	*1 819 606*	*718 128*
- provisions for remaining legal proceedings	*121 004*	*49 380*
Provisions for commitments and guarantees given	197 418	301 592
Provisions for post-employment benefits	29 930	21 331
Other provisions	177 626	271 828
Provisions, total	**2 345 584**	**1 362 259**

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

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

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

The position Other provisions at the end 2023 includes among others the provision set up by mFinanse in connection with the inspection of the Social Insurance Institution in amount PLN 104 969 thousand (at the end of 2022: PLN 99 346 thousand). Moreover, this position included provision for the reimbursement of bridging insurance costs charged to customers who was granted mortgage loans for the period before the mortgage was registered in the land register in amount of PLN 26 512 thousand (31 December 2022: PLN 84 000 thousand).

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Movements in the provisions

Change from 1 January to 31 December 2023	Provisions for other legal proceedings relating to loans in foreign currencies	Provisions for remaining legal proceedings	Other provisions
Provisions as at the beginning of the period	**718 128**	**49 380**	**271 828**
Change in the period, due to:	1 101 478	71 624	(94 202)
- increase of provisions	1 285 462	114 518	40 203
- release of provisions	(829)	(8 512)	(21 704)
- utilisation	(177 354)	(33 741)	(63 879)
- reclassification to other positions	-	-	(48 797)
- foreign exchange differences	(5 801)	(641)	(25)
Provisions as at the end of the period	**1 819 606**	**121 004**	**177 626**

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

Movements in provisions for loan commitments and guarantees

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	Increases due to granting and takeover	Decreased results of derecognised from balance sheet	Changes in credit risk	Other movements	As at the end of the period
Loan commitments	**78 091**	**-**	**-**	**-**	**76 272**	**(53 153)**	**1 582**	**(416)**	**102 376**
Stage 1	39 344	16 175	(9 725)	(109)	55 599	(30 194)	(27 793)	(280)	43 017
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	**223 501**	**-**	**-**	**-**	**25 627**	**(166 665)**	**15 235**	**(2 656)**	**95 042**
Stage 1	4 786	38	(564)	(42)	7 523	(4 756)	(2 407)	(120)	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	**301 592**	**-**	**-**	**-**	**101 899**	**(219 818)**	**16 817**	**(3 072)**	**197 418**

Change from 1 January to 31 December 2022	As at the beginning of the period	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to granting and takeover	Decreased results of derecognised from balance sheet	Changes in credit risk	Changes due to new default definition	Other movements	As at the end of the period
Loan commitments	**89 439**	**-**	**-**	**-**	**46 243**	**(39 494)**	**(22 435)**	**187**	**4 151**	**78 091**
Stage 1	49 142	18 509	(4 861)	(146)	35 966	(23 249)	(36 635)	487	131	39 344
Stage 2	14 576	(17 337)	5 879	(1 250)	6 149	(8 469)	14 750	(300)	28	14 026
Stage 3	24 555	(1 172)	(1 018)	1 396	5 445	(8 481)	3 538	-	13	24 276
POCI	1 166	-	-	-	(1 317)	705	(4 088)	-	3 979	445
Guarantees and other financial facilities	**228 939**	**-**	**-**	**-**	**53 082**	**(36 738)**	**(22 077)**	**-**	**295**	**223 501**
Stage 1	3 433	(334)	198	-	11 784	(5 339)	(4 956)	-	-	4 786
Stage 2	1 153	332	(232)	-	1 032	(918)	(293)	-	10	1 084
Stage 3	225 860	2	34	-	40 266	(30 921)	(15 970)	-	(43)	219 228
POCI	(1 507)	-	-	-	-	440	(858)	-	328	(1 597)
Total provisions on off-balance sheet items	**318 378**	**-**	**-**	**-**	**99 325**	**(76 232)**	**(44 512)**	**187**	**4 446**	**301 592**

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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				
Provisions as at the beginning of the period	**13 457**	**2 925**	**4 949**	**21 331**
Change in the period, due to:	**5 007**	**885**	**2 707**	**8 599**
Provision created	782	65	763	1 610
Interest expense	911	202	303	1 416
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	4 183	636	3 250	8 069
- Change in financing assumptions	*2 241*	*453*	*1 411*	*4 105*
- Change in demographic assumptions	*267*	*(457)*	*254*	*64*
- Other changes	*1 675*	*640*	*1 585*	*3 900*
Benefits paid	(869)	(18)	(1 609)	(2 496)
Provisions as at the end of the period	**18 464**	**3 810**	**7 656**	**29 930**
Short-term (up to 1 year)	2 764	326	293	3 383
Long-term (over 1 year)	15 700	3 484	7 363	26 547

Period from 1 January to 31 December 2022	Pension and disability provisions	Provisions for death severance	Provisions for the Social Benefit Fund	Total
Provisions for post-employment benefits				
Provisions as at the beginning of the period	**14 041**	**3 065**	**8 339**	**25 445**
Change in the period, due to:	**(584)**	**(140)**	**(3 390)**	**(4 114)**
Provision created	626	138	922	1 686
Interest expense	458	107	286	851
Actuarial gains and losses recognised in other comprehensive income (Note 18), due to:	(651)	(349)	(3 285)	(4 285)
- Change in financing assumptions	*(3 658)*	*(771)*	*(4 574)*	*(9 003)*
- Change in demographic assumptions	*169*	*298*	*(556)*	*(89)*
- Other changes	*2 838*	*124*	*1 845*	*4 807*
Benefits paid	(1 017)	(36)	(1 313)	(2 366)
Provisions as at the end of the period	**13 457**	**2 925**	**4 949**	**21 331**
Short-term (up to 1 year)	2 324	280	332	2 936
Long-term (over 1 year)	11 133	2 645	4 617	18 395

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 (as at 31 December 2022: PLN 964 thousand and PLN 884 thousand, respectively).

32. Assets and liabilities for deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an income tax rate, which will be in force in the year when the tax obligation arises (2023 and 2022: 19%).

