



Report mBank Hipoteczny S.A. for 2024

Official Financial Statements of mBank Hipoteczny SA for 2024 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Financial Statements of mBank Hipoteczny SA for 2024 but was prepared on the basis of the original prepared in the ESEF format and is a copy of it.

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 the Financial Statements of mBank Hipoteczny S.A. for 2024.

Selected financial data		in PLN `000		in EUR `000	
		Year ended 31.12.2024	Year ended 31.12.2023	Year ended 31.12.2024	Year ended 31.12.2023
I.	Interest income	791 163	897 863	183 812	198 274
II.	Fee and commission income	255	216	59	48
III.	Net trading income	3 112	760	723	168
IV.	Operating result	22 126	61 472	5 141	13 575
V.	Profit before income tax	619	37 571	144	8 297
VI.	Net profit/(losses) attributable to shareholders of mBank Hipoteczny S.A.	(5 172)	23 717	(1 202)	5 237
VII.	Net cash flows from operating activities	(276 570)	365 673	(64 256)	80 751
VIII.	Net cash flows from investing activities	(9 393)	(8 565)	(2 182)	(1 891)
IX.	Net cash flows from financing activities	583 729	(815 905)	135 618	(180 175)
X.	Total net cash flows	297 766	(458 797)	69 180	(101 315)
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	(2,35)	9,00	(0,55)	1,99

Selected financial data		in PLN `000		in EUR `000	
		as at		as at	
		31.12.2024	31.12.2023	31.12.2024	31.12.2023
I.	Total assets	11 019 975	10 105 413	2 578 978	2 324 152
II.	Amounts due to other banks	3 511 970	3 359 288	821 898	772 605
III.	Amounts due to customers	49	61	11	14
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	824 956	793 014	193 062	182 386
V.	Share capital	220 000	220 000	51 486	50 598
VI.	Number of shares	2 200 000	2 200 000	2 200 000	2 200 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	374,98	360,46	88	82,90
VIII.	Total capital ratio (%)	19,51	20,74	19,51	20,74

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2024: 1 EUR = 4. 2730 PLN and obligated for 31 December 2023: 1 EUR = 4.3480 PLN,
- for items of the income statement and statement of cash flow – 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 2024 and 2023: 1 EUR = 4. 3042 PLN and 1 EUR = 4. 5284 PLN



**Financial Statements of
mBank Hipoteczny S.A.
according to the International Financial
Reporting Standards (IFRS) for use in the
European Union for 2024**

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.

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mBank Hipoteczny S.A.

Financial Statements According to the International Financial Reporting Standards for 2024

(in PLN thousand)

Income Statement

	Note	Year ending December 31		
		2024	2023	
			Continuing operations	Discontinuing operations
Interest income, including:	7	791 163	858 165	39 698
<i>Interest income calculated using the effective interest rate method</i>		742 278	825 838	37 202
<i>Income similar to interest - financial assets measured at fair value through profit or loss</i>		48 885	32 327	2 496
Interest expense	7	(682 032)	(732 121)	(33 183)
Net interest income		109 131	126 044	6 515
Fee and commission income	8	255	175	41
Fee and commission expenses	8	(6 144)	(5 343)	(1 129)
Net fee and commission income		(5 889)	(5 168)	(1 088)
Net trading income	9	3 112	(1 113)	1 873
Net income on modification	10	(28 604)	3 512	1 668
Net income on derecognition of financial instruments not measured at fair value through profit and loss		322	161	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		-	-	1 073
Other operating income	11	18 941	15 617	118
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(3 253)	(9 631)	(2 536)
Overhead costs	12	(55 214)	(51 569)	(3 722)
Amortisation and depreciation	21, 22	(12 538)	(12 332)	(643)
Other operating expenses	13	(3 882)	(7 141)	(166)
Operating result		22 126	58 380	3 092
Tax on other financial institutions		(21 507)	(22 057)	(1 844)
Profit before income tax		619	36 323	1 248
Income tax	15	(5 791)	(12 931)	(923)
Net profit/(losses)		(5 172)	23 392	325
Net profit /(losses)		(5 172)	23 392	325
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	16	2 200 000	2 635 397	2 635 397
Earnings/(losses) per ordinary share / Diluted earnings per ordinary share (in PLN)	16	(2,35)	8,88	0,12

Notes presented on pages 9 to 105 constitute an integral part of these Financial Statements.

Statement of comprehensive incomes

	Year ended 31 December	
	2024	2023
<u>Continuing operations</u>		
Net profit/(losses)	(5 172)	23 392
Other comprehensive income net of tax including:	37 114	42 879
Items that may be reclassified to the income statement	37 162	42 881
Change in the valuation of debt financial instruments measured at fair value through other comprehensive income (net)	8 100	17 824
Cash flow hedges (net)	36 074	45 771
Settlement of the currency basis spread of a CIRS hedging instrument (net)	(7 012)	(20 714)
Items that will not be reclassified to the income statement	(48)	(2)
Actuarial gains and losses on post-employment benefits (net)	(48)	(2)
Net total income from continental operations	31 942	66 271
<u>Discontinued operations</u>		
Net profit from discontinued operations	-	325
Total comprehensive income net of tax	-	325
Total net comprehensive income from continuing and discontinued operations	31 942	66 596
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.	31 942	66 596

Notes presented on pages 9 to 105 constitute an integral part of these Financial Statements.

Statement of financial position

ASSETS	Note	31.12.2024	31.12.2023
Cash and Cash equivalents	17	81 177	63 298
Financial assets held for trading and derivatives held for hedges	18	1 161	2 647
Changes in fair value of hedged items in portfolio hedging against interest rate risk		16 891	20 204
Financial assets at fair value through other comprehensive income	19	1 285 083	845 733
Financial assets at amortised cost, including:	20	9 572 231	9 061 479
<i>Loans and advances to banks</i>		9 400	12 596
<i>Loans and advances to customers</i>		9 562 831	9 048 883
Intangible assets	21	25 854	27 814
Tangible assets	22	23 319	24 616
Current income tax assets		-	39 424
Deferred income tax assets	27	8 047	13 862
Other assets	23	6 212	6 336
TOTAL ASSETS		11 019 975	10 105 413
LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	18	34 193	47 226
Financial liabilities measured at amortised cost, including:	24	10 141 889	9 250 420
<i>Amounts due to banks</i>		3 511 970	3 359 288
<i>Amounts due to customers</i>		49	61
<i>Leasing liabilities</i>		15 085	16 975
<i>Debt securities issued</i>		6 614 785	5 874 096
<i>Subordinated liabilities</i>		-	-
Provisions	25	2 164	937
Current income tax liabilities		2 741	-
Other liabilities	26	14 032	13 816
TOTAL LIABILITIES		10 195 019	9 312 399
Equity			
Share capital:		727 362	727 362
- Registered share capital	31	220 000	220 000
- Share premium	32	507 362	507 362
Retained earnings:	33	121 679	126 851
- Profit from the previous years		126 851	103 134
- Profit/(losses) for the current period		(5 172)	23 717
Other components of equity		(24 085)	(61 199)
TOTAL EQUITY		824 956	793 014
TOTAL LIABILITIES AND EQUITY		11 019 975	10 105 413

Notes presented on pages 9 to 105 constitute an integral part of these Financial Statements.

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 Financial Statements According to the International Financial Reporting Standards
for 2024

(in PLN thousand)

Statement of changes in equity

Changes in equity from 1 January 2024 to 31 December 2024

	Share capital		Retained earnings				Other equity items				Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Costs of hedge accounting	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2024	220 000	507 362	361 712	44 800	(303 378)	23 717	(12 106)	(55 486)	6 391	2	793 014
Carryover of the result from the previous year	-	-	-	-	23 717	(23 717)	-	-	-	-	-
Net losses	-	-	-	-	-	(5 172)	-	-	-	-	(5 172)
Other comprehensive income (gross)	-	-	-	-	-	-	10 000	44 536	(8 657)	(59)	45 820
Deferred tax on other comprehensive income	-	-	-	-	-	-	(1 900)	(8 462)	1 645	11	(8 706)
Total comprehensive income	-	-	-	-	-	(5 172)	8 100	36 074	(7 012)	(48)	31 942
As at 31 December 2024	220 000	507 362	361 712	44 800	(279 661)	(5 172)	(4 006)	(19 412)	(621)	(46)	824 956

Changes in equity from 1 January 2023 to 31 December 2023

	Share capital		Retained earnings				Other equity items				Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedges	Costs of hedge accounting	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2023	336 000	548 631	361 712	44 800	-	(303 378)	(29 930)	(101 257)	27 105	4	883 687
Carryover of the result from the previous year	-	-	-	-	(303 378)	303 378	-	-	-	-	-
Net profit	-	-	-	-	-	23 717	-	-	-	-	23 717
Other comprehensive income (gross)	-	-	-	-	-	-	22 005	56 508	(25 573)	(2)	52 938
Deferred tax on other comprehensive income	-	-	-	-	-	-	(4 181)	(10 737)	4 859	-	(10 059)
Total comprehensive income	-	-	-	-	-	23 717	17 824	45 771	(20 714)	(2)	66 596
Redemption of capital in connection with the division	(116 000)	(41 269)	-	-	-	-	-	-	-	-	(157 269)
As at 31 December 2023	220 000	507 362	361 712	44 800	(303 378)	23 717	(12 106)	(55 486)	6 391	2	793 014

Notes presented on pages 9 to 105 constitute an integral part of these Financial Statements

Statement of cash flows

	Note	Year ended 31 December	
		2024	2023
A. Cash flows from operating activities		(276 570)	365 673
A.1 Cash flows from continuing operations		(276 570)	369 085
A.2 Cash flows from discontinued operating activities		-	(3 412)
Profit before income tax		619	37 571
Adjustments:		(277 189)	328 102
Income tax paid		33 485	12 506
Amortisation and depreciation	21,22	12 538	12 975
Foreign exchange (gains) losses related to financing activities		(52 650)	(248 527)
(Profits) losses on investing activities		-	-
Interest income (income statement)	7	(791 163)	(897 863)
Interest expenses (income statement)	7	682 032	765 304
Interest received		769 817	724 285
Interest paid		(184 319)	(234 040)
Change in assets and liabilities on derivative financial instruments		(46 861)	29 368
Change in loans and advances to customers		(497 048)	911 456
Change in the balance of financial assets at fair value through other comprehensive income		(140 567)	12 472
Adjustments to intangible assets and property, plant and equipment	21,22	112	6 780
Change in other assets	23	2 132	(11 593)
Change in amounts due to banks		(75 325)	(806 195)
Change in amounts due to customers		461	28
Change in debt securities in issue		8 785	62 630
Change in subordinated liabilities		-	(442)
Change in provisions		1 168	(11 261)
Change in other liabilities		214	219
Net cash from operating activities		(276 570)	365 673
B. Cash flows from investing activities from continuing and discontinued operations, including:		(9 393)	(8 565)
B.1 Cash flows from investing activities from continuing operations		(9 393)	(8 565)
B.2 Cash flows from investing activities from discontinued operations		-	-
Income from investment activities		196	137
Due to the disposal of intangible assets and tangible fixed assets		196	137
Investing activity outflows		9 589	8 702
Due to the purchase of intangible assets and tangible fixed assets		9 589	8 702
Net cash from investing activities		(9 393)	(8 565)
C. Cash flows from financing activities from continuing and discontinued operations, including:		583 729	(815 905)
C.1 Cash flows from financing activities from continuing operations		583 729	(819 317)
C.2 Cash flows from financing activities from discontinued operations		-	3 412
Financing activity inflows		2 984 479	2 658 821
Due to the loans and advances from banks		1 782 122	1 658 821
Due to the issue of debt securities	24	1 200 000	1 000 000
Interest received from hedging derivative financial instruments		2 357	-
Financing activities outflows		2 400 750	3 474 726

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for 2024

(in PLN thousand)

Due to the repayment of loans and advances from banks		1 580 469	1 419 698
Due to the issue of debt securities	24	417 685	1 510 000
Due to repayment a subordinated loan		-	100 000
Payments of leasing liabilities	24	2 941	3 445
Interest paid on loans received, debt securities in issue, subordinated loan		399 655	441 583
Net cash from financing activities		583 739	(815 905)
Net increase / decrease in cash and cash equivalents, total (A+B+C)		297 766	(458 797)
Total change in net cash from continuing operations (A.1+B.1+C.1)		297 766	(458 797)
Change in net cash from discontinued operations, total (A.2+B.2+.C.2)		-	-
Cash and cash equivalents as at the beginning of the reporting period	35	118 254	577 051
Cash and cash equivalents as at the end of the reporting period	35	416 020	118 254

Notes presented on pages 9 to 105 constitute an integral part of these Financial Statements.

Explanatory notes to the standalone financial statements**1. Information on mBank Hipoteczny S.A.**

By the decision of the District Court for the Capital City of Warsaw 16th Commercial Department on 16 April 1999 mBank Hipoteczny S.A. (hereinafter referred to as the "Bank") was entered into the Commercial Register under registration number 56623.

On 27 March 2001 the District Court in Warsaw issued a decision to enter the Bank in the National Court Register (KRS) under KRS No. 0000003753.

As per the Polish Classification of Activities the Bank business is designated as 64.19.Z "Other monetary intermediation".

On 29 November 2013 District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register registered the change of the Bank's Articles of Association resulting from resolution no. 1 of the Extraordinary General Meeting of BRE Bank Hipoteczny S.A. dated 30 October 2013. Together with the registration of the change in the Articles of Association the name of the Bank has been changed from BRE Bank Hipoteczny Spółka Akcyjna to mBank Hipoteczny Spółka Akcyjna. The Bank can use the following abbreviation: mBank Hipoteczny S.A.

According to the Bank's Articles of Association, the Bank's scope of activity is provision of banking services to natural and legal persons, as well as to unincorporated organisational units both in PLN and foreign currencies.

The Bank operates in the territory of the Republic of Poland. Registered office of the Bank is located in Warsaw, at 18 Prosta St. The Bank was established for an indefinite period of time.

The Bank is a specialised mortgage bank whose primary objective is to issue mortgage bonds to provide the main source of long-term financing for loans secured by real estate. The Bank develops its issuance activities on the basis of a portfolio of residential loans for private customers, which is built in close cooperation with mBank. The Bank's activities are carried out in operating segments described in detail in Note 6.

The Bank is not a parent company or significant investor for associates and jointly-controlled entities, both as at 31 December 2024 and as at 31 December 2023, the Bank did not have any subsidiaries and therefore does not prepare consolidated financial statements.

The Bank's ultimate parent is mBank S.A., which prepares the consolidated financial statements of the mBank Group.

The immediate ultimate parent company of mBank S.A. is Commerzbank AG.

At 31 December 2024, the Bank's headcount was 98 FTEs; 120 persons (31 December 2023: 99 FTEs; 111 persons).

The average headcount was 115 in 2024 and 118 in 2023.

These financial statements were approved by the Bank's Board of Directors on 24.02.2025.

2. Description of the relevant accounting policies

The most important accounting principles applied by the Bank in the preparation of these financial statements are presented below. The accounting principles adopted by the Bank were applied in a continuous manner to all the periods presented in the financial statements.

2.1. Accounting basis

Financial Statements of Bank have been prepared for the 12-month period ended 31 December 2024. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2023. Presented financial statements are standalone financial statements.

The Financial statements of Bank has been prepared in accordance with the International Financial Reporting Standards adopted for use in the European Union (IFRS EU), according to the historical cost principle, except for derivative contracts and financial instruments held for trading, financial assets that do not meet the SPPI test, financial assets assigned to a business model that does not assumes holding them in order to obtain contractual cash flows, that are carried at fair value through profit or loss, and except for financial instruments at fair value through other comprehensive income.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and the adoption of certain assumptions that affect the amounts presented in SF. It also requires the Management Board of the Bank to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 6. Estimates and assumptions are based on historical experience and other factors, including expectations as to future events, are subject to continuous assessment by the Bank's Management Board. Despite the fact that these estimates are based on the best knowledge of the current conditions and actions taken by the Bank, the actual results may differ from these estimates. Changes in estimates are recognized in the reporting period during which the estimate was changed.

The Bank's financial statements have been prepared on the going concern basis. There are no circumstances indicating any threats to continuing as a going concern in the foreseeable future, ie at least for a period of 12 months from the date of approval by the Management Board. The Bank's capital and liquidity position is adequate to its operations. Current and projected capital and liquidity ratios are at safe levels above regulatory and internal limits.

The financial statements are prepared in accordance with the materiality principle. Omissions or misstatements of items in the financial statements are material if they may, individually or jointly, influence economic decisions made by users of the Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of an item in the financial statements and a combination of both. Each material category of similar items is presented separately by the Bank. Items different in terms of type or function are presented separately by the Bank, unless they are insignificant.

The financial statements are presented in PLN thousand, which is the functional currency and the Bank's presentation currency.

2.2. Interest income and expenses

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

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

In case of reclassification to the stage 3 of a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognized 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 recognized in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognized 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.

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 Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking book.

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

Interest expenses include paid and accrued interests as well as commissions settled over time using effective interest rate from received loans, other financial liabilities with deferred payment term, subordinated loans, debt securities issued (legal costs, rating costs and audit costs) and cash collateral and due to leasing.

2.3. Fee and commission income and expenses

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

Step 1: Identifying the contract's with a customer

Step 2: Identifying performance obligations in the contract

Step 3: Determining the transaction price

Step 4: Allocating the transaction price to the performance obligation

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

Revenues recognized in accordance with IFRS 15 do not constitute a significant part of the revenues generated by the bank

Loans and commissions are recognized in the effective interest rate account and classified as interest income. Commissions for contracts that have not been disbursed as at the date of collection or payment of the commission, adjust the value of the effective interest rate on the date of disbursement of funds. Commissions for loan agreements that have not been started are recognized once in the profit and loss account on the expiry date of the loan agreement. Commissions for the loan tranches made available to the customer (for commitment) are calculated evenly over the period of service provision. The commission amount is settled over the period of the commission transaction on a straight-line basis.

Commission income also includes fees and commissions settled over time using the straight-line method, received on loans and advances granted with undetermined schedules of future cash flows, for which the effective interest rate cannot be determined. The linear method for this type of service provides a fair picture of the transfer of goods and services as these services are provided evenly over time.

Commission costs related to amounts paid on loans taken, securities issued, adjust the value of the effective interest rate on the date of disbursement of funds or on the date of payment, if it occurred after the date of disbursement of funds, and are presented in the line of interest expense. Commission costs on other operations, including costs related to the after-sale service of portfolios under outsourcing agreements, as well as costs related to the issue of covered bonds, among others legal costs, costs of ratings and audit costs are charged to the profit and loss account once.