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

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

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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	204 038	(22 037)	-	-	182 001
Valuation of derivative financial instruments	1 024 178	(336 248)	(117 368)	-	570 562
Valuation of securities	371 835	(21 133)	(131 567)	-	219 135
Provisions for impairment of loans and advances	607 413	5 970	-	-	613 383
Provisions for employee benefits	45 325	4 012	1 532	-	50 869
Other provisions	292 062	53 890	-	-	345 952
Prepayments/accruals	25 632	17 443	-	-	43 075
Tax losses carried forward	898	162	-	-	1 060
Differences between book and tax value of lease	351 471	(34 245)	-	-	317 226
Difference between book and tax value of tangible and intangible assets	214 449	(19 083)	-	-	195 366
Other negative temporary differences	64 479	(13 974)	-	2 995	53 500
Total, gross	**3 201 780**	**(365 243)**	**(247 403)**	**2 995**	**2 592 129**
Offsetting effect	(1 326 052)				(1 212 589)
Total, net	**1 875 728**				**1 379 540**

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	(117 938)	1 050	-	-	(116 888)
Valuation of derivative financial instruments	(745 645)	243 703	9 070	-	(492 872)
Valuation of securities	(164 321)	(22 760)	(1 760)	-	(188 841)
Interest and fees received in advance	(5 413)	(73 492)	-	-	(78 905)
Difference between book and tax value of tangible and intangible assets	(242 895)	(33 324)	-	-	(276 219)
Prepayments regarding amortisation of applied investment relief	(9 163)	9 124	-	-	(39)
Other positive temporary differences	(40 677)	(10 054)	-	(8 094)	(58 825)
Total, gross	**(1 326 052)**	**114 247**	**7 310**	**(8 094)**	**(1 212 589)**
Offsetting effect	1 326 052				1 212 589
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	115 348	88 690	-	-	204 038
Valuation of derivative financial instruments	847 943	117 757	58 478	-	1 024 178
Valuation of securities	299 668	59 527	12 648	(8)	371 835
Provisions for impairment of loans and advances	583 712	23 701	-	-	607 413
Provisions for employee benefits	39 061	7 078	(814)	-	45 325
Other provisions	70 993	226 693	-	(5 624)	292 062
Prepayments/accruals	36 592	(10 948)	-	(12)	25 632
Tax losses carried forward	1 907	(1 009)	-	-	898
Differences between book and tax value of lease	402 449	(50 978)	-	-	351 471
Difference between book and tax value of tangible and intangible assets	207 433	6 628	-	388	214 449
Other negative temporary differences	61 104	5 785	-	(2 410)	64 479
Total, gross	**2 666 210**	**472 924**	**70 312**	**(7 666)**	**3 201 780**
Offsetting effect	(1 273 860)				(1 326 052)
Total, net	**1 392 350**				**1 875 728**

Deferred income tax liabilities	As at 01.01.2022	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31.12.2022
Interest accrued	(65 391)	(52 565)	-	18	(117 938)
Valuation of derivative financial instruments	(760 438)	10 041	4 752	-	(745 645)
Valuation of securities	(98 822)	(63 373)	(2 126)	-	(164 321)
Interest and fees received in advance	(48 261)	42 848	-	-	(5 413)
Difference between book and tax value of tangible and intangible assets	(238 963)	(3 932)	-	-	(242 895)
Prepayments regarding amortisation of applied investment relief	(9 163)	-	-	-	(9 163)
Other positive temporary differences	(52 911)	12 002	-	232	(40 677)
Total, gross	**(1 273 949)**	**(54 979)**	**2 626**	**250**	**(1 326 052)**
Offsetting effect	1 273 860				1 326 052
Total, net	**(89)**				**-**

Deferred income tax included in the profit and loss account	**Year ended 31 December**	
	2023	**2022**
Interest accrued	(20 987)	36 125
Valuation of derivative financial instruments	(92 545)	127 798
Valuation of securities	(43 893)	(3 846)
Provisions for impairment of loans and advances	5 970	23 701
Provisions for employee benefits	4 012	7 078
Other provisions	53 890	226 693
Prepayments/accruals	17 443	(10 948)
Interest and fees received in advance	(73 492)	42 848
Prepayments regarding amortisation of applied investment relief	9 124	-
Difference between book and tax value of tangible and intangible assets	(52 407)	2 696
Differences between book and tax value of lease	(34 245)	(50 978)
Deferred tax losses carried forward	162	(1 009)
Other temporary differences	(24 028)	17 787
Total deferred income tax included in the profit and loss account (Note 16)	**(250 996)**	**417 945**

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 (31 December 2022: PLN 7 510 thousand) resulting from the implementation of IFRS 9 in respect of tax-deductible costs recognised in previous years from the provision for incurred undocumented credit risk. According to art. 12 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 Group evaluated the recoverability of deferred tax assets. Following the rules of IAS 12 paragraph 28 and 29 the Group recognised deferred tax assets to the extent that it is probable that the Group will have sufficient taxable profits in the future periods or tax planning opportunities are available that will create taxable profit in future periods.

As at 31 December 2023, in Other provisions, 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 (31 December 2022: PLN 198 899 thousand).

The Group recognises deferred tax liabilities or assets related to temporary differences arising from investments in subsidiaries and affiliated except that the implementation of the temporary differences is controlled by the Group and it is probable that in the foreseeable future, these differences will not be reversed. As at 31 December 2023, the Group 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 (31 December 2022: PLN 1 326 903 thousand).

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

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

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

The value of provisions for litigations as at 31 December 2023 amounted to PLN 1 940 610 thousand of which PLN 1 819 606 thousand concerns provisions for legal proceedings relating to loans in foreign currencies (as at 31 December 2022 PLN 767 508 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 Group.

Information on the most important court proceedings

1. A lawsuit filed by LPP S.A.

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

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

   On 16 August 2018 mBank S.A. has submitted its statement of defence and requested that the action be dismissed. The court accepted the Defendants’ requests to summon sixteen banks to join the proceedings and ordered that the banks be served with the summons. Two banks have notified of their intention to intervene in the case as an indirect intervener. In a judgment dated 27 January 2023, the District Court in Warsaw dismissed LPP S.A.'s lawsuit in its entirety. On 27 March 2023 LPP S.A. has filed an appeal, to which the Bank filed a response on 26 June 2023. In a judgment dated 3 November 2023, the Court of Appeal in Warsaw dismissed LPP S.A.'s appeal. The plaintiff may challenge this judgement by appeal in cassation.

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

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

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

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

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

   Detailed information on the class action against the Bank is provided in Note 34.

4. Individual court proceedings against the Bank concerning indexed loans in CHF and in other foreign currencies

   Detailed information on individual court proceedings against the Bank regarding indexed loans in CHF and in 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 the Group’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.

Inspection by the Social Insurance Institution (ZUS)

mFinanse S.A., a subsidiary of the Bank, was inspected by the Social Insurance Institution (ZUS) in the period from 16 May 2022 to 2 March 2023. The subject of the inspection was the area of correctness and reliability of calculating social insurance contributions and other contributions that the Social Insurance Institution is obliged to collect, as well as reporting for social insurance and health insurance for the years 2018 - 2021. On 3 March 2023, the Company received the Social Insurance Institution's inspection protocol in the aforementioned scope, to which the mFinanse S.A. submitted objections. From September 2023 to January 2024 mFinanse S.A. received from Social Insurance Institution (ZUS) decisions regarding some of the persons subject to inspection. As at the date of preparation these financial statements, mFinanse S.A. settled the adjudicated contributions according to the received decisions along with interest.

The company is in dispute with the Social Security Institution over the interpretation of the application of social security regulation in the area of the cooperation model involving the simultaneous employment of intermediaries on a part-time basis and a civil law contract. There are currently 95 cases at the court stage in the area of the cooperation model used by the company. The Group's position is that the cooperation model used by the Company complies with the provisions of the law, including the Banking Law in terms of providing credit intermediaries with access to data covered by bank secrecy.

In connection with the above issue, as of 31 December 2023, the Group has a provision in the amount of PLN 104 969 thousand (as at 31 December 2022: PLN 99 346 thousand).

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 the 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 the 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. 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 unauthorised 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 emphasises that art. 46 section 1 of the Act of 19 August 2011 on Payment Services (hereinafter referred to as "UUP") does not apply to authorised 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 unauthorised 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 unauthorised transaction has occurred. In the Bank's opinion, this position is unjustified, because such an obligation arises only when an unauthorised transaction actually took place and the bank is liable for a transaction that is not authorised under the provisions of the Personal Data Protection Act.

  Moreover, 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 unauthorised transactions is not absolute, and the Bank's obligation to refund the transaction amount becomes effective only in situations where an unauthorised 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 in Poland (i.e. the sum of loan tranches disbursed to customers), 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 in Poland, 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 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 Claimant failed to prove that it has a legal interest in bringing the claim in question and also addressed the issue of the validity of the CHF valorised loan agreements, emphasizing that both the agreements themselves and the indexation clause are in compliance with both applicable laws and the principles of social interaction.

On 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.

Applicability of the dispositive provision of national law 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 dispositive provision of national 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 emphasised 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.

Remuneration for using principal/valorisation

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 jeopardise 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.

Period of limitation

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/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

The resolution of the Full Civil Chamber of the Supreme Court case III CZP:

On 29 January 2021 the motion of the First President of the Supreme Court for adopting a resolution regarding following issues has been submitted:

- replaced 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 manifestly inadmissible the request for such a ruling. The verdict on the questions asked by the First President of the Supreme Court was not issued.

The resolution of the Supreme Court of 16 February 2021 in case III CZP 11/20:

- endorsed the theory of two conditionalities if a credit agreement is declared to be invalid.

The resolution of the 7 Supreme Court's judges of 7 May 2021 in case III CZP 6/21:

- 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 entire 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, and
- IAS 37 "Provisions, contingent liabilities and contingent assets" in relation to repaid loans.

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

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

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

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

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

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

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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 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.

	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 recognised in 2023 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 regarding credit loans 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 of 31 December 2023, the Bank assumed a loss in 99% of pending or future lawsuits (as of 31 December 2022: 95%), while for the remaining 1% of cases, the Bank assumed dismissal of the claim (as of 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.

The Bank estimates that if all Bank's originated loan agreements currently under individual and class action court proceedings were declared invalid the pre-tax cost could reach ca. PLN 7.3 billion (compared to PLN 8.3 billion cumulative impact of legal risk associated with litigation related to indexation clauses mortgages and housing loans in foreign currencies as at 31 December 2023). 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 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 respectively 13.7 thousand and 32%), 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 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 foreign currencies in the amount of PLN 130.4 million.

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35. Off-balance sheet liabilities

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

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

Loan commitments, guarantees and other financial facilities and other commitments

31.12.2023	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	32 104 719	2 164 802	86 222	2 487	43 017	36 429	22 178	752
Guarantees and other financial facilities	7 371 682	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-balance loan commitments, guarantees and other financial facilities and other commitments under IFRS 9 impairment			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loan commitments	32 411 508	675 546	74 062	2 899	39 344	14 026	24 276	445
Guarantees and other financial facilities	7 383 407	460 520	266 455	2 203	4 786	1 084	219 228	(1 597)

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 impaired in accordance with IFRS 9					
1	5 388 831	80	-	-	5 388 911
2	10 752 498	33 188	-	8	10 785 694
3	7 194 960	199 601	-	54	7 394 615
4	10 321 729	1 476 929	-	518	11 799 176
5	2 678 245	940 521	-	103	3 618 869
6	12 964	55 514	-	2	68 480
7	25 002	143 246	-	54	168 302
8	269 432	-	-	-	269 432
other	2 832 740	-	-	-	2 832 740
default	-	-	227 989	5 695	233 684
Total nominal value	**39 476 401**	**2 849 079**	**227 989**	**6 434**	**42 559 903**
Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments impaired in accordance with IFRS 9					
Total provisions	**47 475**	**37 773**	**115 068**	**(2 898)**	**197 418**

31.12.2022	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Nominal value of off-balance loan commitments, guarantees, other financial facilities and other commitments impaired in accordance with IFRS 9					
1	4 756 581	1 847	-	-	4 758 428
2	11 891 625	59 227	-	2	11 950 854
3	9 606 095	371 468	-	279	9 977 842
4	7 608 715	338 620	-	277	7 947 612
5	2 716 126	267 307	-	125	2 983 558
6	12 319	14 506	-	2	26 827
7	49 880	83 091	-	14	132 985
8	249 787	-	-	-	249 787
other	2 903 787	-	-	-	2 903 787
default	-	-	340 517	4 403	344 920
Total nominal value	**39 794 915**	**1 136 066**	**340 517**	**5 102**	**41 276 600**
Provisions for off-balance loan commitments, guarantees, other financial facilities and other commitments impaired in accordance with IFRS 9					
Total provisions	**44 130**	**15 110**	**243 504**	**(1 152)**	**301 592**

The rating system is described in Note 3.3.4.

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The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2023 and as at 31 December 2022.