2.4. Segment reporting

An operating segment is a component of an entity that engages in business activities that earn revenues and incur expenses (including revenues and expenses associated with transactions with other components of the same entity) and whose operating results are regularly reviewed by the entity's chief operating decision maker and used in making decisions about resources to be allocated to the segment and in assessing segment performance, and for which separate financial information is available.

Segment reporting is presented on the same basis as used for internal (management) reporting purposes. Management refers to the function that allocates resources to the business segments and conducts assessments of their performance. The Bank has assumed that the role of 'management' as defined in IFRS 8 is performed by the Bank's Board of Directors.

Under IFRS 8, the Bank identifies the following operating segments: "Retail Banking segment", "Treasury (Treasury) segment". A detailed description of the operating segments is presented in Note 6.

2.5. Financial assets/financial liabilities

The Bank classifies its financial assets to the following categories:

- financial assets at fair value through profit or loss,
- financial assets at fair value through other comprehensive income,
- financial assets measured at amortized cost.

The classification of a financial asset into one of the categories is made on initial recognition based on the Bank's business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset.

Standardised purchases and sales of financial assets at fair value through profit or loss and at fair value through other comprehensive income are recognized on the settlement date of the transaction - the date on which the Bank delivers or receives the asset. Changes in fair value between the trade date and the settlement date for assets measured at fair value are recognized in the income statement or in other equity items. Loans are recognized when funds are disbursed or made available to the borrower's account. Derivative financial instruments are recognized from the trade date.

A financial asset is derecognized as a result of a significant modification and transfer of an asset that is classified for derecognition.

Financial liabilities as at the date of their acquisition or creation are classified into the following categories:

- financial liabilities valued at fair value through profit or loss,
- other financial liabilities valued at amortized cost.

A financial liability is classified into one of the categories at the time of its acquisition in accordance with the Bank's intention as to its intended use.

As financial assets at fair value through profit or loss, the Bank classifies derivative financial instruments and financial assets (loans and advances granted by the Bank) whose contractual terms and conditions result in cash flows which are not merely repayment of the principal and interest on the outstanding principal (loans that do not meet the SPPI criterion in the category of non-recourse assets). These assets are presented in the statement of financial position under "Non-trading financial assets at fair value through profit or loss".

Financial instruments valued at fair value through the financial result

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

The Bank, at the initial recognition, irrevocably designate the financial assets/financial liabilities at fair value through profit or loss when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from

measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management and information about the group is provided internally on that basis to the entity's key management personnel.

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

Interest income/expense on financial assets/financial liabilities designated at fair value, of which interest profit or loss on derivatives, is recognized in net interest income. The valuation and result on disposal of financial assets/financial liabilities valued at fair value through profit or loss are included as follows:

- on trading income, in case of financial derivatives,
- in the item profits or losses on non-trading financial assets mandatorily measured at fair value through profit or loss.

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

Financial assets measured at amortized cost

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

Financial assets measured at amortized cost are recognized at adjusted purchase price (amortized cost) using the effective interest rate.

Financial assets measured at fair value through other comprehensive income

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

In the reporting periods presented in these financial statements, the Bank classified investments in debt securities as financial assets at fair value through other comprehensive investment income.

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 as a result of investment securities.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are valued at the end of the reporting period according to their fair value. Financial assets measured at amortized cost, are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method. Gains and losses resulting from changes in the fair value of financial assets measured at fair value through profit or loss are recognized in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income until the derecognition of the respective debt instrument in the statement of financial position or until its impairment: at such time the aggregate net gain or loss previously recognized in other comprehensive income is now recognized in the income statement. However, interest calculated using the effective interest rate is recognized in the income statement. If the fair value of a debt instrument measured at fair value through other comprehensive income increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Modification of contractual terms for financial assets

The Bank settles previously recognized financial assets and re-recognizes the financial assets in accordance with the requirements for initial recognition in case of substantial modification of contractual terms of financial assets. As substantial modification the Bank defines such a modification that meets one of the following criteria:

- increasing the amount of financing by more than 10% compared to the amount before the change,
- extending the financing period by more than 12 months compared to the financing period before the change,
- currency conversion that was not provided for in the terms of the contract. Wherein in order for the currency conversion to be considered as provided for in the terms of the contract, it would have to define both the rate at which it would take place as well as the interest rate on the loan after the conversion,
- change of the borrower – does not apply when another borrower joins the contract,
- change of the cash flow criterion from 'SPPI compliance',
- change in the object of financing.

In the event of substantial modification the deferred income and expense related to this assets is recognized in the income statement and the provision is released. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as not substantial modifications and the gain or loss on modification is recognized. The effects of all identified insignificant cash flow modifications are recognized in the non-significant modification result. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and the effective loan exposure. Commissions received related to minor modification are settled over time using effective interest rate.

All significant modifications are recognized as related to credit risk. In the event of a significant modification of the exposures in the second stage, for which, as a result of the modification, a transfer to the first stage was made, the adjustment to fair value of such an exposure, as at the initial recognition date, adjusts the net interest income in subsequent periods.

Purchased or originated credit impaired financial assets (POCI assets)

POCI are financial assets measured at amortized 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 recognized 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 amortized cost. With respect to these financial assets the Bank uses credit adjusted effective interest rate in order to determine the amortized cost of financial asset and the interest income generated by these assets – CEIR. In case of POCI exposures the change of the expected credit losses relative to the estimated credit losses at the date of their initial recognition is recognized as an impairment loss. Its value can both reduce the gross value of POCI exposure and increase it in the event of a decrease of expected losses relative to its value at the date of initial recognition.

Reclassification of financial assets

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

Reclassification of financial liabilities

Financial liabilities are not subject to reclassification by the Bank.

2.6. Offsetting 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 recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The only assets and liabilities that the Bank compensates for are those related to hedge accounting.

2.7. Impairment of financial assets

Financial instruments subject to the requirements to estimate allowances and provisions are: financial assets measured at amortized cost, financial assets measured through other comprehensive income, loan commitments.

Financial assets measured at amortized cost – rules for classifying exposures to stages

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

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

Assignment of exposures to Stage 2 is carried out in the Bank according to the algorithm of the so-called Transfer Logic, which determines qualitative and quantitative prerequisites that speak for a significant increase in credit risk, while classification to Stage 3 is determined by impairment prerequisites.

After the cessation of the quantitative premise or qualitative premises, based on which the exposure was classified in Stage 2 as of the reporting date (the customer and the exposure assigned to him does not have any of the qualitative premises of the Logic of Transfer or the quantitative premise active), the exposure will reclassify from Stage 2 to Stage 1. In addition, in the case of loans to which forbore tools have been applied, the condition for reclassification to Stage 1 is the expiration of a period of 24 months, during which the loan is properly serviced (performing).

It is also possible to reclassify a customer from Stage 3 to Stage 2 or Stage 1 if the quarantine period has expired for each default premise assigned to the debtor.

The quarantine period means the period of time during which the debtor is properly servicing obligations calculated from the moment the impairment premise ceases to exist.

Calculation of the quarantine period is carried out separately for each impairment premise. The quarantine period is also maintained when the liability due to which the impairment premise occurred has been paid off, written off or sold. The quarantine period is:

- in the case of the premise of emergency restructuring - 12 months,
- in the case of other premises - 3 months.

The bank assesses the debtor's credit behavior during the quarantine period, and exit from quarantine is contingent on proper servicing.

Impairment - retail portfolio obtained in cooperation with mBank S.A.

For retail exposures, the Bank distinguishes the following indications of impairment:

- the number of days past due for principal, interest or fees is more than 90 days. The calculation of the number of days past due is made at the debtor level and begins when the absolute and relative thresholds of materiality are exceeded together, where:
 - the absolute threshold refers to the sum of all overdue amounts related to the debtor's obligations to the Bank and is PLN 400,
 - the relative threshold refers to the ratio of all past due amounts related to the debtor's liabilities to the Bank to the total balance sheet liabilities related to the debtor and is 1%;
- emergency restructuring by the Bank (the materiality threshold from which the Bank considers a reduced financial obligation to be characterized by default is 1%);
- termination of the agreement by the Bank in the situation of violation of the terms of the loan agreement by the debtor;
- obtaining information about the filing of a consumer bankruptcy petition by the debtor, the conduct of court proceedings in this case or a court ruling on consumer bankruptcy;

- acquiring information about the debtor's filing of an application for bankruptcy/restructuring proceedings against the debtor, which, in the Bank's opinion, may result in the debtor's delaying or failing to repay the obligation;
- recognition by the Bank of a given transaction as defrauding;
- disposal by the Bank of an exposure at a significant economic loss related to a change in the debtor's creditworthiness;
- determination by the Bank of the uncollectibility of an obligation;
- payment by an insurance company of a benefit under the insurance of low own contribution (NWW);
- occurrence of a default under other contracts (cross default).

Significant deterioration of credit quality

A significant deterioration in credit quality is recognized 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

Qualitative criteria are:

- the number of days of delay in repayment of the amount due is greater than or equal to 31 days, taking into account the materiality thresholds:
 - the absolute threshold refers to the overdue amount of the exposure and is PLN 400 for retail exposures
 - the relative threshold refers to the ratio of the overdue exposure amount to the total balance sheet exposure amount and is 1%,
- the number of days of delay in repayment of the outstanding amount of the exposure is greater than or equal to 91 days (excluding materiality thresholds),
- the occurrence of a Forborne performing flag (the status of a customer indicating its difficulty in repaying a credit obligation according to the definition of Forborne used by the Bank),
- deterioration of the risk profile of the entire exposure portfolio by product type, industry or distribution channel,
- at least threefold increase in the current PD level compared to the PD level from the date of initial recognition of the exposure. The condition is verified at the exposure level only for contracts with a PD rating of "non-investment grade" (i.e., worse than 2.8).

Quantitative criteria

The Transfer Logic quantitative criterion uses a measure of material credit deterioration based on the relative and absolute change in the long-run PD determined for exposures as of the reporting date relative to the measure of long-run PD determined as of the initial recognition date. This measure is determined separately within homogeneous segments due to the probability of a default event and the characteristics of the exposure. If the values of the relative and absolute change in long-term PD exceed the so-called transition thresholds, then the exposure in question is placed in Stage 2. 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.

Estimating expected credit losses (ECL)

The determination of expected credit loss (ECL) is done at the individual contract level. In the portfolio approach, expected credit losses are the product of the individual estimated values of the PD, LGD and EAD parameters for each exposure, and the final expected loss value is the sum of the expected losses in each period discounted by the effective interest rate.

In the area of calculating allowances and provisions for the portfolio acquired in cooperation with mBank, group credit risk models are used, of which the Bank is a local user.

In order to estimate the long-term PD parameter, an estimation was used in which the explanatory variable is the cumulative default-rate. In this procedure, a Weibull distribution curve is fitted to the empirical data using linear regression calculated by the least squares method. Estimates are made separately within segments that are homogeneous in terms of customer and exposure characteristics. In order to determine long-term PD values that take into account macroeconomic expectations, a scaling factor, the so-called z-factor, is additionally determined in order to adjust the average observed long-term 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 future forecast years by comparing expected values of default rates to long-term averages.

For the purpose of calculating the long-term LAG parameter, an explanatory variable was used in the form of a loss ratio calculated using the discounted cash flow method (workout approach). To determine the modeled values, a set of statistical methods consisting of fractional regression, linear regression, mean in pools, or regression trees, among others, was used. Estimates are made separately within segments that are homogeneous in terms of customer and exposure characteristics. Macroeconomic expectations were also used during the estimation, which adjusted the model values based on client-contract variables.

In order to calculate the long-run EAD parameter, a set of two explanatory variables was used in the form of future Limit Utilisation (LU), and Credit Conversion Factor (CCF). The model values were determined by regression trees using client-contract variables. In segments where analyses indicated the statistical significance of macroeconomic expectations, these were included in the EAD models.

If, at the reporting date, the credit risk of the exposure has not increased significantly since initial recognition, expected credit losses are calculated at the minimum horizon from the 12-month horizon and the horizon to maturity. If the credit risk of the exposure has increased significantly since initial recognition (the exposure is in stage 2), the Bank calculates expected credit losses over a lifetime horizon (Lt ECL). The parameters used to calculate the expected credit loss in stage 1 are identical to those determined to calculate the long-term credit loss in stage 2 for $t=1$, where it is the forecast year.

Use of macroeconomics scenarios in ECL estimation

The bank is required to calculate the expected credit loss in a way that reflects the expectations regarding various scenarios for the future macroeconomic situation. In the case of portfolio ECL estimation, the Bank determines the NLF (non-linearity factor) parameter, which is to adjust the value of the expected credit loss (determined every month). The value of the NLF is determined at least annually, separately for each segment of the retail portfolio. The values of the NLF ratio are used as scaling factors for individual ECL values determined at the level of individual exposures in individual segments on the basis of the results of 3 simulation conversions of the expected credit loss value to the identical reporting date, resulting from the adopted macroeconomic scenarios. In particular, the NLF parameter for a given segment is defined as the quotient of:

- weighted by the probability of the scenario realization, the average value of the expected loss from 3 macroeconomic scenarios (the so-called average estimate), which includes: the baseline, optimistic, pessimistic scenario. The weights of these scenarios correspond to the probability of realization of each of them and are respectively 60% for the base one, 20% for the optimistic one and 20% for the pessimistic one.
- the expected loss value determined in the baseline scenario (reference estimate).

Simulation processing, the results of which are used to calculate the NLF factor, is performed on the basis of the same input data on exposure characteristics, but using different vectors of risk parameters where the macroeconomic expectations defined in the scenarios affect the values of these parameters. In addition, the inclusion of forward-looking information takes place in the models for all three credit risk parameters estimated over a lifetime horizon (LtPD, LtEAD, LtLGD). Forward-looking data is used to determine parameter values over 12 months to 6 years. In the estimations, the Bank uses, inter alia, publicly available macroeconomic indicators (GDP, employment in the corporate sector, unemployment rate, level of exports/imports, wages, claims of monetary financial institutions on households), expectations of exchange rate developments, as well as changes in property prices.

Loan receivable write-off

Loan receivable write-off can be partial 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. The lack or exhaustion of recovery capacity, in particular:
 - a. the discontinuance of enforcement proceedings due to its ineffectiveness,
 - b. rejection of the application for bankruptcy or closure of bankruptcy proceedings on the grounds that the debtor's assets are insufficient to cover the costs of the proceedings,
 - c. the recognition of the claim as irrecoverable - the costs of recovery exceed the potential recovery.

2.8. Cash and cash equivalents

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

2.9. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized 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 recognized in the statement of financial position as assets, those with a negative value as liabilities.

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration). If the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation, then the Bank recognizes the respective gains or losses from the first day in accordance with the principles described in Note 2.10.

Derivative instruments, which are designated and constitute effective hedging instruments, are subject to the principles of hedge accounting.

The method of recognizing the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item.

The Bank designates certain derivatives as either: (1) hedges of the fair value of a recognized asset or liability or a binding contract (fair value hedge), or (2) hedges of future highly probable cash flows of a recognized asset or liability or a forecasted transaction (cash flow hedge).

With regard to derivatives hedging the Bank's positions, hedge accounting is applied, provided that the criteria set out in IFRS 9 are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will

assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;

- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in the income statement together with any changes in the fair value of the hedged liability that are attributable to the hedged risk. The Bank presents the adjustment of balance sheet value of the hedged instrument as the separate line of the statement of financial position.

The gain or loss on hedging a hedged item adjusts the carrying amount of the hedged item. In case a hedge has ceased to fulfil the criteria of hedge accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

The forecast transaction being the subject of the hedge must be highly probable and must be subject to the threat of changes in cash flows, which could affect the profit and loss account.

Cash flow hedges

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

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

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

All derivative transactions are concluded to hedge against currency risk and interest rate risk. The bank does not conduct trading activities, all derivative transactions are included in the banking portfolio.

In accordance with IFRS 9, in the case of relationships hedging the Bank's positions, hedge accounting is applied provided that:

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

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

2.10. Gains and losses on initial recognition

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

If the Bank determines that the fair value on initial recognition differs from the transaction price, it recognizes the difference between the two values on that date as follows:

- as a gain or loss if the fair value is evidenced by the price quoted in an active market for an identical or identical asset or is based on a valuation technique that uses only data from observable markets,
- in other cases, including for CIRS transactions, is deferred.

For transactions where the initial value obtained from the valuation model (which takes into account both observed market and non-market data) and the transaction price differ, initial recognition is at the transaction price. The Bank assumes that such price is the best approximation of fair value, despite the fact that the value obtained from the valuation model may be different. The difference between the transaction price and the value obtained from the model, customarily referred to as day one profit and loss, is accounted for over time.

The timing of the recognition of deferred day one gains and losses is assessed on a case-by-case basis. They are amortised over the life of the transaction, deferred until the instrument's value can be determined from observable market inputs, or realised through payments. The financial instrument is henceforth measured at fair value, adjusted for gains and losses on initial recognition. Further changes in fair value are recognized immediately in the income statement without reversing the deferred gains and losses from initial recognition.

2.11. Financial liabilities measured at amortised cost

Financial liabilities measured at amortized cost include borrowings, deposits taken, debt securities issued and subordinated liabilities. These liabilities are initially recognized 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 recognized in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.12. Intangible assets

Initially the Bank recognizes intangible assets at acquisition cost. Subsequently intangible assets are recognized at their cost of acquisition adjusted by less any accumulated amortization and any impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets. Expenditures on an intangible asset are included in costs as they are incurred, unless they constitute an element of the purchase price or cost of creation of an intangible asset that meets the criteria of recognition.

On each balance sheet day the company carries out an assessment whether or not any indications exist for possible value impairment of any asset item. If any such indication exists, the company estimates the recoverable amount of such respective asset.

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. Capitalised costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognized as intangible assets.

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life. Once a year, the Bank verifies the useful lives of intangible assets.

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

2.13. 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.

Purchase price or cost of production of a given tangible fixed asset is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. The purchase price or cost of production also consist in all directly attributable costs incurred in order to adjust an asset to place and conditions necessary to begin its functioning, including also costs of demounting, removal of an asset or renovations to which the Bank is obliged. The purchase price or cost of production also cover expenditures incurred at a later date in order to increase the asset's useful life, change of its component or its renewal.

The value, which is either a purchase price or cost of production of specific assets or fair value established in other way reduced by the residual value of this asset, should be depreciated.

The depreciation is a systematic distribution of value subject to amortisation over the useful life of an asset. Impairment loss is recognized in the amount by which the carrying value of given asset item exceeds its recoverable value.

The recoverable value corresponds to the net selling price of an asset or its use value depending

on which is higher.