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	1-5 years	More than 5 years	Total
Contingent liabilities granted and received	**32 152 246**	**17 094 528**	**3 626 765**	**52 873 539**
Commitments granted	**28 332 322**	**11 464 227**	**2 763 354**	**42 559 903**
Financing	24 382 404	8 175 947	1 799 879	34 358 230
- Loan commitments	*24 382 404*	*8 175 947*	*1 799 879*	*34 358 230*
Guarantees and other financial facilities	3 949 918	3 288 280	963 475	8 201 673
- Guarantees and standby letters of credit	*3 949 918*	*3 288 280*	*963 475*	*8 201 673*
Commitments received	**3 819 924**	**5 630 301**	**863 411**	**10 313 636**
Financial commitments received	485 280	170 000	-	655 280
Guarantees received	3 334 644	5 460 301	863 411	9 658 356
Derivative financial instruments (nominal value of contracts)	**257 176 732**	**266 030 187**	**33 065 435**	**556 272 354**
Interest rate derivatives	138 116 383	254 096 392	32 488 445	424 701 220
Currency derivatives	115 793 994	10 690 978	4 890	126 489 862
Market risk derivatives	3 266 355	1 242 817	572 100	5 081 272
Total off-balance sheet items	**289 328 978**	**283 124 715**	**36 692 200**	**609 145 893**

31.12.2022	Up to 1 year	1-5 years	More than 5 years	Total
Contingent liabilities granted and received	**30 704 164**	**15 067 380**	**5 007 205**	**50 778 749**
Commitments granted	**27 257 222**	**10 001 914**	**4 017 464**	**41 276 600**
Financing	23 296 728	7 143 090	2 724 197	33 164 015
- Loan commitments	*23 296 728*	*7 143 090*	*2 724 197*	*33 164 015*
Guarantees and other financial facilities	3 960 494	2 858 824	1 293 267	8 112 585
- Guarantees and standby letters of credit	*3 960 494*	*2 858 824*	*1 293 267*	*8 112 585*
Commitments received	**3 446 942**	**5 065 466**	**989 741**	**9 502 149**
Financial commitments received	773 790	-	-	773 790
Guarantees received	2 673 152	5 065 466	989 741	8 728 359
Derivative financial instruments (nominal value of contracts)	**273 757 689**	**410 332 909**	**42 014 000**	**726 104 598**
Interest rate derivatives	158 128 185	392 265 521	41 921 182	592 314 888
Currency derivatives	110 595 312	17 289 913	41 818	127 927 043
Market risk derivatives	5 034 192	777 475	51 000	5 862 667
Total off-balance sheet items	**304 461 853**	**425 400 289**	**47 021 205**	**776 883 347**

The carrying amounts of derivatives are presented in Note 20.

As at 31 December 2023, apart from financial commitments granted by the Bank, the largest impact on the total amount of financial commitments granted was attributed to commitments granted by mFaktoring and mBank Hipoteczny in the amount of PLN 2 832 740 thousand and PLN 3 129 thousand respectively (31 December 2022: PLN 2 903 787 thousand and PLN 3 615 thousand).

36. Pledged assets

Assets may be pledged as collateral for repo or sell/buy back transactions or derivatives contracts with other banks. Collateral may be also required in relation to stock market derivatives such as futures, options and participation in stock market.

Collateral may be placed in different form (e.g. cash, securities and pledged assets).

Similarly, customers establish collateral on their assets to secure the transaction with the Group. If securities are subject to collateral (in buy/sell back transaction) they can be re-pledged in the opposite transaction (sell/buy back).

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Moreover, the Group accepts collaterals in the form of properties (esp. real estates) related to credit type transactions like loans, credit lines, banking guarantees.

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

31.12.2023	Assets			Fair value of the collateral received in the form of securities related to buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 20, 21, 22 and 23), including:	60 973 751	4 264 870	53 370 200	7 153 550	425 204	6 728 346	60 098 546
- NBP bills	*18 437 136*	-	*18 437 136*	-	-	-	*18 437 136*
- Government bonds	*31 947 094*	*2 394 452*	*29 552 642*	*7 153 550*	*425 204*	*6 728 346*	*36 280 988*
- Mortgage bonds	*205 695*	-	-	-	-	-	-
- Other non-treasury securities	*10 383 826*	*1 870 418*	*5 380 422*	-	-	-	*5 380 422*
Cash collaterals (due to derivatives transactions) (Note 23)	737 614	737 614	-	-	-	-	-
Loans and advances to customers	113 520 791	8 239 209	-	-	-	-	-
Other assets	51 748 360	-	-	-	-	-	-
Total	**226 980 516**	**13 241 693**	**53 370 200**	**7 153 550**	**425 204**	**6 728 346**	**60 098 546**

31.12.2022	Assets			Fair value of the collateral received in the form of securities related to buy/sell back transactions			Assets available for pledge (3+6)
	Total assets	Pledged assets	Eligible for pledge assets	Received	Reused	Available for pledge	
	1	2	3	4	5	6	7
Debt securities (Note 20, 21, 22 and 23), including:	55 143 094	3 502 884	49 085 844	9 310 924	562 338	8 748 586	57 834 430
- NBP bills	*17 483 362*	-	*17 483 362*	-	-	-	*17 483 362*
- Government bonds	*29 183 941*	*2 045 372*	*27 138 569*	*9 310 924*	*562 338*	*8 748 586*	*35 887 155*
- Mortgage bonds	*116 709*	-	-	-	-	-	-
- Other non-treasury securities	*8 359 082*	*1 457 512*	*4 463 913*	-	-	-	*4 463 913*
Cash collaterals (due to derivatives transactions) (Note 23)	965 301	965 301	-	-	-	-	-
Loans and advances to customers	120 183 142	8 179 977	-	-	-	-	-
Other assets	33 600 576	-	-	-	-	-	-
Total	**209 892 113**	**12 648 162**	**49 085 844**	**9 310 924**	**562 338**	**8 748 586**	**57 834 430**

mBank Hipoteczny S.A. secures issued covered and public bonds with receivables obtained from loans and advances. As at 31 December 2023, the net carrying value of loans registered in the mortgage and public bonds register, presented above as pledged assets amounted to PLN 8 239 209 thousand (31 December 2022: PLN 8 179 977 thousand).

The value of treasury securities presented as pledged assets, except for collaterals due to sell/buy back transactions, includes collateral of liabilities due to the loan received from the European Investment Bank (EIB), collateral for the guaranteed deposits fund under the Bank Guarantee Fund (BFG) and collateral for the payment commitment to the BFG guarantee fund and forced restructuring fund. 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) at 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 issue of shares above its nominal value and is reduced by the direct costs incurred with that issue. This capital is intended to cover all losses that may result from the business activity of the Bank.

The increase of share premium in 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 from previous years and profit for the current year.

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

	31.12.2023	31.12.2022
Other supplementary capital	8 785 057	8 740 349
Other reserve capital	106 648	107 008
General banking risk reserve	1 153 753	1 153 753
Profit from previous years	580 018	1 327 417
Profit for the current year	24 054	(702 691)
Total retained earnings	**10 649 530**	**10 625 836**

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

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

40. Other components of equity

	31.12.2023	31.12.2022
Exchange differences on translating foreign operations	**(27 967)**	**8 700**
Unrealised gains (foreign exchange gains)	74 499	30 133
Unrealised losses (foreign exchange losses)	(102 466)	(21 433)
Cash flow hedges	**(314 463)**	**(796 868)**
Unrealised gains	16 637	38 796
Unrealised losses	(404 863)	(1 022 584)
Deferred income tax	73 763	186 920
Cost of hedging	**6 391**	**27 105**
Unrealised gains	7 890	33 463
Deferred income tax	(1 499)	(6 358)
Valuation of debt instruments at fair value through other comprehensive income	**(192 348)**	**(760 946)**
Unrealised gains on debt instruments	26 279	15 155
Unrealised losses on debt instruments	(263 751)	(954 552)
Deferred income tax	45 124	178 451
Actuarial gains and losses relating to post-employment benefits	**(13 577)**	**(7 040)**
Actuarial gains	739	1 499
Actuarial losses	(17 500)	(10 191)
Deferred income tax	3 184	1 652
Reclassification to investment properties	**11 436**	**11 436**
Unrealised gains on reclassification to investment properties	14 118	14 118
Deferred income tax	(2 682)	(2 682)
Total other components of equity	**(530 528)**	**(1 517 613)**

41. Dividend per share

On 30 March 2023, the 36th Annual General Meeting of mBank S.A. adopted resolution regarding the covering of loss for 2022. The net loss incurred by mBank S.A. in 2022 in the amount of PLN 696 723 897.52 was covered by the Bank's undivided profit from the previous years. The Annual General Meeting of mBank S.A. also decided to leave the profit from the previous years in the amount of PLN 1 401 756 971.49 undivided. The Annual General Meeting of mBank S.A did not decide about dividend payment.

42. Explanatory notes to the statement of cash flow

Cash and cash equivalents

Amount of cash and cash equivalents is described in Note 19.

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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	**2 450 570**	**(2 678 281)**
The difference between the interest accrued and paid in cash in the period	264 837	150 551
Total change in loans and advances to banks	**2 715 407**	**(2 527 730)**
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	**1 119 719**	**(446 848)**
The difference between the interest accrued and paid in cash in the period	84 648	(174 457)
Valuation included in other comprehensive income	569 989	(332 791)
Total change in financial assets and liabilities held for trading and hedging derivatives	**1 774 356**	**(954 096)**
Loans and advances to customers - change in the balance of the statement of financial position	**6 663 129**	**(2 506 373)**
The difference between the interest accrued and paid in cash in the period	287 334	(383 916)
Total change in loans and advances to customers	**6 950 463**	**(2 890 289)**
Financial assets at fair value through other comprehensive income - change in the balance of the statement of financial position	**(1 847 627)**	**1 088 609**
Valuation included in other comprehensive income	701 925	(63 851)
The difference between the interest accrued and paid in cash in the period	1 138 050	237 180
Total change in financial assets at fair value through other comprehensive income	**(7 652)**	**1 261 938**
Debt securities measured at amortised cost - change in the balance of the statement of financial position	**(4 321 163)**	**(2 838 424)**
The difference between the interest accrued and paid in cash in the period	(44 870)	32 109
Total change in debt securities measured at amortised cost	**(4 366 033)**	**(2 806 315)**
Non-trading financial assets mandatorily at fair value through profit or loss - change in the balance of the statement of financial position	**(64 288)**	**74 720**
Acquisition of shares in subsidiaries not included in the consolidation	21 560	-
Disposals of shares in subsidiaries	-	(122)
Valuation change	43 174	(16 664)
Total change in non-trading securities mandatorily at fair value through profit or loss	**446**	**57 934**
Other assets (including non-current assets held for sale) - change in the balance of the statement of financial position	**(466 727)**	**(356 596)**
Exclusion of assets classified as held for sale	(26 747)	-
Other changes	(33 474)	(26 015)
Total change in other assets	**(526 948)**	**(382 611)**
Amounts due to banks - change in the balance of the statement of financial position	**45 079**	**(1 995 956)**
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	**83 663**	**(2 123 045)**
Amounts due to customers - change in the balance of the statement of financial position	**11 336 541**	**17 059 244**
The difference between the interest accrued and paid in cash in the reporting period	75 352	(389 433)
Total change in amounts due to customers	**11 411 893**	**16 669 811**
Lease liabilities - change in the balance of the statement of financial position	**(104 599)**	**3 486**
Exclusion of changes in cash from financial activities	167 078	115 590
Exclusion of increase in lease liabilities	(109 630)	(112 640)
Total change in lease liabilities	**(47 151)**	**6 436**
Debt securities issued - change in the balance of the statement of financial position	**1 639 686**	**(3 964 303)**
The difference between the interest accrued and paid in cash in the reporting period	(83 062)	(10 319)
Exchange differences	671 319	(261 442)
Exclusion of change in cash flows from financing activity	(1 928 538)	3 573 990
Total change in debt securities issued	**299 405**	**(662 074)**
Changes in other liabilities (including liabilities held for sale) and provisions - change in the balance of the statement of financial position	**3 173 326**	**1 191 606**
Valuation of incentive programmes recognised in income statement (Note 13)	10 920	12 673
Actuarial gains and losses relating to post-employment benefits recognised in other comprehensive income (Note 18)	(8 069)	4 285
Exclusion of change in cash flows from investing activity	(100 462)	59 832
Exclusion of liabilities classified as held for sale	7 363	-
Total change in other liabilities and provisions	**3 083 078**	**1 268 396**

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Interest received and paid reported in operating activities

	Year ended 31 December	
	2023	2022
Interest income, including:		
Loans and advances to banks	1 735 650	928 066
Loans and advances to customers	9 702 950	7 232 099
Debt securities	1 548 114	1 020 247
Other interest income	246 049	47 336
Total interest income	**13 232 763**	**9 227 748**
Interest expense, including:		
Settlements with banks due to deposits received	(113 327)	(69 244)
Settlements with customers due to deposits received	(3 771 583)	(1 291 801)
From debt securities issued	(336 210)	(260 599)
Derivative instruments	(1 631 633)	(948 570)
Other interest expense	(42 816)	(72 473)
Total interest expense	**(5 895 569)**	**(2 642 687)**

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 related to subordinated liabilities.