The residual value of the asset is the amount, which according to the forecast the company could currently obtain taking into consideration the age and state at the end of its life (after deducting the estimated selling costs).

Depreciation period and annual depreciation rate are determined considering the economic usability period of given tangible fixed assets. Correctness of the applied periods and rates for depreciation is subject to periodical review - not later than at the start of each fiscal year. If the expected useful life of the asset is different from previous estimates, the depreciation period is changed accordingly. The above changes are presented by the Bank as changes in estimates and their effect is taken to profit or loss in the period when the estimate changes.

The Bank depreciates tangible fixed assets using the straight-line method by distributing its initial value or revalued amount reduced by residual value by estimated useful life. The residual value of useful life of an asset is verified at the end of each financial year and in case when expectations differ from previous estimations, the change is recognized as the change of estimated values.

Useful life of an asset is a period in which according to expectations a given asset will be used.

Useful lives of individual groups of tangible fixed assets amount to:

Technical equipment and machinery	5-10 years
IT equipment	4-5 years
Equipment and vehicles	5 – 10 years
Contractual right of use	in the expected rent period
Office equipment and furniture	5- 12 years

If for a given tangible fixed asset expected useful life is different than the one specified above, the period of depreciation for a given asset may be determined with consideration of this difference.

Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use. If it is not possible to estimate the recoverable amount of an individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The balance sheet value of tangible fixed assets is removed from the statement of financial situation upon disposal of this item or when no future economic benefits resulting from its use or disposal are expected.

The Bank does not increase the balance sheet value of tangible fixed assets by the costs of current maintenance of those assets. Repair and maintenance costs are recognized in the income statement in the period in which they occurred.

In case of replacement of a component of a tangible fixed asset, the Bank recognizes costs of replacement of parts of those items in the balance sheet value of tangible fixed assets as they are incurred. The balance sheet value of components is written off in accordance with conditions of removal from the statement of financial situation.

Profits and losses resulting from the removal of a tangible fixed asset item from the statement of financial situation are established as the difference between net disposal proceeds and the balance sheet value of this item and are recognized in the income statement at the moment of removal of this position from the statement of financial situation.

2.14. Current and deferred income tax

Income tax is recognized as current tax and deferred tax. The current income tax is recognized in the income statement. The deferred income tax is recognized in the income statement or in other comprehensive income depending on the source of origin of temporary differences. The current tax is a tax liability relating to taxable income using a current tax rate, with all adjustments to the tax liability for the previous years. The Bank uses the accounting method to determine exchange rate differences.

Deferred tax liabilities and 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 corporate income tax. Liabilities or assets for deferred corporate income tax are recognized 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. Temporary differences are differences between the carrying amount of an asset or liability and its tax value. Positive net differences are shown in liabilities as "Deferred income tax provision". Negative net differences are recognized as "Deferred income tax assets".

Balance sheet value of deferred income tax assets is subject to review as at each balance sheet date and relevant correction is recognized, by the amount corresponding to the correction of the expected future taxable income that will enable partial or full utilisation of such deferred income tax assets. Unrecognized deferred income tax asset is subject to reassessment for each balance sheet date and is recognized up to the amount reflecting probability of achieving future taxable income which will allow for recovery of this asset.

The Bank presents the individual deferred income tax assets and liabilities netted in the statement of financial position if the Bank has a legally enforceable right to their simultaneous consideration in calculating the tax liability.

Deferred income tax due to revaluation of available-for-sale financial assets and due to actuarial profits and losses on valuation of pension benefits is recognized in the same manner as revaluation and actuarial profits and losses, directly in the other comprehensive income.

2.15. Prepayments, accruals and deferred income

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

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

2.16. Provisions

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

2.17. Retirement benefits and other employee benefits

The Bank creates provisions for future obligations related to retirement, disability, and death benefits based on estimates of such obligations using an actuarial model. Current employment costs and net interest are recognized in the profit and loss account under "General administrative expenses." Actuarial gains and losses are recognized in other comprehensive income, which will not be reclassified to the profit and loss account. Current service costs and net interest on defined benefit obligations are recognized in the profit and loss account under "General administrative expenses".

Phantom share-based benefits

The Bank operates a compensation program for the Bank's Management Board and employees with a significant impact on the Bank's risk profile, based on phantom stocks settled in cash. These benefits are accounted for in accordance with IAS 19. The projected unit entitlement method was used to determine the present value of employee benefit obligations. The basis for calculating the

provision for the deferred part of variable remuneration for eligible employees of the Bank is the amount of the bonus that the Bank undertakes to pay on the basis of the Remuneration Policy for employees having a significant impact on the Bank's risk profile.

The valuation of phantom stocks is calculated at the end of each reporting period as the quotient of the Bank's book value and the number of ordinary shares. The payout from phantom stocks depends on the valuation of these stocks in the reporting period in which they are redeemed, adjusted for capital increases above the nominal value during the entire assessment period.

The conversion of phantom stocks into cash for payment is carried out as follows: The number of phantom stocks determined for the Bank's Risk Takers under the Shares granted under the Non-Deferred Part and respectively under each tranche of the Deferred Part is multiplied by the average value of one phantom stock calculated as the sum of the value of the phantom stock at the end of the two last annual periods preceding the payout date, divided by 2.

The final value of the bonus, which is the product of the number of shares and their expected value as at the balance sheet date preceding the implementation of each of the deferred tranches, is discounted actuarially. The value from the valuation of phantom shares increases the costs of a given period in correspondence with liabilities. Costs are recognized over time throughout the entire period of acquiring rights and are included in the item "General administrative costs". Liabilities related to incentive programs are presented in the statement of financial position under "Other liabilities".

A detailed description of the program is presented in Note 36.

2.18. Issue of securities

The Bank's liabilities resulting from issue of securities (covered bonds, bonds) upon initial recognition are valued according to the fair value, taking into account the costs of transaction that may be directly assigned to the issue, and throughout the entire duration of the transaction they are valued to the amount of amortised cost including the effective interest rate. The amount of the reversal is recorded in the income statement in "Interest expense".

2.19. Loans and advances received

Loans and advances received initially recognized at fair value reduced by the incurred transaction costs.

After initial recognition, loans and advances are carried at adjusted cost using the effective interest rate. Any differences between the amount received (reduced by transaction costs) and the redemption value are recognized in the income statement over the period of duration of the respective agreements according to the effective interest rate method.

2.20. 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.

Registered share capital

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

Share premium

This capital is created from the issue premium obtained from the issue of shares, less the related costs directly incurred.

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

Retained earnings

Retained earnings include:

- other supplementary capital,
- general risk reserve,

- undistributed profit for the previous years,
- net profit (loss) for the current year.

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

Other items of equity

Other equity items are created as a result:

- valuation of financial assets at fair value through other comprehensive income,
- actuarial gains and losses relating to post-employment benefits,
- valuation of derivative instruments under cash flow hedge accounting in relation to the effective part of the hedge.

2.21. Leasing

The Bank acts as the lessee. Leases are recognized as the right to use an asset together with the corresponding lease liability determined at the amount of discounted future payments over the lease term, except for short-term leases of up to 12 months and leases involving insignificant assets.

Expenses related to the use of leased assets are classified as amortization costs and interest costs.

Assets by virtue of the right of use are depreciated on a straight-line basis, while liabilities by virtue of leasing contracts are settled taking into account the effective interest rate.

Bank as a lessee

Where the definition of a lease is met, the right to use the asset is recognized in the property, plant and equipment group together with the corresponding lease liability. The Bank, as a lessee, applies simplifications and does not apply the recognition, measurement and presentation requirements for short-term leases of up to 12 months for a given class of underlying asset and for leases for which the underlying asset has a low value i.e. less than PLN 20 000 for individual leases. For contracts for which the Bank applies simplifications, lease payments are recognized as expenses on a straight-line basis over the lease term. The right of perpetual usufruct is classified as a lease under IFRS 16 due to the existence of future payments for the use of this right. The Bank has assumed that the lease term for this type of agreement is the remaining term of the granted right from the transition to IFRS 16

The Bank determines the lease term for non-cancellable leases taking into account:

- option to extend the lease if it can be assumed with reasonable certainty that the Bank as lessee will exercise this option, and
- option to terminate the lease if it can be assumed with reasonable certainty that the Bank, as lessee, will not exercise this option.

The Bank shall assess whether it can be assumed with reasonable certainty that the lease extension option will be exercised or that the lease termination option will not be exercised. The Bank takes into account all relevant facts and circumstances that provide an economic incentive to exercise the lease extension option or not to exercise the lease termination option. The Bank reassesses whether it can be assumed with reasonable certainty that it will exercise the option to extend the lease or not exercise the option to terminate the lease in the event of a significant event or a significant change in circumstances that the Bank, as lessee, controls, and that affect whether it can be assumed with reasonable certainty that the Bank will exercise or not exercise an option that was not previously included in the lease term arrangements. The Bank updates the lease term when there is a change in the non-cancelable lease term. At the commencement date of the lease, the Bank, as lessee, measures the right-of-use asset at cost. The cost of the right-of-use asset should include:

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

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

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

The Bank applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset and requirements in IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired. At the commencement date, the Group shall measure the lease liability at the present value of the lease payments that are not paid at that date. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments:

- fixed lease payments less any lease incentives,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and,
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

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

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

The Bank discounts lease payments using the lease interest rate if this rate can be easily determined. Otherwise, the Bank uses the lessee's marginal interest rate. The Bank uses the mBank discount rate to measure lease liabilities due to the immaterial difference in discount rates and the elimination of the double calculation of leases for separate and consolidated purposes.

Total lease expenses recognized in accordance with IFRS 16 and other types of lease, i.e. short-term lease fees, lease fees for low-value assets and variable lease payments as at December 31, 2024 amounted to TPLN 3.771, while as at December 31, 2023 they amounted to TPLN 2.723.

The Bank, as a lessee prior to the implementation of IFRS 16, classified leases occurring in the Bank as operating leases. All lease payments made under operating leases were charged to expenses on a straight-line basis over the term of the lease agreement. There were no finance leases occurring in the Bank.

2.22. Valuation of items denominated in foreign currenciesFunctional currency and presentation currency

The financial statements are presented in TPLN, with PLN being the functional and presentation currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate of the National Bank of Poland. Foreign exchange gains and losses on such transactions as well as balance sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognized 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 recognized under gains or losses arising in connection with changes of fair value.

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

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

2.23. Tax from the balance sheet positions of the Bank

The Bank presents the tax from the balance sheet positions of the Bank in the separate line of the income statement, below the operating result.

2.24. 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 2024.

Standards and interpretations endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Bank's financial statements in the period of initial application
Amendments to IAS 1, Presentation of Financial Statements	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 had 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 recognize 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 had no significant impact on the financial statements.
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements	The amendments introduce additional disclosure requirements to increase the transparency of supplier financing arrangements (reverse factoring) and their impact on the company's liabilities, cash flow and liquidity risk exposure.	1 January 2024	The application of the amended standards had no significant impact on the financial statements.

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Bank's financial statements in the period of initial application
Amendments to IAS 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 standards will have no significant impact on the financial statements.

Standards and interpretations not yet endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Bank's financial statements in the period of initial application
IFRS 18 Presentation and Disclosure in Financial Statements	IFRS 18 aims to improve financial reporting by requiring additional defined subtotals in the statement of profit or loss, requiring disclosures about management-defined performance measures; and adding new principles for grouping (aggregation and disaggregation) of information. IFRS 18 replaces IAS 1 Presentation of Financial Statements. Requirements in IAS 1 that are unchanged have been transferred to IFRS 18 and other Standards.	1 January 2027	The application of the new standard will have no significant impact on the financial statements.
IFRS 19 Subsidiaries without Public Accountability: Disclosures	IFRS 19 permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures. Applying IFRS 19 will reduce the costs of preparing subsidiaries' financial statements while maintaining the usefulness of the information for users of their financial statements. A subsidiary is eligible if it does not have public accountability and its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.	1 January 2027	The standard will not apply for the purpose of preparing Bank's financial statements.
Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'- classification and measurement	Amendments to IFRS 9 and IFRS 7 relate to settling financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features. The amendments include also the disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income.	1 January 2026	The application of the new standard will not have a significant impact on the financial statements.
Amendments to various standards resulting from the annual review of International Financial Reporting Standards	The amendments cover IFRS 1, IFRS 7 (including implementation guidance), IFRS 9, IFRS 10 and IAS 7 and consist of improving readability, accessibility and consistency with other standards and eliminating ambiguities in selected paragraphs.	1 January 2026	The application of the amended standards will have no significant impact on the financial statements.
Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'- contracts relating to electricity dependent on natural conditions	The Amendments only apply to contracts to buy or sell nature-dependent electricity, as well as financial instruments that reference such electricity. These are contracts that expose an entity to variability in an underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions, typically associated with renewable electricity sources such as sun and wind.	1 January 2026	The application of the amended standards will have no significant impact on the financial statements.

3. Financial risk management

3.1. Credit risk

The Bank is exposed to credit risk consisting in counterparty's failure to fulfil obligation against the Bank in the full amount within the prescribed period. In order to limit the credit risk, the Bank conducts lending activity in accordance with internal procedures as well as policy of credit decision-making and credit risk assessment.

3.1.1. Collaterals

The Bank's Policy in terms of loan collaterals and their valuation includes regulation of acts: on covered bonds and mortgage banks, banking law, Act on registered pledge and pledge register, Act on land and mortgage, provisions of the Commercial Companies Code, provisions of the Civil Code and other Acts. Additionally, the issues of legal safeguard cover Guidelines and Recommendations of the Banking Supervision Commission (currently Polish Financial Supervision Authority - PFSA), including Recommendation S and J as well as provisions of internal banking regulations.

The Bank hold and applies Regulations of Establishing of banking and mortgage real estate value approved by the Banking Supervision Commission (currently Polish Financial Supervision Authority), issued on the basis of the Act dated 29 August 1997 on covered bonds and mortgage banks (consolidated text Journal of Laws 2003 No. 99, item 919 as amended) including provisions of Recommendation F regarding basis criteria applies by the Financial Supervision Authority for approval of regulations of establishing the banking and mortgage lending value of the property issued by mortgage banks. Thereby, the Bank ensures that the value of credit exposure collateral secured by mortgage is sufficient for the entire duration of the agreement.

The Bank may conduct or order conducting revaluation of collaterals, including the real estate constituting mortgage collateral, provided that in the period from the last valuation events occurred that could have significant influence on the value of a given collateral or in case of real estate which constitutes collateral of loans for which the loss of value was recognized.

As a mandatory legal collateral of repayment of a granted loan the Bank accepts:

- mortgage on real estate that is subject to lending, entered into mortgage and land register in the first place,
- assignment of rights from insurance policy against fire and other random events of a real estate mortgaged to the Bank.

Regardless of the security referred to above, the Bank may adopt additional legal forms of loan security permitted by law and included in the Bank's internal regulations. When selecting the form and value of legal security, the Bank takes into account the specificity of the transaction, i.e. taking into account:

- a) type and amount of the loan and the loan period,
- b) legal status of the borrower,
- c) the financial situation of the borrower,
- d) history of cooperation with the borrower,
- e) cost of establishing security,
- f) the possibility of satisfying the Bank's claims under the adopted security in the shortest possible time.

The form and value of legal security, taking into account the specificity of the transaction, i.e. taking into account:

type and amount of loan and loan period,

- g) legal status of the borrower,
- h) financial situation of the borrower,
- i) history of cooperation with the borrower,
- j) cost of establishing security,
- k) the possibility of satisfying the Bank's claims under the adopted security in the shortest possible time.

3.1.2. Description of the rating system and credit risk management

The Bank uses rating models to analyse the quality of its loan portfolio, which are updated annually. The rating systems currently cover more than 99.9% of total risk-weighted exposures using the standardised approach and relate to a portfolio of retail exposures acquired in cooperation with mBank S.A., which are currently included in the plan for the gradual implementation of the IRB approach accepted by the Financial Supervision Commission, and the Bank intends to apply in the future for approval from the competent supervisory authorities to use statistical methods to calculate regulatory capital requirements for credit risk for this portfolio.

The Bank uses rating models:

- for the purposes of credit risk management, including credit decision-making, assessment of transaction credit risk, determination of expected credit losses (ECL), ultimately also for the purposes of capital adequacy - for exposures within the retail portfolio acquired in cooperation with mBank S.A.

Retail portfolio obtained in cooperation with mBank S.A.

For the purposes of assessing the credibility of a client holding a retail mortgage-backed loan product and monitoring/reporting credit risk for this portfolio, group credit risk models are used, of which the Bank is a local user. The detailed principles and scope of cooperation between the Banks with regard to group risk models are set out in the provisions of a separate risk management cooperation agreement. The credit risk capital requirement for this part of the portfolio is calculated using the standardised approach. The described retail portfolio is included in the plan for gradual implementation of the AIRB approach.

In the retail banking area, the following models are in place as part of the rating system:

- loss given default (LGD) model. The final loss level is determined by integrating three components:
 - the recovery level for cured cases (based on average achieved recovery levels for cured cases),
 - recovery level for unhealed cases (based on contractual factors relating to the client's relationship with the contract and collateral characteristics),
 - probability of recovery (based on socio-demographic factors and the full product structure of the contract owner).

The estimation of the level of LGD loss proceeds in homogeneous segments that take into account product type and collateral type. Separate models are in place for cases characterised by and not characterised by default;

- the probability of default (PD) model, which is a modular model that integrates application, behavioural and external data from the Credit Information Bureau (BIK).

Additional information

Loans to individuals are monitored on a monthly basis for timeliness of repayments and regularity of the effective mortgage collateral established.

The fulfilment of all the customer's contractual obligations (including real estate insurance and assignment of policy rights) is also monitored during the same period.

3.1.3. The policy of Bank in terms of forbearance

The Bank offers customers who are temporarily in financial difficulty and unable to meet the original loan repayment terms, more lenient debt service terms to maintain their ongoing servicing, without which the customers' financial problems would make it impossible to repay the loan within the timeframe specified in the loan agreement.

Amendments to loan agreements can be initiated by the customer or the Bank and include such as debt restructuring, a new repayment schedule, deferral of principal instalments while maintaining interest payments.

The type of relief offered should be appropriate to the nature and expected duration of the customer's financial difficulties. In order to reach an agreement with the customer, it is necessary

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to convince the Bank of the customer's willingness and ability to repay the loan. Before any relief is granted, an assessment of its impact on improving the customer's ability to repay is carried out.

The Bank renegotiates loan agreements with customers in financial difficulties in order to maximise the possibility of recovering loan receivables and minimise the risk of customer default.

With regard to the retail part's customers, in line with the forbearance policy, assistance measures may take different forms depending on the type and scale of the customer's financial problems.

Measures of a short-term nature mainly consist of a temporary reduction in the size of instalments or suspension of capital instalments while interest payments are maintained. For customers whose financial problems are of a long-term nature, the Bank may offer an extension of the repayment period, which may include a reduction in repayments.

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

The structure of the portfolio of loans measured at amortised cost in the forbearance category in the Bank as at 31 December 2024 is as follows:

31.12.2024	Gros value	Of which defaulted	Write-downs created	Net value
Loans and advances to customers	137 088	48 727	10 853	126 235

As at 31 December 2024 and 31 December 2023, the Bank did not have any loans mandatorily valued at fair value through the financial result in the forbearance category.

The structure of the loan portfolio measured at amortized cost in the forbearance category in Bank as at 31 December 2023 is as follows:

31.12.2023	Gros value	Of which defaulted	Write-downs created	Net value
Loans and advances to customers	153 215	43 457	9 867	143 348

The size of the Bank's forbearance portfolio as at 31 December 2024 remains small compared to the total size of the Bank's loan portfolio. The share of the forbearance portfolio represents 1.43% (1.59% as at 31.12.2023) of the total portfolio. The portfolio of forbearance exposures in the default category amounted to 35,54% of the forbearance portfolio as at 31.12.2024 (28.36% as at 31.12.2023). The portfolio of exposures measured at amortised cost in the default category was covered by expected credit losses of 20.50% (20.26% as at 31.12.2023).

The risk of default on the forbearance portfolio is mitigated by the collateral accepted in the form of a mortgage on real estate with a banking-mortgage value of TPLN 186 588 (TPLN 200 175 as at 31.12.2023), including in the default category TPLN 68 765 (TPLN 61 357 as at 31.12.2023).

Changes in the carrying amount of the forbearance exposures measured at amortized cost in 2024:

31.12.2024	Gros value	Of which defaulted	Write-downs created	Net value
Balance 01.01.2024	153 215	43 457	9 867	143 348
Outputs from forbearance	-	-	-	-
Change in exposure	(52 105)	(3 817)	(417)	(51 688)
New forbearance	35 978	9 087	1 403	34 575
Balance 31.12.2024	137 088	48 727	10 853	126 235

In 2024, there were 111 new exposures in the forbearance category (in 2023: 213), all relating to the retail portfolio.

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Changes in the carrying amount of the forbearance exposures measured at amortized cost in 2023:

31.12.2023	Gros value	Of which defaulted	Write-downs created	Net value
Balance 01.01.2023	462 277	398 208	134 733	327 544
Outputs from forbearance	(374 684)	(363 877)	(127 980)	(246 704)
Change in exposure	531	1 328	961	(430)
New forbearance	65 091	7 798	2 153	62 938
Balance 31.12.2023	153 215	43 457	9 867	143 348

Forbearance exposures measured at amortized cost by type of concession as at 31 December 2024:

31.12.2024	Gros value	Of which defaulted	Write-downs created	Net value
Refinancing	1 439	1 048	47	1 392
Modifications of terms and conditons	135 649	47 679	10 806	124 843
Total	137 088	48 727	10 853	126 235

Forbearance exposures measured at amortized cost by type of concession as at 31 December 2023:

31.12.2023	Gros value	Of which defaulted	Write-downs created	Net value
Refinancing	1 714	1 185	519	1 195
Modifications of terms and conditons	151 501	42 272	9 348	142 153
Total	153 215	43 457	9 867	143 348

Forbearance exposures measured at amortized cost without recognized loss impairment per length of overdue period as at 31 December 2024:

Forbearance exposures without impairment reconised (31.12.2024)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	85 618	-	724	84 894
Up to 30 days	2 250	-	103	2 147
31 to 90 days	493	-	38	455
Total	88 361	-	865	87 496

Forbearance exposures measured at amortized cost without recognized loss impairment per length of overdue period as at 31 December 2023:

Forbearance exposures without impairment reconised (31.12.2023)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	108 010	-	883	107 127
Up to 30 days	773	-	61	712
31 to 90 days	974	-	121	853
Total	109 757	-	1 065	108 692

Forbearance exposures measured at amortized cost with recognized loss impairment per length of overdue period as at 31 December 2024:

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Forbearance exposures without impairment recognised (31.12.2024)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	27 910	27 910	3 153	24 757
Up to 30 days	4 366	4 366	510	3 856
31 to 90 days	2 352	2 352	552	1 800
more than 90 days	14 099	14 099	5 773	8 326
Total	48 727	48 727	9 988	38 739

Forbearance exposures measured at amortized cost with recognized loss impairment per length of overdue period as at 31 December 2023:

Forbearance exposures without impairment recognised (31.12.2023)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	25 178	25 177	3 344	21 834
Up to 30 days	4 113	4 113	580	3 533
31 to 90 days	1 285	1 285	409	876
more than 90 days	12 882	12 882	4 469	8 413
Total	43 458	43 457	8 802	34 656

Interest income related to forbearance exposures at the end of 2024, amounted to TPLN 9 832 (for the period ended 31 December 2023: TPLN 16 536).

Retail Banking

The bank does not treat loans with changed terms and conditions as subject to the forbearance policy in cases where changes result from the client's request and do not occur on an ongoing basis or the client's financial difficulties are not anticipated, and furthermore, modifications to the terms of the contract meet the criteria of a decision-making policy for a healthy portfolio. In the normal course of cooperation with the client, the client who is not in a difficult financial situation applies to change the terms of the contract, for example, to renegotiate the price conditions due to changes in market conditions or to increase your ability to service another loan. If such an application meets all decision-making criteria and is granted on market terms, such a loan is not classified as forbearance.

If the client requests an extension of the repayment deadline, a reduction in the amount of installments paid or other relaxation of the terms and this is due to the client's financial difficulties, the modified contracts are treated as aid products subject to the forbearance policy. And are appropriately reported in the financial statements.

Assistance products (forbearance) available in retail banking are offered only to customers in a difficult financial situation. The type of aid product offered depends on the scale and nature of the client's financial difficulties.

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

- individual repayment schedule,
- maturity extension/ extension of loan duration,
- restructuring,
- interest deferrals,
- principal deferrals,

with assumption that the failure to apply changes could result with no repayment of loan and in consequence the loss on the side of the Bank.

Forborne activities of short-term nature are focused on temporary reduction of the amount of instalments and may consist in suspension of repayments of capital with maintaining repayment of interests.

For customers under long term financial distress extension of contractual repayment schedule or refinancing of debt, which can be evidence for classification of the customer to the default category, may be offered.

The necessity to grant another forbore product causes reclassification of the product to non-performing category, and in case of lack of regular servicing, when overdue exceeds 90 days, the customer is reclassified to the default category.

This portfolio is subject to regular reviews and reporting to the management of the Risk Division. The effectiveness of undertaken actions, regularity of restructured products service in respect of types of product and client's segment are subject to assessment.

The Bank ceases to recognize the product as forbearance in the following cases:

- repayment of the loan is considered not at risk (performing),
- at least 2 years have passed since the exposure was recognized as non-performing (performing), or the contract was not in the non-performing category at the time the relief was granted,
- there were regular receipts of receivables or interest (delays in repayment on the contract not exceeding DPD 30 in a significant amount), at least from half of the trial period,
- none of the debtor's exposures are more than 30 days past due at the end of the probation period.

Exposures for which statutory credit holidays were activated were therefore not classified as restructured.

3.1.4. Counterparty risk arising from transactions in derivatives

The Bank enters into derivative transactions only to hedge against currency risk and interest rate risk. The bank does not conduct trading activities, all derivative transactions are included in the banking book. The Bank's portfolio includes interest rate risk (IRS), exchange rate risk (FX SWAP contracts) and CIRS derivatives. The Bank has credit exposure limits for derivative transactions, approved by the Bank's Management Board. The amounts of the applicable credit exposure limits for individual banks are subject to review and verification at least once a year. The bank sets limits for banks with which an ISDA (International Swaps and Derivatives Association) agreement has been signed with a CSA (Credit Support Annex), for banks with which it plans to sign ISDA agreements with a CSA annex, and for central clearing houses, by which the Bank will settle derivative transactions. The counterparty risk is limited by selecting the individual segregated account structure in the clearing house. The utilization of credit exposure limits is controlled on a daily basis. Both in 2024 and 2023, there were no cases of exceeding the limits. As of December 31, 2024 and on December 31, 2023, derivative transactions were concluded with mBank S.A., J.P. Morgan AG and with the central clearing house. Therefore, it is assumed that derivative transactions at the Bank have a limited credit risk profile.

3.1.5. Debt securities - financial assets at fair value through other comprehensive income

The value of debt securities (financial assets at fair value through other comprehensive income) as at 31 December 2024 amounted to TPLN 1 285 083, of which: treasury bonds amounted to TPLN 950 240 and NBP money bills in the amount of TPLN 334 843. As at 31 December 2023 the value of treasury bonds amounted to TPLN 845 733, of which: treasury bonds amounted to TPLN 790 777 and NBP money bills in the amount of TPLN 54 956. Both as at 31 December 2024 and 31 December 2023, the debt instruments were rated A- on the scale of the Standard & Poor's (S&P) rating agency.

As at December 31 2024 the Bank created an allowance for expected credit losses (ECL) on treasury bonds in the amount of TPLN 141 (as at December 31 2023 TPLN 135) and money bills TPLN 50 (as at December 31 2023 TPLN 10).

Both as at 31 December 2024 and 31 December 2023 all investment securities were not past due instruments.

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

Risk of geographical concentration

Assets, liabilities and off-balance sheet items are not presented according to geographical areas in the Bank due to insignificance of geographical differentiation of risks. The Bank operates only in

the territory of the Republic of Poland. The Bank applies internal geographic concentration limits by province for corporate portfolio exposures.

The risk of concentration of large exposures, the risk of concentration of exposures

Concentration risk is the risk that the stability and security of the Bank's operations may be materially affected by the failure of a single entity to meet an obligation, where the probability of default depends on common factors.

In the scope of concentration risk management the Bank identifies risk, measures, monitor and report it.

Measurement of concentration risk in the Bank is performed through establishing of the size of an exposure that generates the risk of concentration and relate this amount to established limits resulting from provisions of law and internal limits.

The Bank limits credit risk using internal exposure concentration limits, specified in internal procedures.

While establishing proposal of the level of internal exposure concentration limits, the Bank takes into account the following issues:

- a) the macroeconomic situation in the country,
- b) situation on the real estate market in the country,
- c) situation on financial markets in the country,
- d) implementation of credit policy of the Bank in previous years,
- e) results of restructuring and debt collection actions of the Bank,
- f) information from reliable sources (academic centres) on economic situation of entities, branches, industry sectors, according to the recommendations of Resolution No. 384/2008 PFSA,
- g) factors resulting from other types of risk associated with identified exposures from which the risk of concentration arises (e.g. of interest rate, liquidity, operational and political) that may negatively influence an increase of concentration risk,
- h) stress test results.

Internal exposure limits are specified in relation to the amount of own funds of the Bank and in relation to the sum of exposures of the Bank.

The Bank conducts monthly reporting of monitored concentration risk in relation to:

- a) exposures concentration limit monitoring,
- b) large exposures limit monitoring,

As at 31 December 2024 and 31 December 2023 no exceeding of exposure limit against an entity or a group of affiliated clients specified in Art. 395.1 of the CRR Regulation occurred in the Bank.

3.3. Strategy for use of financial instruments

The Bank in its activity uses financial instruments including also derivative instruments. The Bank issues covered bonds and bonds. The Bank's liabilities bear both variable and fixed interest rates. The Bank invests raised funds in assets of acceptable level of risk in order to increase interest margin. In order to secure currency risk and interest rate risk the Bank concludes transactions on derivative instruments.

While concluding the above mentioned transactions the Bank maintains the level of liquidity sufficient to settle all arising liabilities.

Derivative instruments

The Bank strictly controls open net derivative items, i.e. difference between purchase and sale contracts, both in terms of the nominal value of the contract and the period of validity. The amount subject to credit risk at any time is limited to current fair value of instruments which valuation is positive (i.e. assets), which, in relation to derivative instruments, constitutes only small fraction of value of agreement or nominal values used to express the volume of existing instruments.

Off-balance sheet liabilities of credit nature

Off-balance sheet liabilities of credit nature relate to not used part of granted loans. The Bank reserves the possibility to non-payment of unused part of loan in case of deterioration of the client's creditworthiness. Therefore, the probable amount of resulting loss is significantly lower than the entire amount of unused liabilities from loans.

The Bank has organisational solutions that ensure formal and factual separation of credit risk assessment processes from processes of credit decision-making. Credit decisions are taken collectively, according to the decision-making powers, after consideration of recommendation presented by the director of department responsible for the credit risk analysis.

3.4. Market risk

The Bank is exposed to market risk understood as risk of changes of current valuation of financial instruments that constitute the portfolios of the Bank which result from changes in pricing and value of market parameters. Market risk exposure of the Bank results from open items on interest, currency instruments that are exposed to market change of value of appropriate risk factors, and in particular to change of value of interest rates, exchange rates and credit spread.

The risk profile results from the Bank's operational strategy. The Bank offers products based on variable and fixed interest rate, wherein the products based on variable interest rate are preferred. The Bank offers products in foreign currencies EUR and USD. The Bank does not perform operations at its own account for trade purposes, it only has the bank portfolio. The main method of market risk management in the Bank is application of natural security, that is obtaining of funds for financing in currencies and of interest rates directly adjusted to corresponding assets. Due to the nature of the Bank's activity, the exposure to market risk should be maintained at the lowest possible level. The Bank aims to limit the exposure to market risk resulting from the structure of assets and liabilities through concluding hedging transactions, the catalogue of which is approved by the Management Board of the Bank. Identification of market risks and liquidity takes into account internal and external factors.

Internal factors include factors such as: the specificity of lending activity and the specificity of refinancing structure. External factors include factors constituting the surroundings of the Bank: interbank market, behaviour of financial markets, strategy and policy of shareholder against the Bank. The market risk is identified in all types of products and types of activities. Widely recognized methods are applied in the process of identification. The Bank specified the level of risk through measurement of the value exposed to risk (Value at Risk - VaR) and through stress tests.

VaR is a statistical measurement of the market risk level which expresses a potential loss to which a portfolio is exposed during specified period of time, for a given level of confidence, in normal market conditions, due to changes of risk factors (foreign exchange rates, interest rates, credit spreads). The potentiality of a loss means that with previously established large probability (confidence level), at which fair value is determined, within a specified time period a loss lower than determined VaR value may be expected.

Value at risk in the Bank is determined using historical simulation method. This method consists in determination of distribution of changes in the value of portfolio on the basis of historical distribution of changes of risk factors, observed over a specified period of time. VaR is determined in one day time horizon on the basis of 254 historical observations and is monitored at confidence level of 97.5%.

As at 31 December 2024, VaR amounted to TPLN 1 791,9 compared with TPLN 3 168,8 as at 31 December 2023, with a confidence level of 97.5%.

The list below presents the value of average and maximum VaR of the Bank during the period from 1 January 2024 until 31 December 2024 and from 1 January 2023 until 31 December 2023.

	12 months until 31.12.2024		12 months until 31.12.2023	
	average	maximum	average	maximum
Credit spread risk	1 094	1 541	2 094	2 701
Interest rate risk	1 739	2 645	3 189	3 822
Currency risk	37	68	174	457
VaR Total	2 027	3 289	4 009	4 779

3.5. Currency risk

Exchange rate risk results from exposure of current value of exposures of the Bank in assets, liabilities and off-balance sheet items expressed in PLN to adverse effect of changes of market exchange rates.

The Bank is exposed to currency risk to a small degree, as it does not maintain significant currency mismatch of assets and liabilities (currency positions) through adaptation of currency structure of conducted lending action and sources of refinancing as well as closing of open currency positions with derivative contracts (Note 18). The risk of influence of changes of exchange rates to the financial result of the Bank is limited, and existing in the Bank procedures for control and reporting significantly eliminate possibility of its arising. In the scope of currency risk management, the Bank assesses the scale and structure of currency risk only on the basis of current currency position of the Bank. Monitoring also covers currency position including expected repayments and payment of loans that influence currency risk. The Bank manages currency position by performing currency purchase/sale transactions with immediate or future terms and by concluding transaction of the SWAP type.

The table below presents an analysis of the sensitivity of assets, liabilities and off-balance sheet items to changes in exchange rates to which the Bank was exposed as at 31.12.2024 and as at 31.12.2023. The analysis shows the impact of a 10% increase in the currency exchange rate against the PLN profit and loss. A 10% drop in odds causes the same change, but with the opposite sign. A negative amount in the table reflects a potential decline in the income statement, while a positive amount reflects a potential growth.

Impact on the income statement duo to changes in exchange rates

currency	scenario	31.12.2024	31.12.2023
EUR	+10%	(865 422)	(1 272 355)
USD	+10%	11 781	25 436

The following table presents exposures of the Bank to currency risk as at 31 December 2024 and 31 December 2023. The table presents assets and liabilities of the Bank according to balance sheet amount broken down by particular currencies of transactions.