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

	As at 01.01.2023	Cash flows	Change not connected with cash flows	As at 31.12.2023
Loans and advances from banks (Note 29)	1 910 721	(4 480)	32 102	1 938 343
Leasing liabilities (Note 29)	960 324	(167 078)	62 479	855 725
Liabilities due to security deposits received in relation to granted guarantees (Note 29)	9 465 479	1 928 538	(288 852)	11 105 165
Subordinated liabilities (Note 29)	2 740 721	(188 000)	162 207	2 714 928
Total liabilities from financing activities	**15 077 245**	**1 568 980**	**(32 064)**	**16 614 161**

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

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 170 074 thousand (PLN 121 642 thousand in 2022).

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 occur: 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 a different incentive programme.

Risk Taker I means a Member of the Management Board of the Bank. Risk Taker II means a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a Management Board Member in an mBank Group subsidiary.

On the terms and conditions stipulated in the Remuneration Regulations and Policy of employees with a significant impact on the risk profile of mBank (referred to as Risk Takers Remuneration Policy), Risk Takers will be able to acquire warrants free of charge and, by way of exercising the rights arising from the warrants, to acquire shares.

Bonus for Risk Takers I

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MBO achievement with respect to the period of at least 3 years. 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 pool is preceded by Supervisory Board approval of 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 each KPI at 100% execution level 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 level 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 Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus).

Both the deferred part and the non-deferred part, are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in 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 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 deferral period for both the cash portion and the subscription warrants portion 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 EUR 50 thousand 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 mBank Group subsidiary’s Management Board may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e. a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the Bank, subsidiary or Group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises, stipulated in Article 142 especially (2) of the Banking Law Act, has occurred.

If the circumstances referred to the above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank/the Supervisory Board of the subsidiary/the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group/the subsidiary or has contributed to financial sanctions being imposed on the Bank/subsidiary by supervisory bodies under a final and unappealable decision.

The decision determining the occurrence of the said events may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

The table below presents change in the number 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	(11 280)	(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 13.

44. Transactions with related entities

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

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

The Group provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the by-laws adopted by the Supervisory Board of mBank S.A.

The by-laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities, which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of mBank Group and Members of the Supervisory Board and the Management Board of mBank, key executive management of mBank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as Commerzbank AG Group entities. The amounts of transactions include assets and liabilities and related costs and income as at 31 December 2023 and as at 31 December 2022.

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	Members of Supervisory Board, Management Board and key management personnel of mBank as well as Supervisory Board and Management Board of Commerzbank AG		Other related companies and 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	1 840	2 390	575 482	684 577	45	37
Liabilities	15 449	18 382	10 496	3 447	47 034	24 752	1 857 549	2 598 059	82 994	77 829
Income Statement										
Interest income	241	175	106	103	-	37	63 828	65 212	-	28
Interest expense	(440)	(104)	(133)	(8)	(792)	(186)	(58 411)	(43 685)	(2 612)	(1 416)
Fee and commission income	24	38	33	89	167	168	6 333	4 991	54	176
Fee and commission expense	-	-	-	-	(18 679)	(14 981)	-	-	-	-
Other operating income	-	-	62	14	1 642	1 674	1 914	3 846	-	-
Overhead costs, amortisation and other operating expenses	-	-	-	-	(2)	-	(8 118)	(11 408)	-	-
Contingent liabilities granted and received										
Liabilities granted	1 499	755	166	158	367 458	410 882	2 288 854	2 101 314	1 776	1 608
Liabilities 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.*
*** Applies to non-consolidated subsidiaries*

Management Board of mBank S.A.

At the end of 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.

Supervisory Board of mBank S.A.

At the end of 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.

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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.

Remuneration of the Management Board and Supervisory Board Members

The table below presents the information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2023 and at the end of 2022, remuneration of the former Management Board Members and remuneration of Supervisory Board Members.

Remuneration paid out 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 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 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 amount of 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 bonus will be taken by the Remuneration and Nominations 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 performed 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 other information about the former Members of Management Board is presented in the Management Board Report on the Performance of mBank S.A. Group in item 13.7. "Composition, powers and procedures of the Management Board and the Supervisory Board".

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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, two Members of the Management Board held the Bank's shares: Mr. Cezary Stypułkowski – 30 902 shares and Mr. Marek Lusztyn – 1 283 shares.

As at 31 December 2022, six Members of the Management Board held the Bank's shares: Mr. Cezary Stypułkowski – 27 884 shares, Mr. Andreas Böger – 2 994 shares, Mr. Krzysztof Dąbrowski – 2 240 shares, Mr. Cezary Kocik – 1 392 shares, Mr. Marek Lusztyn – 303 shares and Mr. Adam Pers – 26 shares.

45. Acquisitions and disposals

In 2023 mBank Group was not a party to acquisitions and disposals transactions.

In 2023 within the Group there was an acquisition by the mBank of the mBank Hipoteczny's activities related to servicing of the part of the loans. The acquisition is described in Note 45 of the financial statement of mBank S.A. for 2023 prepared in accordance with International Financial Reporting Standards approved on 27 February 2024.

46. Prudential consolidation

According to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending regulation (EU) No 648/2012 with further amendments ("CRR Regulation"), mBank is a large subsidiary of EU parent institution, responsible for the preparation of the prudentially consolidated financial data.

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

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

Basis of the preparation of the consolidated financial data

mBank S.A. Group consolidated financial data based on the rules of prudential consolidation specified by the CRR Regulation ("Consolidated prudentially financial data") have been prepared for the 12-month period ended on 31 December 2023 and for the 12-month period ended on 31 December 2022.

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

The accounting policies applied for the preparation of the Group prudentially consolidated financial data are identical to those, which have been applied to the mBank S.A. Group consolidated financial data for year 2023, prepared in compliance with IFRS, except for the consolidation standards presented below.