31.12.2024	PLN	EUR	USD	Total
Assets				
Cash and Cash equivalents	63 702	17 395	80	81 177
Financial assets held for trading and derivatives held for hedges	249	912	-	1 161
Changes in fair value of hedged items in portfolio hedging against interest rate risk	16 891	-	-	16 891
Financial assets at fair value through other comprehensive income	1 285 083	-	-	1 285 083
Financial assets at amortised cost:	9 576 381	6 064	37	9 582 482
Loans and advances to banks	9 400	-	-	9 400
Loans and advances to customers	9 566 981	6 064	37	9 573 082
Intangible assets	25 854	-	-	25 854
Tangible assets	23 319	-	-	23 319
Deferred income tax assets	6 099	-	-	6 099
Other assets	6 212	-	-	6 212
TOTAL ASSETS	11 003 790	24 371	117	11 028 278
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	7 163	27 030	-	34 193

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Financial liabilities measured at amortised cost, including:	7 127 667	3 014 216	6	10 141 889
Amounts due to banks	3 511 970	-	-	3 511 970
Amounts due to customers	-	43	6	49
Leasing liabilities	3 888	11 197	-	15 085
Debt securities issued	3 611 809	3 002 976	-	6 614 785
Provisions	2 164	-	-	2 164
Current income tax liabilities	2 741	-	-	2 741
Other liabilities	14 032	-	-	14 032
TOTAL LIABILITIES	7 153 767	3 041 246	6	10 195 019
Net balance sheet position	3 850 023	(3 016 875)	111	833 259
Loan commitments	-	-	-	-

31.12.2023	PLN	EUR	USD	Total
Assets				
Cash and Cash equivalents	43 814	19 277	207	63 298
Financial assets held for trading and derivatives held for hedges	938	1 709	-	2 647
Changes in fair value of hedged items in portfolio hedging against interest rate risk	20 204	-	-	20 204
Financial assets at fair value through other comprehensive income	845 733	-	-	845 733
Financial assets at amortised cost:	9 059 498	1 933	47	9 061 478
Loans and advances to banks	12 596	-	-	12 596
Loans and advances to customers	9 046 902	1 933	47	9 048 882
Intangible assets	27 814	-	-	27 814
Tangible assets	24 616	-	-	24 616
Current income tax receivables	39 425	-	-	39 425
Deferred income tax assets	13 863	-	-	13 863
Other assets	6 336	-	-	6 336
TOTAL ASSETS	10 082 241	22 919	254	10 105 414
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	9 980	37 246	-	47 226
Financial liabilities measured at amortised cost, including:	6 117 231	3 133 188	-	9 250 419
Amounts due to banks	3 359 288	-	-	3 359 288
Amounts due to customers	55	5	-	60
Leasing liabilities	4 334	12 641	-	16 975
Debt securities issued	2 753 554	3 120 542	-	5 874 096
Provisions	937	-	-	937
Other liabilities	13 816	-	-	13 816
TOTAL LIABILITIES	6 141 964	3 170 434	-	9 312 398
Net balance sheet position	3 925 124	(3 132 362)	254	793 016
Loan commitments	3 129	-	-	3 129

3.6. Interest rate risk

Interest rate risk is a risk resulting from exposure of current and future financial result and capital of the Bank to adverse impact of changes in interest rates. The Bank manages the interest rate gap through matching of terms of revaluations of assets and liabilities. In case of such mismatch appropriate hedging instruments are applied (IRS derivative instruments, Basic Swap, CIRS). Derivative transactions to interest rate are concluded exclusively in order to secure positions resulting from lending activity and its financing.

The measure of interest rate risk are revaluation terms mismatch gap and specified on its basis interest income exposed to risk ("EaR").

A sudden change of interest rates by 100 BP for all maturity dates if it had a permanent nature and adverse direction and would cause reduction of annual interest income by:

EaR (in PLN '000)	31.12.2024	31.12.2023
For items expressed in PLN	4 068	3 119
For items expressed in USD	1	3
For items expressed in EUR	793	937

When calculating those values it was assumed that the structure of assets and liabilities recognized in financial statements as at 31 December 2024 and as at 31 December 2023 will not change in the course of next year and that the Bank will not take any action in order to change exposure at risk.

Maintaining of interest rate risk level in 2024 on similar level as in 2023 is a result of current adjustment of revaluation terms of granted loans and corresponding financing sources. Additionally, the Bank concludes hedging transaction of IRS type in order to limit interest rate risk and CIRS.

The Bank's exposures to interest rate risk are presented below. Data in the table present financial assets and financial liabilities per balance sheet value, sorted according to terms of interest rate change arising from agreement or relates to their maturity.

31.12.2024	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Not-interest rate items	Total
Assets							
Cash and Cash equivalents	81 177	-	-	-	-	-	81 177
Financial assets held for trading and derivatives held for hedges	555	606	-	-	-	-	1 161
Financial assets at fair value through other comprehensive income	537 124	-	496 966	250 993	-	-	1 285 083
Financial assets at amortised cost loans and advances to banks	9 400	-	-	-	-	-	9 400
Financial assets at amortised cost loans and advances to customers	1 303 635	7 765 143	45 794	458 510	-	-	9 573 082
TOTAL ASSETS	1 931 891	7 765 749	542 760	709 503	-	-	10 949 903
Liabilities							
Financial liabilities held for trading and derivatives held for hedges	5 958	27 969	266	-	-	-	34 193
Financial liabilities measured at amortised cost - amounts due to banks	594 519	2 685 689	-	231 762	-	-	3 511 970
Financial liabilities measured at amortised cost - amounts due to customers	-	-	-	-	-	49	49
Financial liabilities measured at amortised cost - amounts due to leasing	-	-	-	-	-	15 085	15 085

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Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	4 893 099	1 331 951	389 735	-	-	6 614 785
TOTAL LIABILITIES	600 477	7 606 757	1 332 217	621 497	-	15 134	10 176 082

balance sheet gap	1 331 414	158 992	(789 457)	88 006	-	(15 134)	773 821
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31.12.2023	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Not-interest rate items	Total
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Assets

Cash and Cash equivalents	63 298	-	-	-	-	-	63 298
Financial assets held for trading and derivatives held for hedges	1 928	720	-	-	-	-	2 648
Financial assets at fair value through other comprehensive income	405 351	-	228 198	212 184	-	-	845 733
Financial assets at amortised cost loans and advances to banks	12 596	-	-	-	-	-	12 596
Financial assets at amortised cost loans and advances to customers	839 258	7 679 494	13 472	516 659	-	-	9 048 883
TOTAL ASSETS	1 322 431	7 680 214	241 670	728 843	-	-	9 973 158

Liabilities

Financial liabilities held for trading and derivatives held for hedges	6 937	38 950	1 339	-	-	-	47 226
Financial liabilities measured at amortised cost - amounts due to banks	547 249	2 580 268	-	231 771	-	-	3 359 288
Financial liabilities measured at amortised cost - amounts due to customers	-	-	-	-	-	60	60
Financial liabilities measured at amortised cost - amounts due to leasing	-	-	-	-	-	16 975	16 975
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	2 838 063	-	2 850 065	185 968	-	5 874 096
Subordinated liabilities	-	-	-	-	-	-	-
TOTAL LIABILITIES	564 186	5 457 280	1 340	3 081 836	185 968	17 035	9 297 645

balance sheet gap	768 245	2 222 934	240 330	(2 352 993)	(185 968)	(17 035)	675 513
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3.7. Liquidity risk

Liquidity risk is a threat of losing the ability to finance the assets and discharge the liabilities on a timely basis in the course of the Bank's ordinary operations or in other conditions that can be predicted, which makes it necessary to incur unacceptable losses.

Strategic objective in terms of liquidity risk management is ensuring the ability of the Bank to timely repayment of liabilities and financing of steadily growing assets and minimisation of impact of this risk to the financial result of the Bank.

The Bank manages liquidity risk so as to ensure that intraday, short-term, mid-term and long-term liquidity is maintained. The Bank lays down the principles for identifying, measuring, assessing, monitoring and reporting risk. As part of managing market liquidity risk, the Bank diversifies the sources of financing mainly as part of cooperation with mBank S.A. The Bank finances its long-term assets primarily with mortgage bonds with long maturities and credit lines, and it satisfies its current cash needs on the interbank market and by issuing short-term bonds.

The Bank has emergency plan in case of liquidity crisis. The plan specifies cases of crisis situations that cause risk of liquidity loss or arising of another hazard for currency and interest risk

management, identifies reserve funding sources of the Bank, indicates general procedures for the Bank in crisis situations.

The Bank ensures intraday liquidity by maintaining a liquidity portfolio which consists of instruments which can be liquidated quickly.

The Bank manages and monitors liquidity risk using cumulative liquidity gap limits, check digits (MAT) and statutory limits, in particular the liabilities limit (referred to in Article 15, clause 2 of the Act on Mortgage Bonds and Mortgage Banks) as well as the limits on supervisory measures of short-term and long-term liquidity specified in the PFSA Resolution and the Regulation.

In 2024, the Bank monitored liquidity measures:

- LCR (Liquidity Coverage Ratio) - in accordance with the Delegated Act (Commission Delegated Regulation (EU) No. 2015/61 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the liquidity coverage requirement for credit institutions, which regulation was amended by Commission Delegated Regulation (EU) No. 2018/1620). This is the liquidity coverage ratio, which defines the ratio of the liquidity hedge to its net liquidity outflows for a period of stress of 30 calendar days,
- NSFR (Net Stable Funding Ratio) - in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 (CRR) and Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019 (CRR II). NSFR is a ratio defining the ratio of the bank's own funds and stable liabilities, which ensure stable financing, to non-liquid assets and receivables, which require stable financing.

The The tables below present the values of the LCR and NSFR measure as at December 31, 2024 and December 31, 2023, their average and minimum values and maximum:

Liquidity norm*	Value as at 31.12.2024	average	minimum	maximum
LCR	1945%	919%	155%	2353%
NSFR	108%	115%	107%	123%

Liquidity norm*	Value as at 31.12.2023	average	minimum	maximum
LCR	231%	658%	130%	1217%
NSFR	121%	113%	105%	123%

In 2024 and 2023 no exceeding of liabilities limit and any form of liquidity took place.

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

The table below includes not discounted values of cash flows required to pay or receive by the Bank. The cash flows have been presented as at the year-end date, categorised by the remaining contractual maturities. The amounts denominated in foreign currencies were converted to Polish zloty at the average rate of exchange announced by the National Bank of Poland at the year-end date.

31.12.2024	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets (by expected dates of maturity)						
Cash and Cash equivalents	81 177	-	-	-	-	81 177
Financial assets at fair value through other comprehensive income	340 870	-	380 843	638 390	-	1 360 103
Financial assets at amortised cost loans and advances to banks	21 015	-	-	-	-	21 015
Financial assets at amortised cost loans and advances to customers	85 053	180 573	776 454	4 018 514	13 627 834	18 688 428

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TOTAL ASSETS	528 115	180 573	1 157 297	4 656 904	13 627 834	20 150 723
Planned payments of the off-balance sheet liabilities to grant loans or guarantees	-	-	-	-	-	-
Total assets and off-balance sheet	528 115	180 573	1 157 297	4 656 904	13 627 834	20 150 723
Liabilities (by contractual dates of maturity)						
Financial liabilities measured at amortised cost - amounts due to banks	19 175	47 677	162 715	3 918 069	-	4 147 636
Financial liabilities measured at amortised cost - amounts due to customers	49	-	-	-	-	49
Financial liabilities measured at amortised cost - amounts due to leasing	239	476	2 136	10 149	2 085	15 085
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	1 356 893	1 513 397	4 581 968	-	7 452 258
TOTAL LIABILITIES	19 463	1 405 046	1 678 248	8 510 186	2 085	11 615 028
Off-balance sheet liabilities to grant loans or guarantees	-	-	-	-	-	-
Total liabilities and off-balance sheet	19 463	1 405 046	1 678 248	8 510 186	2 085	11 615 028
Net liquidity gap	508 652	(1 224 473)	(520 951)	(3 853 282)	13 625 749	8 535 695

A negative liquidity gap of up to three months will be closed by issuing mortgage bonds and by raising funds under the available revolving lines.

31.12.2023	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets (by expected dates of maturity)						
Cash and Cash equivalents	63 298	-	-	-	-	63 298
Financial assets at fair value through other comprehensive income	316 725	-	164 992	405 948	-	887 665
Financial assets at amortised cost loans and advances to banks	79 249	-	-	-	-	79 249
Financial assets at amortised cost loans and advances to customers	81 105	162 596	729 759	3 784 768	13 550 785	18 309 013
TOTAL ASSETS	540 377	162 596	894 751	4 190 716	13 550 785	19 339 225
Planned payments of the off-balance sheet liabilities to grant loans or guarantees	11	23	107	615	2 373	3 129
Total assets and off-balance sheet	540 388	162 619	894 858	4 191 331	13 553 158	19 342 354
Liabilities (by contractual dates of maturity)						
Financial liabilities measured at amortised cost - amounts due to banks	18 578	41 519	151 986	3 236 978	715 299	4 164 360
Financial liabilities measured at amortised cost - amounts due to customers	60	-	-	-	-	60
Financial liabilities measured at amortised cost - amounts due to leasing	229	455	2 033	10 095	4 164	16 976
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	171 000	477 658	5 779 848	193 250	6 621 756
TOTAL LIABILITIES	18 867	212 974	631 677	9 026 921	912 713	10 803 152
Off-balance sheet liabilities to grant loans or guarantees	3 129	-	-	-	-	3 129
Total liabilities and off-balance sheet	21 996	212 974	631 677	9 026 921	912 713	10 806 281

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Net liquidity gap	518 392	(50 355)	263 181	(4 835 590)	12 640 445	8 536 073
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The amounts disclosed in maturity dates analysis are undiscounted contractual cash flows. Liabilities due to leases fall under the item: financial liabilities valued at the motorized cost - payable to clients and banks. Maturity structure of liabilities due to leasing was presented in Note 24.

3.7.2. Cash flows from transactions in derivative financial instrumentsDerivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on the net basis include interest rate swap contracts (IRS).

The following table presents derivative financial liabilities of the Bank which will be settled on the net basis, broken down by particular maturity dates as at balance sheet date. The amount in foreign currencies has been converted to PLN according to average exchange rate of NBP from balance sheet date. Amounts recognized in the table are not discounted contractual cash outflows.

As at December 31, 2024

Derivative financial instruments to be settled on a net basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate swaps (IRS)	899	(3 496)	1 892	(6 653)	-	(7 358)
Total net valuation	899	(3 496)	1 892	(6 653)	-	(7 358)

As at December 31, 2023

Derivative financial instruments to be settled on a net basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate swaps (IRS)	1 457	(6 436)	(44 697)	(13 172)	2 861	(59 987)
Total net valuation	1 457	(6 436)	(44 697)	(13 172)	2 861	(59 987)

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Bank on the gross basis include derivative currency financial instruments: SWAP currency contracts on the date of SPOT and FORWARD currency and CIRS.

The table below presents derivative financial instruments of the Bank which will be settled on the gross basis, broken down by particular maturity periods as at balance sheet date. The amounts in foreign currencies have been converted to PLN according to average exchange rate of NBP as at balance sheet date.

As at December 31, 2024

Derivative financial instruments to be settled on gross basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Currency SWAP contracts:						
- outflows	209 478	647 014	-	-	-	856 492
- inflows	209 377	640 950	-	-	-	850 327
Interest-rate contracts CIRS:						
- outflows	-	893 585	1 319 887	-	-	2 213 472
- inflows	-	860 632	1 285 002	-	-	2 145 634

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As at December 31, 2023

Derivative financial instruments to be settled on gross basis	within 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Currency SWAP contracts:						
- outflows	292 484	854 311	-	-	-	1 146 795
- inflows	291 316	852 208	-	-	-	1 143 524
Interest-rate contracts CIRS:						
- outflows	-	32 103	89 176	1 988 072	-	2 109 352
- inflows	-	6 529	18 914	1 963 378	-	1 988 821

4. Fair value of financial 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 of a given element of assets or liability,
- in the absence of a main market, for the most advantageous market for the asset or liability.

In line with IFRS 9, for accounting purposes, the Bank measures financial assets and liabilities at amortized cost or at fair value. Moreover, for items measured at amortized cost accounting for the needs of disclosures in the financial statements - in accordance with the requirements of IFRS 7 - measurement at fair value.

In line with market practices, the Bank measures financial instruments in which it maintains open positions using market prices (valuation to the market) or valuation models recognized in market practice (valuation from the model) fed with prices or market parameters, and in few cases with parameters estimated internally by the Bank. All material open positions in derivative instruments are valued using market models that are fed with prices or parameters observable by the market.

For the purposes of disclosures, the Bank assumed that the fair value of short-term financial liabilities (less than 1 year) was equal to their book value. For financial liabilities over 1 year, the fair value is estimated on the basis of discounted cash flows using appropriate interest rates.

Items valued at amortized cost

The table below summarizes the book values and fair values for each group of financial assets and liabilities not measured in the statement. from the financial position of the Bank at fair value.

Financial assets and liabilities	31.12.2024		31.12.2023	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets valued at amortised cost				
Amounts due from other banks	9 400	9 400	12 596	12 596
Loans and advances to customers, including:	9 562 831	9 576 335	9 048 883	9 022 239
Individual customers	9 558 483	9 571 987	9 036 935	9 010 291
Corporate customers	4 348	4 348	11 948	11 948
Financial liabilities at amortised cost				
Amounts due from other banks	3 511 970	3 511 970	3 359 288	3 359 288
Amounts due to the customers, including:	49	49	61	61
Corporate customers	49	49	59	59
Individual customers	-	-	2	2
Leasing liabilities	15 085	15 085	16 975	16 975
Debt securities in issue	6 614 785	6 484 342	5 874 096	5 739 562
Total financial assets	9 572 231	9 585 735	9 061 479	9 034 835
Total financial liabilities	10 141 889	10 011 446	9 250 420	9 115 886

The main assumptions and methods used by the Bank when managing the fair value of a financial instrument are presented below:

Receivables due to loans and advances granted to clients

The fair value of receivables from banks and loans and advances to customers was calculated as the value of estimated future cash flows (taking into account the effect of prepayments) using current interest rates, taking into account the amount of the credit spread, liquidity cost and cost of capital. The credit spread level was determined based on the market quotation of the median credit spreads for Moody's rating system. The credit spread was assigned to a given credit exposure by mapping Moody's rating system with the Bank's internal rating system. In order to reflect the fact that a large part of the Bank's exposure is secured, while the median of market quotes is concentrated around unsecured issues, the Bank made an adjustment on this account.

The value of expected future cash flows takes into account potential losses resulting from credit risk. Input data for the model are principal installments schedules, forward rate curves, PD and LGD parameter curves and components of the discount rate related to the financing cost margin, fixed costs and capital, as well as the calibration margin.

Financial instruments representing liabilities include the following:

- loans received,
- other financial liabilities with deferred payment term,
- subordinated loans received,
- liabilities in respect of cash collateral,
- liabilities due to issued by the Bank covered bonds and bonds,
- other liabilities due to customers.

Liabilities arising from issuing of securities (covered bonds and bonds)

The Bank estimated the fair value of the issued covered bonds and unsecured high-rated corporate bonds using the credit spread. For the so far issued tranches subject to secondary trading, the assumption was made that that the value of the credit spread is the same as for primary market issues with the same maturity. The clean price of individual tranches of outstanding covered bonds was estimated taking into account the remaining maturity, the value of the expected credit spread for issues on the secondary market and quotations from the swap curve.

Liabilities from the issue of debt securities are presented at level 3 in the fair value hierarchy.

Based on the methods used by the Bank to determine the fair value, financial assets and liabilities are classified into the following categories:

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

The table below presents the fair value hierarchy for financial assets and liabilities measured for the purposes of disclosures at fair value in accordance with the assumptions and methods described above, solely for the purpose of disclosure, as at December 31, 2024 and December 31, 2023.

31.12.2024	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION FOR DISCLOSURE ONLY				
Financial assets				
Amounts due from other banks	9 400	-	-	9 400

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Loans and advances to customers, including:	9 576 335	-	-	9 576 335
Individual customers	9 571 987	-	-	9 571 987
Other financial institutes	4 348	-	-	4 348
Financial liabilities				
Amounts due from other banks	3 511 970	-	-	3 511 970
Amounts due to the customers, including:	49	-	-	49
Corporate customers	49	-	-	49
Individual customers	-	-	-	-
Leasing liabilities	15 085	-	-	15 085
Debt securities in issue	6 484 342	-	-	6 484 342
Total financial assets	9 585 735	-	-	9 585 735
Total financial liabilities	10 011 446	-	-	10 011 446

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 FOR DISCLOSURE ONLY				
Financial assets				
Cash and cash equivalents	63 298			63 298
Amounts due from other banks	12 596	-	-	12 596
Loans and advances to customers, including:	9 022 239	-	-	9 022 239
Individual customers	9 010 291	-	-	9 010 291
Other financial institutes	11 948	-	-	11 948
Financial liabilities				
Amounts due from other banks	3 359 288	-	-	3 359 288
Amounts due to the customers, including:	61	-	-	61
Corporate customers	58	-	-	58
Individual customers	2	-	-	2
Leasing liabilities	16 975	-	-	16 975
Debt securities in issue	5 739 562	-	-	5 739 562
Total financial assets	9 034 835			9 034 835
Total financial liabilities	9 115 886	-	-	9 115 886

Items valued at fair value

The tables below present the fair value hierarchy of financial assets and liabilities recognized in the statement of financial position of the Bank at their fair values as of 31 December 2024.

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31.12.2024	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	1 161	-	1 161	-
Derivative financial instruments, including:	1 161	-	1 161	-
Derivative financial instruments held for trading:	249	-	249	-
- Currency instruments	249		249	-
Derivative hedging instruments	912	-	912	-
- Derivatives designated as fair value hedges	912	-	912	-
Financial assets measured at fair value through other comprehensive income	1 285 083	950 240	334 843	-
- Treasury bonds	950 240	950 240	-	-
- Money bills	334 843	-	334 843	-
TOTAL FINANCIAL ASSETS	1 285 083	950 240	334 843	-

31.12.2024	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	34 193	-	10 126	24 067
Derivative financial instruments held for trading:	9 565	-	9 565	-
- Currency instruments	9 565	-	9 565	-
Derivative financial instruments held for hedging:	24 628	-	561	24 067
-Derivatives designated as fair value hedges	561	-	561	-
-Derivatives designated as cash flow hedges	24 067	-	-	24 067
TOTAL FINANCIAL LIABILITIES	34 193	-	10 126	24 067

RECURRING FAIR VALUE MEASUREMENTS

TOTAL FINANCIAL ASSETS	1 285 083	950 240	334 843	-
TOTAL FINANCIAL LIABILITIES	34 193	-	10 126	24 067

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The tables below present the fair value hierarchy of financial assets and liabilities recognized in the statement of financial position of the Bank at their fair values as of 31 December 2023.

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	2 647	-	2 647	-
Derivative financial instruments, including:	2 647	-	2 647	-
Derivative financial instruments held for trading:	2 144	-	2 144	-
- Currency instruments	2 144		2 144	-
Derivative hedging instruments	503	-	503	-
- Derivatives designated as fair value hedges	503	-	503	-
Financial assets at fair value through other comprehensive income	845 733	790 777	54 956	-
- Treasury bonds	790 777	790 777	-	-
- Money bills	54 956	-	54 956	-
TOTAL FINANCIAL ASSETS	848 380	790 777	57 603	-

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
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	47 226	-	8 781	38 445
Derivative financial instruments held for trading:	4 755	-	4 755	-
- Foreign exchange derivatives	4 755	-	4 755	-
Derivative financial instruments held for hedging:	42 471	-	4 026	38 445
-Derivatives designated as fair value hedges	4 026	-	4 026	-
-Derivatives designated as cash flow hedges	38 445	-	-	38 445
TOTAL FINANCIAL LIABILITIES	47 226	-	8 781	38 445

RECURRING FAIR VALUE MEASUREMENTS

TOTAL FINANCIAL ASSETS	848 380	790 777	57 603	-
TOTAL FINANCIAL LIABILITIES	47 226	-	8 781	38 445

With regard to financial instruments repeatedly measured at fair value, classified at levels 1 and 2 of the fair value hierarchy, any potential transfer between these levels is monitored by the relevant departments of the Bank based on internal rules.

In 2024 and 2023, there were no transfers of financial instruments between individual levels of the fair value hierarchy.

If there is no market price for direct valuation, the valuation method for this instrument is changed for a period of more than 5 business days, i.e. the transition from direct valuation to model valuation, if an approved valuation method from the model for this instrument is available. The return to the direct valuation method takes place after a period of at least 10 business days in which the market price has been continuously available. In the absence of a market price for Treasury debt securities, the above periods are 2 and 5 business days, respectively.

Level 1

As at 31 December 2024, at level 1 of the hierarchy of values, the Bank presents the fair value of government bonds measured at fair value through other comprehensive income in the amount of TPLN 950 240 (31 December 2023: TPLN 790 777).

These instruments were classified to level 1 because their valuation consists in direct use of the current market prices of these instruments from active and liquid financial markets.

Level 2

Level 2 of the hierarchy covers the fair value of money bills issued by NBP in the amount of TPLN 334 843 (December 31, 2023: PLN 54 956), the valuation of which is based on the NPV model (discounting future cash flows), which is fed with interest rate curves determined by transformation of quotations derived directly from active and liquid financial markets.

In addition, to level 2, the Group includes the valuation of derivative financial instruments for which models are used, in accordance with market standards and practices in this respect, which are supplied with parameters directly from the markets (e.g. exchange rates, implied volatilities of currency options, stocks) or parameters that transform quotes directly from active and liquid financial markets (e.g. interest rate curves).

Level 3**Derivatives designated as cash flow hedges**

The derivative designated as a cash flow hedge is a CIRS (Cross-Currency Interest Rate Swap), which was classified at level 3 of the fair value hierarchy, where the Bank pays a variable rate based on WIBOR and receives a fixed rate in EUR. In the case of announced bankruptcy of Bank, the CIRS transaction is not completed and continues until the date of completion of the transaction in accordance with the parameters set on the transaction date. Moreover, the transaction in question is characterised by a high denomination and a unilateral obligation to make a security deposit, where Bank is exempt from the obligation to make it.

For the purposes of cash flow hedge accounting, the Bank enters into two hedging relationships simultaneously:

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

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank applies the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the hedged risk in the form of a derivative.

The rules of valuation are analogous to those of interest rate derivatives.

Due to the properties of a CIRS transaction concluded by the Bank, containing non-standard and non-quoted price components, the margin on the leg paid by the Bank was higher than the margin of a standard, analogous CIRS transaction, which is resolved in the case of bankruptcy of a counterparty with a bilateral exchange of margin.

This fact was confirmed by an independent quotation of CIRS transactions obtained by the Bank. At the same time, before concluding the transaction, the Bank checked other market quotations of high-rated counterparties and they showed convergence with the finally obtained transaction quotation. Thus the transaction was classified as a transaction concluded on market conditions, not having an option character, free of additional fees at the time of its conclusion and was considered a transaction in which there are parameters unobservable on an active market influencing its valuation.

Due to the non-standard character of the CIRS transaction concluded by the Bank, the valuation of this transaction consists of three elements - the value of discounted expected flows from the CIRS transaction, CVA/DVA adjustments and linear depreciation over time until the maturity date of the difference between the valuation of a non-standard CIRS transaction (including CVA/DVA adjustments corresponding to the nature of this transaction) and the valuation of a standard CIRS transaction (including CVA/DVA adjustments resulting from the profile of this transaction) determined on the transaction date. The amount depreciated on a straight-line basis, taken into account in the valuation of IRS transactions, determined at the time of concluding the transaction is TPLN 7 216. Due to the fact that at the moment of establishing the NPV relation of the original CIRS transaction was transferred to the IRS transaction, therefore DVA as a significant valuation component was included in its valuation, and CVA due to its insignificant value was included in the valuation of the CIRS transaction.

The components of the CIRS transaction valuation are presented in the table below:

		31.12.2024	31.12.2023
Fair value measurement of CIRS transactions		(24 888)	(40 360)
Includings	CVA of the CIRS transaction	-	4
	DVA of the CIRS transaction	(158)	(718)
	Value of the valuation of the CIRS transaction to be settled over time	-	2 110

For the CIRS transaction concluded by the Bank for the purposes of cash flow hedge accounting, there is no active market that would reflect the valuation of transactions with similar characteristics. Publicly available CIRS quotes refer to contracts that are settled upon bankruptcy of the counterparty, include bilateral margin collateral and have a face value that is actively traded in the market. In the opinion of the Bank, these are the arguments that there are no prices available on an actively available market that could adequately reflect the fair value of the CIRS transaction concluded by the Bank.

5. Major estimates and assessments made in connection with the application of accounting principles

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

Impairment of loans and advances

The amount of loan portfolio write-offs changed due to changes in the models used to calculate expected losses due to credit risk. In 2023, the Bank updated the macroeconomic indicators, taking into account changes in macroeconomic scenarios in the forecast non-linearity coefficient.

In 2024, the Bank made the following significant changes to the models used to calculate expected credit risk losses:

- updating of macroeconomic indicators used in the expected credit loss model. The above change consisted in determining the expected loss ratio levels of individual portfolios on the basis of new econometric models based on the latest macroeconomic forecasts, and

then taking into account these levels in the estimates of the long-term probability of default. As part of this change, the long-term default probability model was also recalibrated by re-estimating the model parameters taking into account a sample of data expanded to include observations from the most recent periods. For the long-term loss model, the values of macroeconomic factors have been updated. The estimated impact of these changes on the level of expected credit loss was approximately PLN -0.5 million (positive impact on the result),

- updating of macroeconomic forecasts in long-term models combined with their recalibration and update of the forecast non-linearity coefficient. The estimated impact of these changes on the level of expected credit loss was approximately PLN -1.2 million (positive impact on the result).

A significant modification

Material modification - a change in the contractual terms of a financial instrument, which leads to the removal of a modified asset from the balance sheet and recognition of a new one. Modified assets are written off in the net amount, i.e. taking into account previously recognized expected credit losses for credit risk (in the case of impaired assets). The new asset is recognized at fair value (possibly adjusted for new commissions on the newly created asset) and a new effective interest rate is calculated for it. The assessment of whether a given modification of financial assets is a material or a minor modification depends on the fulfillment of the qualitative and quantitative criteria described in Note 2.7.

Credit holidays

On 14 July 2022, the President of the Republic of Poland signed the Law on Community Financing for Economic Ventures and Borrower Assistance, which introduced the possibility of suspending the execution of mortgage contracts granted in Polish currency (so-called 'credit holidays'). Credit holidays applied to a single agreement concluded in Polish zloty to finance a property intended to meet one's own housing needs. Borrowers were entitled to suspend eight monthly instalments: two monthly instalments in the third and fourth quarters of 2022 and one monthly instalment in each of the four quarters of 2023. The loan holidays applied to both the principal and interest portions of the loan. The instalment repayment dates were extended without additional interest for the suspension periods. In the Bank's view, the amendment to the contractual terms of the mortgage loans implemented by the Act represented an immaterial modification of these financial assets in accordance with IFRS 9.5.4.3.

As at 31 December 2024, the Bank recognized the impact of loan holidays totalling PLN 29 million. The provision for credit holidays was recorded in the balance sheet in accounts dedicated to credit receivables from customers as an ESP adjustment to be settled over time. In the income statement it was recognized as a modification expense. The negative impact of credit holidays on the valuation of the loan portfolio was accounted for by appropriately recognising interest income calculated using the effective interest rate in periods in which customers taking advantage of credit holidays did not pay the interest provided for in the original loan agreement schedules.

As at 31 December 2024, 40% of retail loans were eligible for this programme and 14% of total retail loans were covered by the holiday. These customers applied for an average of 3.6 months of credit holidays. The gross carrying amount of loans covered by credit holidays as at 31 December 2024 was MPLN 1.300.

Description of the assumptions made regarding the calculation of the effective interest rate and significant modification

The solutions applied so far under the aid programs did not meet the criteria of significant modification applied by the Bank in relation to financial assets.

In particular, there were no situations where the Bank used aid programs as a beneficiary that would change the terms of the Bank's financial liabilities.

A change in the loan repayment schedule as a result of credit holidays means, from the point of view of the accounting principles applied by the Bank, an insignificant modification that results in the following effects:

- if the credit holiday period is not part of the contract, then the introduction of the holiday changes the contractual cash flows and the Bank recalculates the gross carrying amount of the financial asset and recognizes the gain or loss on the modification in the income statement;
- if the credit vacation period is a feature of an existing contract (the existing contract allows an equivalent grace period), there is a change in expected cash flows and a cumulative adjustment to the gross carrying amount of the financial asset must be recognized on the other side of the income statement, net interest income.

The fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined using valuation techniques. All models are approved before use and also calibrated to ensure that the results obtained reflect the actual data and comparable market prices. As far as possible, only observable data from an active market are used in the models. The methods of determining the fair value of financial instruments are described in Note 4.

Early repayment of retail loans

In the judgment of September 11, 2019, in a case concerning a consumer loan fully repaid early, the CJEU ruled that "the consumer's right to a reduction in the total cost of the loan in the event of early loan repayment covers all costs that have been imposed on the consumer".

The balance of provisions as at December 31, 2024 is presented in the line loans and advances granted to customers as a reduction of financial assets measured at amortized cost. As of December 31, 2024, they amounted to TPLN 8 787 (as at December 31, 2023: TPLN 7 887).

The above estimates are subject to significant uncertainty as to the number of clients who will apply to the Bank for the reimbursement of commissions related to early repayments made before the judgment of the CJEU, as well as the expected rate of prepayment of loans in the future.

6. Operating segments

In accordance with the requirement of IFRS 8 "management approach", segment information is presented in accordance with the principles of internal reporting provided to the Bank's Board of Directors, whose task is to allocate resources to business segments and to carry out an assessment of their performance.

mBank Hipoteczny S.A. is a specialised mortgage bank whose primary objective is to issue mortgage bonds to serve as the main source of long-term financing for loans secured by real estate. The Bank had two business lines in 2023:

- 1) retail, based on strategic cooperation with mBank S.A. (mBank) and sourcing mortgages for individuals from it (Retail Loans, Retail Pooling),
- 2) management of loan portfolios for which the Bank had ceased lending - on 17 May 2023, as part of the demerger of the Bank by separating an organised part of the enterprise pursuant to Article 529 § 1 item 4 of the CCC (Demerger), these activities were transferred to mBank.

The Bank segmented the result in 2023 into continuing operations and discontinued operations. In the continuing operations, 2 business segments were separated by specific customer groups and products according to homogeneous transaction characteristics:

1. The Retail Banking Segment – is a segment of the Bank's business that includes the loans to natural persons, those that may form a basis for the issue of mortgage bonds:
 - loans granted for housing purposes in PLN, the sale of which was under an agency agreement with mBank S.A. – agency model,

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- loans in PLN, secured with a mortgage on a housing property, acquired from mBank S.A. – pooling,
 - loans to natural persons granted not in cooperation with mBank S.A. The Bank discontinued the sales in this segment in 2004.
2. Treasury Segment – a segment of Bank's activities, which includes the Bank's financing activities, particularly the issuance of mortgage bonds, liquidity management, interest rate risk and foreign exchange risk. Segment income is derived from the maintenance of the liquidity portfolio and the reallocation of internal interest costs from the retail banking segment. Segment costs relate to the acquisition of funding and also include some administrative expenses.
3. Discontinued operations comprise the results of corporate banking and the portion of treasury operations relating to discontinued operations. Corporate Banking segment - this is the Bank's business segment, which included loans:
- for refinancing - granted for the purchase or refinancing of completed facilities for commercial purposes (office buildings, warehouses, shopping centres, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A,
 - for residential developers - granted to finance residential development projects (single or multi-family housing estates for sale or lease),
 - for commercial developers - granted to finance commercial development projects in line with the Bank's credit policy,
 - historic loans for local government units - granted to local government units (communes, districts, provinces), as well as loans secured with a guarantee or surety of local government units (commercial law companies established by local government units, independent public healthcare institutions).

The main assumption of the segment division within the profit and loss account is the most accurate presentation of the profitability of a given segment in the Bank's operations (with the exception of the Treasury Segment, which finances the activities of other segments in a mortgage bank and by definition does not generate a positive financial result). For this purpose, the Bank assigns at the level of each loan agreement all direct income, such as interest income, commission income and determines the level of expected credit losses.

The bank does not allocate to individual income tax segments, therefore information in terms of profit / loss, they are disclosed at the level of profit before tax. Information on segments is measured according to the same principles as those presented in the accounting policy.

The separation of the segment's assets and liabilities as well as revenues and costs was made on the basis of internal information prepared at the Bank for management purposes. The individual segments of the Bank have been assigned assets and liabilities and related to these assets and liabilities, income and expenses. There are related assets and liabilities in the Treasury segment with hedging derivatives and liabilities due to external financing. The segment result takes into account all revenue items that can be allocated and costs.

Other assets not allocated to segments include intangible assets, tangible fixed assets, deferred tax assets and other assets.

Gross result for each operating segments of the Bank is presented with the reconciliation to the position of the income statements, prepared for the purposes of the audited financial statements.