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

Company	31.12.2023		31.12.2022	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
mBank Hipoteczny S.A.	100%	full	100%	full
mLeasing Sp. z o.o.	100%	full	100%	full
mFinanse S.A.	100%	full	100%	full
mFaktoring S.A.	100%	full	100%	full
Future Tech Fundusz Inwestycyjny Zamknięty	98.04%	full	98.04%	full
mElements S.A.	100%	full	100%	full
Asekum Sp. z o.o.	100%	full	100%	full
LeaseLink Sp. z o.o.	100%	full	100%	full
mFinanse CZ s.r.o.	100%	full	100%	full
mFinanse SK s.r.o.	100%	full	100%	full
mTowarzystwo Funduszy Inwestycyjnych S.A.	100%	full	100%	-

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

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

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

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

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

Prudentially consolidated income statement

	Year ended 31 December	
	2023	**2022 - restated**
Interest income, including:	14 826 765	9 265 806
Interest income accounted for using the effective interest method	*14 522 983*	*9 093 789*
Income similar to interest on financial assets at fair value through profit or loss	*303 782*	*172 017*
Interest expenses	(5 953 294)	(3 341 812)
Net interest income	**8 873 471**	**5 923 994**
Fee and commission income	3 015 912	3 026 096
Fee and commission expenses	(1 100 004)	(906 019)
Net fee and commission income	**1 915 908**	**2 120 077**
Dividend income	9 486	5 236
Net trading income	73 343	97 198
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	34 100	(50 924)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(50 941)	(91 548)
Other operating income	317 712	265 162
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(1 076 778)	(817 972)
Result on provisions for legal risk related to foreign currency loans	(4 908 205)	(3 112 265)
Overhead costs	(2 570 433)	(2 851 881)
Depreciation	(504 016)	(467 308)
Other operating expenses	(399 507)	(443 613)
Operating profit	**1 714 140**	**576 156**
Taxes on the Group balance sheet items	(743 552)	(684 175)
Profit / (loss) before income tax	**970 588**	**(108 019)**
Income tax expense	(946 530)	(594 508)
Net profit / (loss)	**24 058**	**(702 527)**
Net profit / (loss) attributable to:		
- Owners of mBank S.A.	24 054	(702 691)
- Non-controlling interests	4	164

IFRS Consolidated Financial Statements 2023 (PLN thousand)

Prudentially consolidated statement of financial position

ASSETS	31.12.2023	31.12.2022 - restated
Cash and cash equivalents	36 702 427	16 250 951
Financial assets held for trading and hedging derivatives	1 760 033	2 524 652
Non-trading financial assets mandatorily at fair value through profit or loss, including:	898 798	1 044 189
Equity instruments	*244 941*	*185 788*
Debt securities	*50 144*	*45 009*
Loans and advances to customers	*603 713*	*813 392*
Financial assets at fair value through other comprehensive income	36 965 077	35 117 450
Financial assets at amortised cost, including:	143 319 329	147 902 186
Debt securities	*23 323 690*	*19 002 527*
Loans and advances to banks	*7 119 059*	*9 569 629*
Loans and advances to customers	*112 876 580*	*119 330 030*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	20 204	3 064
Non-current assets and disposal groups classified as held for sale	-	26 747
Intangible assets	1 701 939	1 391 707
Tangible assets	1 481 401	1 484 933
Investment properties	111 964	136 909
Current income tax assets	41 035	28 302
Deferred income tax assets	1 379 540	1 875 728
Other assets	2 598 769	2 105 295
TOTAL ASSETS	**226 980 516**	**209 892 113**
LIABILITIES AND EQUITY		
LIABILITIES		
Financial liabilities held for trading and hedging derivatives	1 495 754	2 086 111
Financial liabilities measured at amortised cost, including:	203 458 575	190 567 661
Amounts due to banks	*3 315 302*	*3 270 223*
Amounts due to customers	*185 467 455*	*174 130 914*
Lease liabilities	*855 725*	*960 324*
Debt securities issued	*11 105 165*	*9 465 479*
Subordinated liabilities	*2 714 928*	*2 740 721*
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(565 985)	(1 528 582)
Liabilities held for sale	-	7 375
Provisions	2 345 584	1 362 259
Current income tax liabilities	201 184	571 456
Other liabilities	6 308 178	4 110 802
TOTAL LIABILITIES	**213 243 290**	**197 177 082**
EQUITY		
Equity attributable to Owners of mBank S.A.	**13 735 187**	**12 713 001**
Share capital:	**3 616 185**	**3 604 778**
Registered share capital	169 861	169 734
Share premium	3 446 324	3 435 044
Retained earnings:	**10 649 530**	**10 625 836**
- Profit from the previous years	10 625 476	11 328 527
- Profit for the current year	24 054	(702 691)
Other components of equity	**(530 528)**	**(1 517 613)**
Non-controlling interests	**2 039**	**2 030**
TOTAL EQUITY	**13 737 226**	**12 715 031**
TOTAL LIABILITIES AND EQUITY	**226 980 516**	**209 892 113**

47. Capital adequacy

One of the Bank's main tasks is to ensure an adequate level of capital. As part of the capital management strategy of mBank Group, the Bank creates a framework and guidelines for the effective planning and use of the capital base, which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being a fundamental support for business development.

The capital management strategy in mBank Group is based on two pillars:

- aiming at optimal level and structure of own funds, assuring capital adequacy above the capital strategic targets (established above minimum requirement taking into account the risk appetite at approved level) as well as ensuring coverage against all material risks identified in mBank Group's activity,
- effective use of the capital base, guaranteeing achievement of expected returns, including return on regulatory capital and IFRS equity and thus creating stable basis for strengthening capital in future periods.

Above pillars of the capital management allow to maintain business development while meeting the supervisory requirements in the long perspective.

Capital ratios

The adequacy assessment of the capital base, including among others: the calculation of capital ratios and the leverage ratio, the own funds and the total capital requirement in the mBank Group was made according to the following regulations:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 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 (Directive CRD),
- the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, with 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),
- Regulation of the Minister of Development and Finance of 25 May 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property (Journal of Laws of 2023, item 1751, as amended).

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

As a result of the Act on 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 at 31 December 2023 the mBank Group is obliged to ensure adequate own funds to meet conservation capital buffer designated under the provisions of the Act of 2.5% of the total risk exposure amount (31 December 2022: 2.5%).

As at the end of 2023 and 2022 the countercyclical capital buffer rate set for relevant exposures in Poland according to the article 83 of the Act amounted to 0%. mBank Group specific countercyclical capital buffer calculated in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located, amounted to 13 bps as at 31 December 2023 (31 December 2022: 10 bps). 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 as at 31 December 2023 were: 2.0% and 1.5% (31 December 2022: 1.5% and 1.0% respectively).

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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 0.5% of the total risk exposure, calculated in accordance with article 92(3) of the CCR Regulation, to be maintained on individual and consolidated levels. The value of the buffer specified in the administrative decision applies as at 31 December 2023.

Consequently, the all-in-one combined buffer requirement set for the mBank Group as at 31 December 2023 amounted to 3.13% of the total risk exposure amount (31 December 2022: 3.10%).