Business segment reporting on the activities of Bank – positions from income statement:

Period from 01.01.2024 to 31.12.2024	Continuing operations		Total
	Retail Banking	Treasure Segment	
Net interest income	128 305	(19 174)	109 131
Interest income	691 159	100 004	791 163
Interest expenses	(562 854)	(119 178)	(682 032)
Net fee and commission income	(3 116)	(2 773)	(5 889)
Fee and commission income	255	-	255

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Fee and commission expenses	(3 371)	(2 773)	(6 144)
Other operating income/expenses	14 737	-	14 737
Net trading income	-	3 112	3 112
Result from modification	(28 604)	-	(28 604)
Result on derecognition of financial instruments not measured at fair value through profit or loss	322	-	322
Impairment or reversal of impairment on financial assets not measured at fair value through financial result	(2 881)	(50)	(2 931)
Overhead costs	(39 298)	(15 916)	(55 214)
Depreciation	(6 987)	(5 551)	(12 538)
Tax on other financial institutions	(21 507)	-	(21 507)
Segment result (gross)	40 971	(40 352)	619
Income tax			(5 791)
Net losses			(5 172)

Period from 01.01.2023 to 31.12.2023	Continuing operations		Discontinued operations (Corporate Banking and part of the Treasury Segment relating to discontinued operations)	Total
	Retail Banking	Treasury Segment		
Net interest income	129 512	(3 468)	6 515	132 559
Interest income	762 889	95 276	39 698	897 863
Interest expenses	(633 377)	(98 744)	(33 183)	(765 304)
Net fee and commission income	(2 452)	(2 716)	(1 088)	(6 256)
Fee and commission income	175	-	41	216
Fee and commission expenses	(2 627)	(2 716)	(1 129)	(6 472)
Other operating income/expenses	11 591	(3 115)	(48)	8 428
Net trading income	-	(1 113)	1 873	760
Result from modification	3 512	-	1 668	5 180
Result on derecognition of financial instruments not measured at fair value through profit or loss	161	-	-	161
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	1 073	1 073
Impairment or reversal of impairment on financial assets not measured at fair value through financial result	(9 693)	62	(2 536)	(12 167)
Overhead costs	(32 568)	(19 001)	(3 722)	(55 291)
Depreciation	(8 045)	(4 287)	(643)	(12 975)
Tax on the Bank's balance sheet items	(22 057)	-	(1 844)	(23 901)
Segment result (gross)	69 961	(33 638)	1 248	37 571
Income tax				(13 854)
Net profit				23 717

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(in PLN thousand)

Business segment reporting on the activities of Bank – positions from statement of financial position

31.12.2024	Retail Banking	Treasure Segment	Other assets	Total
Segment Assets	9 558 483	1 398 060	63 432	11 019 975
Segment Liabilities	18 985	10 176 034	-	10 195 019
31.12.2023	Retail Banking	Treasure Segment	Other assets	Total
Segment Assets	9 036 935	956 425	112 053	10 105 413
Segment Liabilities	14 815	9 297 584	-	9 312 399

Other assets not allocated to segments include intangible assets, tangible assets, deferred tax assets and other assets.

7. Net interest income

	Year ended 31 December	
	2024	2023
Interest income		
Interest income calculated using the effective interest rate method	742 278	863 040
Interest income of financial assets at amortised cost, including:	697 849	816 326
- Loans and advances	691 159	805 610
- Cash and short-term placements	3 975	5 468
- Interest income on liabilities	2 715	5 248
Interest income on financial assets at fair value through other comprehensive income	44 429	46 714
- Debt securities	44 429	46 714
Income similar to interest on financial assets at fair value through profit or loss, including:	48 885	34 823
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	-	2 496
- Loans and advances	-	2 496
Interest income on derivatives classified into banking book	48 885	32 327
Total interest income	791 163	897 863

	Year ended 31 December	
	2024	2023
Interest expense		
Financial liabilities valued at amortized cost, including:	(455 434)	(539 450)
-Due to the issue of debt securities	(238 597)	(249 517)
-Loans received	(184 904)	(197 274)
-Due to subordinated loan	-	(8 652)
-Leasing contracts	(96)	(99)
-Other financial liabilities	(31 837)	(83 908)
Interest expense on derivatives classified in the banking book	(92 400)	(89 022)
Interest expense on derivatives under hedge accounting - fair value	(51 112)	(43 970)
Interest expense on derivatives under cash flow hedge accounting	(83 086)	(92 862)
Total interest expense	(682 032)	(765 304)

In 2024, interest income related to impaired financial assets measured at amortised cost, stood at TPLN 6 881 (for the period ended on 31 December 2023: TPLN 10 051).

Net interest income broken down by individual sectors is as follows:

	Year ended 31 December	
	2024	2023
Interest income		
From banking sector	48 036	58 123
From other entities including:	743 127	839 740
- From corporate customers	18 945	62 291
- From individual customers	689 907	775 891
- From public sector	34 275	1 558
Total interest income	791 163	897 863
Interest expense		
From banking sector	(216 797)	(281 176)
From other entities including:	(40)	(105)
- From corporate customers	(40)	(105)
Liabilities from the issue of debt securities	(238 597)	(249 517)
Subordinated capital	-	(8 652)
Interest expense on derivatives classified in the banking book	(92 400)	(89 022)
Interest expense on derivatives under hedge accounting - fair value	(51 112)	(43 970)
Interest expenses on derivatives concluded under the cash flow hedge	(83 086)	(92 862)
Total Interest expense	(682 032)	(765 304)

Interest income generated on monetary bills is presented in the item "Interest income from the banking sector", whereas interest income from treasury bonds in the item "Interest income from the public sector".

8. Net fee and commission income

	Year ended 31 December	
	2024	2023
Fee and commission income		
Credit-related fees and commissions	255	216
Total fee and commission income	255	216
Fee and commission expenses		
Fee and commission expenses	(3 370)	(3 276)
Commission expense from loan received and stand-by credit line	(460)	(427)
Costs related to the debt securities issue program (covered bonds and bonds)	(1 781)	(1 470)
Transfer commission, account maintenance	(533)	(283)
Commission for transfers for billing	-	(1 016)
Total fee and commission expense	(6 144)	(6 472)
Total net fee and commission income	(5 889)	(6 256)

All fees and commission income and expenses presented in the table above relate to items not measured at fair value through profit or loss.

In 2024, the costs of servicing credit products related to the outsourcing agreement with mBank S.A. for after-sale service of the commercial portfolio amount to TPLN 0 (as at December 2023 it was TPLN 687).

9. Net trading income

	31.12.2024	31.12.2023
Foreign exchange result	748	(1 059)
Net exchange differences on translation	6 413	(661)
Valuation of foreign currency derivatives	(5 665)	(398)
Other net trading income and result on hedge accounting	2 364	1 819
Interest rate risk instruments	770	(3 538)
Hedge accounting, including:	1 594	5 357
- the result of the hedged items	(46 302)	(45 590)
- the result on the valuation of hedging instruments	47 107	50 331
- the result on the valuation of hedging instruments CF - the ineffective part of the security	789	617
Total result on trading activity	3 112	760

Foreign exchange result covers realised and unrealised, positive and negative exchange rate differences, as well as profits and losses on spot transactions and futures contracts. The result on operations on interest-bearing instruments covers the result on interest rate swap contracts which have not been designated as hedging instruments.

The Bank applies fair value hedge accounting, fair value hedge accounting for a portfolio of fixed-rate loans and cash flow hedge accounting. The results on hedged item and hedging instruments are presented in the Note 18. The hedge is assessed on an ongoing basis and determined to have been highly effective. The Bank documents its own assessment of the effectiveness of fair value hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

10. Net income on modification

In 2024 and 2023, the result on modifications was calculated only for assets measured at amortized cost. As at 31 December 2024, the total impact of the loan holidays reflected in the result on a non-substantive modification amounted to TPLN 28 764.

The matters related to recognition of the net income on insubstantial modification are described in Note 2.7.

31.12.2024	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	1 204 279	225 868	30 653	1 460 800
Net income on modification	(23 217)	(5 003)	(384)	(28 604)

31.12.2023	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	3 836 604	315 623	82 573	4 234 800
Net income on modification	(6 497)	2 146	(829)	(5 180)

11. General administrative expenses

	Year ended 31 December	
	2024	2023
Uncompensated pooling	18 206	15 102
Other	735	633
Total other operating income	18 941	15 735

On December 30, 2022, the Bank concluded an Agreement with mBank to provide pooling. Pursuant to the Agreement, the Bank receives non-refundable compensation payable by mBank in connection with unrealized pooling volume. In 2024, compensation for pooling amounted to TPLN 18 206 (in 2023 it was TPLN 15 102).

12. General administrative expenses

	Year ended 31 December	
	2024	2023
Staff-related costs	(24 820)	(24 458)
Material costs, including:	(20 412)	(20 080)
- logistic cost	(5 948)	(6 356)
- IT cost	(11 526)	(10 611)
- marketing cost	(253)	(455)
- consulting services cost	(2 143)	(1 829)
- other overheads cost	(542)	(829)
Contributions and transfers to the Bank Guarantee Fund	(7 576)	(8 589)
Taxes and fees	(2 161)	(1 978)
Contributions to the Social Benefits Fund	(245)	(186)
Total overhead costs	(55 214)	(55 291)

The "logistics costs" item presents costs related to short-term leasing agreements, costs related to leasing agreements for low-value assets and costs related to variable remuneration elements (not included in the leasing liability). The total leasing cost included in general administrative costs in 2024 amounted to TPLN 210 (for the period ended December 31, 2023: TPLN 216).

In accordance with the Resolution of the Council of the Bank Guarantee Fund of April 18, 2024 on determining the amount of contributions to the bank resolution fund for 2024, in the current reporting period the Bank recognized the contribution in the profit and loss account in the amount of TPLN 7 576 (for 2023 in TPLN 8 589).

Staff-related expenses

	Year ended 31 December	
	2024	2023
Wages and salaries	(20 430)	(20 210)
Social security expenses	(3 275)	(3 291)
Costs of retirement benefits	(16)	(17)
Provision for unused holidays	(515)	(364)
Remuneration payment in the form of phantom shares settled in cash	(584)	(576)
Staff-related costs, total	(24 820)	(24 458)

13. Other operating expenses

	Year ended 31 December	
	2024	2023
Costs of enforcement proceedings	(387)	(214)
Provision for disputes	(1 177)	(145)
Investment write-off	(830)	-
Loss on sales or liquidation of tangible fixed assets and intangible assets	(1 460)	(6 350)
Other	(28)	(598)
Total other operating expenses	(3 882)	(7 307)

14. Impairment or reversal of impairment on financial assets not measured at fair through net financial income

	Year ended 31 December	
	2024	2023
Financial assets at amortised cost, including:	(3 206)	(12 202)
Loans and advances	(3 206)	(12 202)
Individual clients	(3 206)	(8 460)
Stage 1	565	193
Stage 2	1 687	(7 000)
Stage 3	(5 345)	(1 696)
POCI	(113)	43
Corporate clients	-	(3 742)
Stage 1	-	(4 208)
Increase/Decrease in write-downs for receivables covered by the guarantee	-	2 349
Stage 2	-	(5 449)
Reduction of the write-down for receivables covered by the guarantee	-	2 994
Stage 3	-	(9 656)
Reduction of the write-down for receivables covered by the guarantee	-	9 120
POCI	-	1 108
Financial assets measured at fair value through other comprehensive income, including:	(47)	35
Debt securities	(47)	35
Stage 1	(47)	35
Net impairment losses on financial assets not measured at fair value through profit or loss	(3 253)	(12 167)

Decrease in the level of write-offs on the loan portfolio by TPLN 8 914 was mainly caused by the inclusion of a credit provision established for commercial loans for 4 months - until the spin-off transaction described in Note 6. In the case of the retail portfolio, the lower scale of impairment losses in 2024 compared to 2023 results from the impact of model recalibrations implemented at that time and improved macroeconomic forecasts in models with a standardized portfolio loss ratio. This was mainly due to the fact that changes in credit risk models implemented in 2024 had a lower impact on the value of write-offs than in 2023.

As part of the portfolio of restructured and recovered loans, the level of write-offs was updated accordingly in connection with changes in the value of collateral and developments in enforcement/bankruptcy proceedings.

15. Income tax

	Year ended 31 December	
	2024	2023
Current income tax	(8 682)	21 649
Deferred income tax (Note 27)	2 891	(35 503)
Total income tax	(5 791)	(13 854)
Profit/(loss) before tax	619	37 571
Income tax calculated at the rate applicable in a given fiscal year (19%)	(118)	(7 138)
- other non-taxable income	(5 670)	(6 687)
- tax on the the Bank's balance sheet items	(4 086)	(4 541)
- value of write-down on receivables	(401)	(223)
- contribution and payments to the Bank Guarantee Fund	(1 439)	(1 632)
- receivables written off against the write-offs	-	587
- NKUP on purchased receivables	(438)	(454)
- other	694	(424)
Adjustment in respect of current tax from prior years	(3)	(29)
Total income tax expense	(5 791)	(13 854)
Effective tax rate calculation		
Profit before income tax	619	37 571
Income tax	(5 791)	(13 854)
Effective tax rate	935,48%	36,87%
Nominal tax rate	19%	19%

During 2024, the Bank was a member of the mBank Tax Capital Group (PGK), whose parent company, representing PGK to the extent provided for in the provisions of tax law, is mBank S.A.

Pursuant to the agreement concluded between the PGK companies on the dissolution of the Tax Capital Group, as of January 1, 2025, the Tax Group ceases to operate. Individual companies, including mBank Hipoteczny S.A., will be obliged by March 31, 2025 to submit individual annual returns on the income generated in 2024 (loss incurred) and corporate income tax due.

On January 1, 2025, the Act of November 6, 2024 on equalization taxation of component units of international and domestic groups entered into force. The Capital Group to which mBH belongs analyzed the provisions of the Act in terms of their impact on the tax liability for this tax. Based on the above. analysis, the Bank does not expect the impact of the provisions in question on tax liabilities in 2025.

16. Profit per share

	Year ended 31 December		
	2024	2023	
		Continuing operations	Discontinuing operations
Basic:			
Net profit/(loss) from activities attributable to shareholders of Bank	(5 172)	23 392	325
Weighted average number of ordinary shares	2 200 000	2 635 397	2 635 397
Basic net profit/(loss) per share (in PLN per share)	(2,35)	8,88	0,12
Diluted:			
Net profit/(loss) attributable to shareholders of Bank, applied during the estimation of diluted earnings per share	(5 172)	23 392	325
Weighted average number of ordinary shares	2 200 000	2 635 397	2 635 397
Diluted net profit/(loss) per share (in PLN per share)	(2,35)	8,88	0,12

Basic earnings /(loss) per share are computed as the quotient of the profit/(loss) attributable to the Bank's shareholders and the weighted average number of ordinary shares during the year.

Diluted earnings /(loss) per share are equal to basic earnings/(loss) per share, as there are no dilutive elements.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

17. Cash and Cash equivalents

As at December 31, 2024, the Bank has a current account with the National Bank of Poland, the balance of which was TPLN 588, in other banks TPLN 62 810 (as at December 31, 2023: TPLN 502 in other banks TPLN 19 778). As at December 31, 2024, the Bank have ON deposits in the amount of TPLN 17 779 (as at December 31, 2023, it was TPLN 43 018).

On the basis of the National Bank of Poland Act dated 29 August 1997, Bank maintains a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which the Bank is required to maintain during a given period in the current account with NBP amounted to:

- PLN 0 thousand for the period from 2 December 2024 to 30 December 2024,
- PLN 0 thousand in the period from 30 November 2023 to 1 January 2024.

As at December 31, 2024 and as at December 31, 2023, the Bank did not have any restricted funds.

18. Financial assets and liabilities held for trading and derivative hedging instruments

The Bank has the following derivative instruments in its portfolio:

Interest rate risk instruments:

- Interest Rate Swap (IRS),

Currency risk instruments

- Currency forward transactions (FX SWAP),

Instrument for interest rate risk and exchange rate risk

- Cross Currency Interest Rate Swap (CIRS)

All derivative transactions are concluded for the purpose of hedging against currency risk and interest rate risk. The Bank is not engaged in trading; all derivative transactions are included in the banking portfolio.

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	Nominal amount		Fair value	
	purchase	disposal	assets	liabilities
As at 31 December 2024				
Derivative financial instruments held for trading				
Currency derivatives				
- FX SPOT	427	428	-	-
- Contracts FX SWAP	850 327	856 492	249	2 685
- Contracts CIRS	854 600	858 540	-	6 659
Total OTC derivatives	1 705 354	1 715 460	249	9 344
Total currency derivatives	1 705 354	1 715 460	249	9 344
Interest rate derivatives				
- IRS contracts	300 000	300 000	4 926	6 360
Total interest rate derivatives from over-the-counter transactions	300 000	300 000	4 926	6 360
Total interest rate derivatives	300 000	300 000	4 926	6 360
Total assets / liabilities held for trading	2 005 354	2 015 460	5 175	15 704
Hedging derivatives				
- IRS contracts	1 967 746	1 967 746	5 594	11 125
- CIRS	1 281 900	1 278 930	-	24 067
Total derivatives held for hedging	3 249 646	3 246 676	5 594	35 192
Total recognized derivative assets / liabilities	5 255 000	5 262 136	10 769	50 896
Net-off effect	-	-	(9 608)	(16 703)
Total recognized derivative assets / liabilities held for trading	5 255 000	5 262 136	1 161	34 193
Short-term (up to 1 year)	4 316 157	4 323 293	249	33 412
Long-term (over 1 year)	938 843	938 843	912	781

As at December 31, 2024, the offsetting effect, apart from the valuation of derivative transactions, includes TPLN 9 608 of collaterals accepted in connection with concluded transactions on derivative instruments subject to compensation.

	Nominal amount		Fair value	
	purchase	disposal	assets	liabilities
As at 31 December 2023				
Derivative financial instruments held for trading				
Currency derivatives				
- FX SPOT	870	869	1	-
- Contracts FX SWAP	1 143 523	1 146 795	2 143	2 189
- Contracts CIRS	652 200	652 410	-	2 565
Total OTC derivatives	1 796 593	1 800 074	2 144	4 754

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Total currency derivatives	1 796 593	1 800 074	2 144	4 754
Interest rate derivatives				
- IRS contracts	300 000	300 000	7 432	10 101
Total interest rate derivatives from over-the-counter transactions	300 000	300 000	7 432	10 101
Total interest rate derivatives	300 000	300 000	7 432	10 101
Total assets / liabilities held for trading	2 096 593	2 100 074	9 576	14 855
Hedging derivatives				
- IRS contracts	2 106 161	2 106 161	2 165	57 681
- CIRS	1 304 400	1 278 930	-	38 445
Total derivatives held for hedging	3 410 561	3 385 091	2 165	96 126
Total recognized derivative assets / liabilities	5 507 154	5 485 165	11 741	110 981
Net-off effect	-	-	(9 094)	(63 755)
Total recognized derivative assets / liabilities held for trading	5 507 154	5 485 165	2 647	47 226
Short-term (up to 1 year)	1 252 658	1 255 929	2 144	2 190
Long-term (over 1 year)	4 254 496	4 229 236	503	45 036

As at December 31, 2023, the offsetting effect, apart from the valuation of derivative transactions, includes TPLN 9 094 of collaterals accepted in connection with concluded transactions on derivative instruments subject to compensation.

Hedge accounting

The Bank applies fair value hedge accounting for fixed-rate covered bonds issued by the Bank, fair value hedge accounting for a portfolio of fixed-rate loans, fair value hedge accounting for a portfolio of fixed-rate loans and cash flow hedge accounting. Detailed information on hedge accounting is presented below.

a) Fair value hedge accounting

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

At the end of each month, the Bank assesses the effectiveness of the applied hedge by analyzing the changes in the fair value of the hedged instrument and the hedging instrument due to the hedged risk in order to confirm that the hedging relationships are effective in line with the accounting policy described in Note 2.9.