In December 2023, the PFSA's 2022 recommendation (amended in June 2023) to maintain own funds to cover the additional capital requirement at the consolidated level expired:

- in the amount of 1.18% at the level of the total capital ratio,
- in the amount of 0.89% at the Tier 1 capital ratio level.

During 2023 and 2022 capital ratios both on the individual and consolidated level were above the required values taking into account the components described above.

mBank Group	31.12.2023		31.12.2022	
Capital ratio	Required level	Reported level	Required level	Reported level
Total capital ratio (TCR)	11.13%	17.04%	12.86%	16.36%
Tier I ratio	9.13%	14.71%	10.42%	13.81%

The consolidated leverage ratio calculated in accordance with the provisions of CRR Regulation and Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including transitional definition of Tier I capital, amounted to 5.27% as at 31 December 2023 (31 December 2022: 5.44%).

The Group 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 Group met the applicable minimum requirements.

Own Funds

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

Common Equity Tier I capital of mBank Group contains:

- capital instruments and the related share premium accounts,
- retained earnings,
- accumulated other comprehensive income and other reserves,
- funds for general banking risk,
- independently reviewed interim profits net of any foreseeable charge or dividend,
- regulatory adjustments.

Tier II capital of mBank Group contains capital instruments and the related share premium accounts (subordinated liabilities including amortization during the last five years to the maturity of the instruments concerned) and credit risk adjustments (AIRB excess of provisions over expected losses eligible).

The consolidated own funds of mBank Group as at 31 December 2023 amounted to PLN 14 730 102 thousand while the consolidated Common Equity Tier I capital of mBank Group amounted to PLN 12 719 997 thousand (as at 31 December 2022 it was PLN 14 403 163 thousand and PLN 12 153 665 thousand respectively).

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Total risk exposure amount (TREA)

The total risk exposure amount of mBank Group contains:

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

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,
- credit exposures of subsidiary - mLeasing Sp. z o.o..

Since 2021, mBank Group applies PFSA supervisory restrictions (multipliers) related to the recommendation following the implementation of the New Default Definition and the new LGD model for the retail loan portfolio in the process of calculating the total capital ratio. These limitations were taken into account in the process of calculating the total risk exposure amount at the end of 2023 as well, and they will apply until further notice.

The total risk exposure amount of mBank Group as at 31 December 2023 amounted to PLN 86 460 843 thousand, including PLN 73 164 652 thousand of risk exposure amount for credit risk, counterparty credit risk (31 December 2022: PLN 88 034 372 thousand and PLN 76 769 209 thousand respectively).

ICAAP process and Internal capital

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

These resources are at a safe level. In the regulatory approach, the value of the Group's own funds is above the value required to cover the Group's total capital requirement determined pursuant to the CRR Regulation. Similarly, in the economic approach, capital resources in the form of own funds or risk coverage potential are higher than the value of internal capital estimated for the Group pursuant to the Regulation of the Minister of Finance, Funds and Regional Policy of 27 July 2021 on the detailed manner of estimation of internal capital and the bank's review of the strategy and procedures for the estimation and ongoing maintenance of internal capital.

CAPITAL ADEQUACY	31.12.2023	31.12.2022
Common Equity Tier I Capital	**12 719 997**	**12 153 665**
Total Own Funds	**14 730 102**	**14 403 163**
Risk weighted exposure amounts for credit, counterparty credit, dilution risk and free deliveries, including:	73 164 652	76 769 209
- under standardised approach	*24 713 979*	*24 358 501*
- under AIRB approach	*45 676 999*	*50 845 791*
- securitisation transactions	*2 770 103*	*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	1 284 883	785 855
Total risk exposure amount for operational risks	11 852 173	10 150 954
Total risk exposure amount for credit valuation adjustments	159 135	328 354
Total risk exposure amount	**86 460 843**	**88 034 372**
Common Equity Tier I capital ratio	**14.7%**	**13.8%**
Total capital ratio	**17.0%**	**16.4%**

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OWN FUNDS	31.12.2023	31.12.2022
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**13 853 740**	**13 927 757**
Capital instruments and the related share premium accounts	3 616 058	3 604 519
Retained earnings, including:	580 018	1 327 417
- profit from the previous years	*580 018*	*1 327 417*
Accumulated other comprehensive income (and other reserves)	8 361 177	7 329 744
Funds for general banking risk	1 153 753	1 153 753
Independently reviewed interim profits net of any foreseeable charge or dividend	142 734	512 324
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**(1 133 743)**	**(1 774 092)**
Additional value adjustments (negative amount)	(43 612)	(45 879)
Intangible assets (net of related tax liability) (negative amount)	(1 078 269)	(879 985)
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	308 072	769 763
Negative amounts resulting from the calculation of expected loss amounts	-	(174 277)
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)
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(98 746)	(442 138)
Losses for the current financial year (negative amount)	(118 680)	(1 215 015)
Other regulatory adjustments	(83 861)	249 673
Common Equity Tier 1 (CET1) capital	**12 719 997**	**12 153 665**
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	**12 719 997**	**12 153 665**
Tier 2 (T2) capital before regulatory adjustments	**2 010 105**	**2 249 498**
Capital instruments and the related share premium accounts	1 874 027	2 249 498
Credit risk adjustments	136 078	-
Tier 2 (T2) capital: regulatory adjustments	**-**	**-**
Tier 2 (T2) capital	**2 010 105**	**2 249 498**
Total capital (TC = T1 + T2)	**14 730 102**	**14 403 163**

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

The application of the transitional provisions was intended to mitigate the negative impact of unrealised losses on government debt instruments during COVID-19 pandemic, and the decision to apply them meant that the Group 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)	12 719 997	n/a	12 153 665	11 807 391
Tier I capital (PLN thousand)	12 719 997	n/a	12 153 665	11 807 391
Own funds (PLN thousand)	14 730 102	n/a	14 403 163	14 056 888
Common Equity Tier I ratio (%)	14.7	n/a	13.8	13.4
Tier I capital ratio (%)	14.7	n/a	13.8	13.4
Total capital ratio (%)	17.0	n/a	16.4	16.0
Leverage ratio (%)	5.27	n/a	5.44	5.29

48. 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 Group estimates that if the amendment to the law as presented in the draft mentioned above comes into effect, the Group will recognise costs related to credit holidays of approximately PLN 290 million, of which mBank will incur costs of approximately PLN 210 million and mBank Hipoteczny of approximately PLN 80 million.