Description of the hedging relationship

The Bank hedges against the risk of change in fair value of fixed-interest rate mortgage covered bonds issued by the Bank. The hedged risk results from changes in interest rates.

Hedged items

The hedged items are fixed-interest rate mortgage covered bonds with the nominal value of TEUR 402 000.

The hedged item and the hedging item have exactly the same nominal amounts, start and end dates. As at the reporting dates, the Bank assesses the existence of an economic relationship.

The assessment of the existence of an economic link is made using a two-step approach:

- In the first step, the existence of an economic link is assessed using a qualitative assessment - the critical terms match method. If the method indicates the existence of an economic relationship between the hedged item and the hedging instrument, then the assessment is considered complete,
- Otherwise, unless there are qualitative grounds to question the existence of an economic relationship between the hedged item and the hedging instrument, the Bank conducts a prospective test based on the linear regression analysis method.

Sources of ineffectiveness

Sources of ineffectiveness for hedging relationships for which ineffectiveness occurs are cash flow mismatches, credit risk of the hedged instrument, and mismatch due to the initial measurement of derivatives, if a derivative that was entered into before the relationship was included in the hedging relationship.

Hedging instruments

Interest Rate Swap transactions 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 liabilities as well as valuation of the hedging instruments is recognized in the income statement as the income from trading operation, except for interest income and expenses related to the interest measurement component of hedging instruments, which are presented in the position of interest income/expenses on derivatives concluded under the hedge accounting.

The tables below present hedged items as at December 31, 2024 and December 31, 2023.

The nominal value is in EUR thousands, while the value of the liability measured at amortized cost, fair value differences from hedge accounting, the carrying amount of the liability and the change in fair value due to hedge accounting in PLN thousands. The item "Differences from hedge accounting relating to fair value" relates to the adjustment to the fair value of covered bonds that are hedged items under the applied hedge accounting.

As at December 31, 2024

Debt financial instruments by type	Nominal value	Interest rate	Redemption date	The value of the liability is measured at amortized cost	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period gain/(loss)	Carrying amount of the liability	Differences from hedge accounting on fair value gain/(loss)
Mortgage covered bonds (EUR)	300 000	1,07%	05.03.2025	1 293 159	4 924	1 288 235	(33 869)
Mortgage covered bonds (EUR)	11 000	1,29%	24.04.2025	47 405	336	47 069	(1 303)
Mortgage covered bonds (EUR)	13 000	1,18%	20.09.2026	55 686	1 876	53 810	(1 629)
Mortgage covered bonds (EUR)	35 000	1,18%	20.09.2026	149 939	4 707	145 232	(4 179)
Mortgage covered bonds (EUR)	8 000	3,50%	28.02.2029	34 949	120	34 829	(375)
Mortgage covered bonds (EUR)	15 000	3,50%	15.03.2029	65 483	221	65 262	(702)
Mortgage covered bonds (EUR)	20 000	3,20%	30.05.2029	86 477	326	86 151	(933)
Total hedged items				1 733 098	12 510	1 720 588	(42 990)

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Debt financial instruments by type	Nominal value	Interest rate	Redemption date	The value of the liability is measured at amortized cost	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period gain/(loss)	Carrying amount of the liability	Differences from hedge accounting on fair value gain/(loss)
Mortgage covered bonds (EUR)	24 900	0,94%	01.02.2024	109 191	328	108 863	(3 106)
Mortgage covered bonds (EUR)	300 000	1,07%	05.03.2025	1 315 228	38 465	1 276 763	(39 419)
Mortgage covered bonds (EUR)	11 000	1,29%	24.04.2025	48 195	1 639	46 556	(1 589)
Mortgage covered bonds (EUR)	13 000	1,18%	20.09.2026	56 639	3 505	53 134	(2 825)
Mortgage covered bonds (EUR)	35 000	1,18%	20.09.2026	152 508	8 886	143 622	(7 352)
Mortgage covered bonds (EUR)	8 000	3,50%	28.02.2029	35 511	496	35 015	(1 561)
Mortgage covered bonds (EUR)	15 000	3,50%	15.03.2029	66 552	923	65 629	(2 935)
Mortgage covered bonds (EUR)	20 000	3,20%	30.05.2029	87 892	1 258	86 634	(3 943)
Total hedged items				1 871 716	55 500	1 816 216	(62 730)

The following table presents hedged items as at 31 December 2024 and 31 December 2023. In the following table, the nominal value is presented in EUR thousands, while the fair value and the change of fair value resulting from hedge accounting, in PLN thousands.

As at 31.12.2024

Derivatives	Nominal value	End of transaction	Fair value of the liability	Differences from hedge accounting on fair value gain/(loss)
IRS (EUR)	300 000	05.03.2025	2 616	34 564
IRS (EUR)	11 000	24.04.2025	(313)	1 352
IRS (EUR)	13 000	20.09.2026	(1 851)	1 668
IRS (EUR)	35 000	20.09.2026	(4 659)	4 306
IRS (EUR)	8 000	28.02.2029	318	340
IRS (EUR)	15 000	15.03.2029	594	665
IRS (EUR)	20 000	30.05.2029	(85)	1 198
Total hedging items			(3 380)	44 093

As at 31.12.2023

Derivatives	Nominal value	End of transaction	Fair value of the liability	Differences from hedge accounting on fair value gain/(loss)
IRS (EUR)	24 900	01.02.2024	(1 459)	3 039
IRS (EUR)	300 000	05.03.2025	(32 895)	40 989
IRS (EUR)	11 000	24.04.2025	(1 770)	1 571
IRS (EUR)	13 000	20.09.2026	(3 538)	7 654
IRS (EUR)	35 000	20.09.2026	(9 017)	2 926
IRS (EUR)	8 000	28.02.2029	(82)	1 551
IRS (EUR)	15 000	15.03.2029	(207)	2 973
IRS (EUR)	20 000	30.05.2029	(1 366)	4 383
Total hedging items			(50 334)	65 086

Total result on fair value hedge accounting recognized in the profit and loss account in 2024 and 2023

	Year ended 31 December	
	2024	2023
Interest income on derivatives as part of fair value hedge accounting	(54 693)	(49 621)
Result from the valuation of the hedged	(42 990)	(62 730)
Result on the valuation of hedging instruments	44 093	65 087
Total result on fair value hedge accounting	(53 590)	(47 265)

b) Accounting for the fair value hedge of the loan portfolio for the provision of interest

IFRS 9 introduces changes in hedge accounting, which the Bank decided to apply from July 1, 2022. The changes introduced in IFRS 9 are aimed at increasing the consistency of accounting for risk management activities. At the same time, IFRS 9 does not introduce a new standard for hedging the fair value of a portfolio (assets and/or liabilities) against interest rate risk. Therefore, for this type of hedging, IFRS 9 introduces the option of applying the principles of IAS 39 instead of the requirements of IFRS 9. The Bank decides to use this option to hedge the fair value of loan portfolios against interest rate risk.

The Bank applies fair value hedge accounting, where the only hedged risk is the interest rate risk, in particular:

- Risk related to the mismatch of the frequency and dates of changes in interest rates on balance sheet items - risk of mismatch of repricing dates,
- Risk related to changes in the shape and slope of the market yield curve,
- Risk resulting from an imperfect transmission mechanism of changes in market rates to interest rates on banking products.

The Bank tests the effectiveness of the hedge by analyzing changes in the fair value of the hedged risk of the hedging instrument and the hedged item at the end of each month. For this purpose, the Bank uses linear regression of daily changes in the value of the hedging instrument against daily changes in the value of the hedged item. Efficiency tests include the valuation of hedging transactions less the value of accrued interest. By means of effectiveness tests, the Bank confirms that the applied hedging relationships comply with its accounting policy and meet the requirements of high efficiency specified in the accounting standard.

Hedged item

The Bank hedges against changes in the fair value of 4 portfolios of fixed interest rate loans denominated in PLN with a total nominal value of PLN 250 million. The criteria for allocating assets to individual portfolios are defined and described in the documentation of individual relationships and are based on the dates of revaluation of the interest rate on loans.

Portfolios of secured loans as at 31 December, 2024

Hedged portfolio of financial instruments	Nominal value of the portfolio	Nominal value of the hedged item	The value of the valuation item at amortized cost	Differences from hedge accounting regarding fair value	Change in the value of the hedged item since designation, used as the basis for recognizing hedge ineffectiveness in a given period
Credit portfolio HA_PKS_1	50 000	50 000	81 770	212	4 557
Credit portfolio HA_PKS_2	25 000	25 000	41 322	(338)	1 671
Credit portfolio HA_PKS_3	75 000	75 000	107 935	(1 068)	4 998
Credit portfolio HA_PKS_4	100 000	100 000	145 408	(2 118)	5 665
Total	250 000	250 000	376 435	(3 312)	16 891

Portfolios of secured loans as at 31 December, 2023

Hedged portfolio of financial instruments	Nominal value of the portfolio	Nominal value of the hedged item	The value of the valuation item at amortized cost	Differences from hedge accounting regarding fair value	Change in the value of the hedged item since designation, used as the basis for recognizing hedge ineffectiveness in a given period
Credit portfolio HA_PKS_1	50 000	50 000	87 862	3 675	4 345
Credit portfolio HA_PKS_2	25 000	25 000	45 349	1 704	2 010
Credit portfolio HA_PKS_3	75 000	75 000	117 553	5 150	6 066
Credit portfolio HA_PKS_4	100 000	100 000	161 830	6 611	7 783
Total	250 000	250 000	412 594	17 140	20 204

Hedging instrument

As a hedging instrument, the Bank uses interest rate swaps in which it pays a fixed interest rate and receives payments from the counterparty at a variable rate.

Balance of hedging instruments as at 31 December, 2024

Hedging derivative	Nominal value	% The value of the item constituting a hedging instrument designated in hedge accounting	Termin zakończenia transakcji	Fair value of the asset	Change in the value of the hedging item since designation, used as the basis for recognizing hedge ineffectiveness in a given period
IRS/21/0001	50 000	100%	01.12.2026	2 063	(3 743)
IRS/22/0001	25 000	100%	28.01.2027	3	(1 531)
IRS/22/0002	75 000	100%	14.03.2027	(1 779)	(3 653)
IRS/22/0003	100 000	100%	01.04.2027	(2 438)	(3 954)
Razem	250 000			(2 151)	(12 881)

Balance of hedging instruments as at 31 December, 2023

Hedging derivative	Nominal value	% The value of the item constituting a hedging instrument designated in hedge accounting	Termin zakończenia transakcji	Fair value of the asset	Change in the value of the hedging item since designation, used as the basis for recognizing hedge ineffectiveness in a given period
IRS/21/0001	50 000	100%	01.12.2026	2 165	(3 658)
IRS/22/0001	25 000	100%	28.01.2027	(177)	(1 702)
IRS/22/0002	75 000	100%	14.03.2027	(2 809)	(4 624)
IRS/22/0003	100 000	100%	01.04.2027	(4 361)	(5 884)
Total	250 000			(5 182)	(15 868)

Sources of potential inefficiency

The source of potential hedge ineffectiveness may be one or more of the following factors:

- change in market circumstances between the moment of determining the terms of the contract for the hedged item and the moment of determining the terms of the hedging instrument,

- incompatibility of the dates of cash flows of the hedged item and the hedging instrument,
- incompatibility between the nominal values of the hedged item and the hedging instrument.

Presentation of the result on hedged and hedging transactions

The adjustment to the fair value of the hedged assets and liabilities and the valuation of hedging instruments is recognized in the profit and loss account.

The table below presents the total result on fair value hedge accounting of the fixed interest rate loan portfolio recognized in the income statement:

	31.12.2024	31.12.2023
Interest income on derivatives under fair value hedge accounting for a portfolio of fixed rate loans	3 581	5 651
Result on valuation of fair value hedges (Note 9)	(3 312)	17 140
Result on valuation of hedged items (Note 9)	3014	(14 756)
Total result on fair value hedge accounting of the fixed rate loan portfolio	3 283	8 035

c) Cash flow hedge accounting

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

As hedging instruments, the Bank 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).

In accordance with the adopted methodology, the Bank 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 Bank simultaneously establishes two hedging relationships:

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

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank 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.

The valuation principles are analogous to the principles of valuation of interest rate derivatives, however, in accordance with the requirements of IFRS 9, they do not include features such as the currency base spread that are not characteristic of the hedged item.

IFRS 9 introduces changes in hedge accounting, which the Bank decided to apply from July 1, 2022.

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As part of the changes, the currency base spread was separated from the financial instrument designated as a hedging instrument. The Bank recognizes changes in the value of the currency basis spread (with respect to the hedged item) in a separate component of equity in other comprehensive income, and these amounts are then transferred or derecognized from equity and recognized in the profit and loss account or included directly in the initial cost of hedging or other carrying amount of the asset or liability. The currency base spread as at the designation date (to the extent it applies to the hedged item) is amortized in a systematic and rational manner in the period to which it relates.

That, what is considered the systematic and rational basis for the amortization of the currency basis spread amount from equity to the income statement means straight-line amortization (over the life of the hedging relationship).

Hedged items - cash flow hedge

	The nominal value of the hedged items		Change in fair value due to hedge accounting since the designations of the hedged instrument	
	31.12.2024	31.12.2023	31.12.2024	31.12.2023
Loans in PLN with variable interest	1 278 930	1 278 930	35 524	68 093
Covered bonds issued in a convertible currency with a fixed interest rate	1 281 900	1 304 400	(13 569)	(24 217)

Hedging items - cash flow hedge

	The nominal value of the hedging items		Effect of exchange rate valuation and CIRS fair value - adopted for the hedge effectiveness analysis		Change in the fair value of CIRS - the effective part of the hedge	
	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023
CIRS floating leg PLN	1 278 930	1 278 930	(33 647)	(66 373)	(34 565)	(67 305)
CIRS fixed leg EUR	1 281 900	1 304 400	9 854	20 275	10 599	(1 197)

The average constant rate weighted by denomination for a fixed leg was 0.242% before excluding currency base spread and 0.302% after excluding. The average constant rate weighted by the nominal value of the variable leg in PLN was 2.4199% before excluding currency base spread and 2.4299% after excluding.

31.12.2024	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
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INTEREST RATE RISK
Interest rate swap (IRS) transactions hedging the cash flows available from loans with variable interest rates denominated in PLN

Nominal value (in thousand PLN)	-	-	1 278 930	-	-	1 278 930
Average interest rate on a fixed leg	-	-	2,4299%	-	-	

CURRENCY RISK
Foreign exchange swap transactions (CIRS) hedging cash flows resulting from the issued mortgage bonds

Nominal value (in thousand PLN)	-	-	1 281 900	-	-	1 281 900
Average interest rate on a fixed leg	-	-	0,302%	-	-	

31.12.2023	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
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INTEREST RATE RISK
Interest rate swap (IRS) transactions hedging the cash flows available from loans with variable interest rates denominated in PLN

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Nominal value (in thousand PLN)	-	-	-	1 278 930	-	1 278 930
Average interest rate on a fixed leg	-	-	-	2,4299%	-	

CURRENCY RISK**Foreign exchange swap transactions (CIRS) hedging cash flows resulting from the issued mortgage bonds**

Nominal value (in thousand PLN)	-	-	-	1 304 400	-	1 304 400
Average interest rate on a fixed leg	-	-	-	0,302%	-	

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 2025 to September 2025.

The assessment of the existence of an economic link is made using a two-step approach:

- In the first step, the existence of an economic link is assessed using a qualitative assessment - the critical terms match method. If the method indicates the existence of an economic relationship between the hedged item and the hedging instrument, then the assessment is considered complete.
- Otherwise, unless there are qualitative grounds to question the existence of an economic relationship between the hedged item and the hedging instrument, the Bank conducts a prospective test based on the linear regression analysis method. If the linear regression parameters assume the following values: $-1.25 \leq b \leq -0.80$, $0.8 \leq R^2$, $p\text{-value} \leq 0.05$ - then it is considered that there is an economic relationship between the hedged item and the hedging instrument and no additional qualitative assessment is performed. If the above conditions are not met, but the linear regression parameters take the following values: $-1.66 \leq b \leq -0.60$, $0.6 \leq R^2$, $p\text{-value} \leq 0.05$, then an additional qualitative assessment is performed.

The main sources of hedge ineffectiveness can be:

- taking into account the CVA / DVA correction only on the hedging instrument side,
- differences in the structure and basic parameters of hedging transactions and hedged items, resulting from different lengths of interest periods - 3 months for IRS transactions and 1 month for the loan portfolio.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income in the portion that forms the effective portion of the hedge.

The ineffective portion of the hedge is recognized in the income statement in the position 'Result on financial instruments measured at fair value' or 'Result on exchange position'. 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 'Net foreign exchange gains' in the same period or periods in which the inflow of the hedged transaction is referred to the profit and loss account and precipitate.

The table below presents other comprehensive income from the cash flow hedge and the ineffective part of the cash flow hedge for the period from January 1 to December 31, 2024 and in the period from January 1 to December 31, 2023.

	Year ended 31 December	
	2024	2023
Gross other comprehensive income from cash flow hedging and hedge accounting costs at the beginning of the period	(60 611)	(91 546)
Gains or losses resulting from hedging recognized in other comprehensive income during the reporting period (gross)	(68 978)	(163 880)
The amount transferred from other comprehensive income to the income statement during the period:	104 857	194 815
- Interest income	83 086	92 862
- Result from the exchange position	22 500	102 570
- Currency base spread	(729)	(617)

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Accumulated gross other comprehensive income from cash flow hedging and hedge accounting costs at the end of the reporting period	(24 732)	(60 611)
Income tax on accumulated other comprehensive income at the end of the reporting period	4 699	11 516
Accumulated net other comprehensive income from cash flow hedging at the end of the reporting period	(20 033)	(49 095)
Impact in the reporting period on other comprehensive income (gross)	35 879	30 935
Income tax on cash flow hedging	(6 817)	(5 878)
Impact during the reporting period on other comprehensive income (net)	29 062	25 057

	Year ended 31 December	
	2024	2023
Profits/losses recognized in gross comprehensive income during the reporting period, including:		
Unrealized gains/losses recognized in other comprehensive income (gross)	35 879	30 935
the result on cash flow hedge accounting recognized in the profit and loss account	(104 797)	(194 816)
- amount included as interest income in income statement during the reporting period	(83 086)	(92 862)
- amount recognized in the reporting period in the foreign exchange result	(22 500)	(102 570)
- currency basis spread	729	617
- ineffective part of CIRS valuation	60	(1)
Impact in the reporting period on comprehensive income (gross)	(68 918)	(163 881)

Balance sheet / fair value of derivative instruments for protecting cash flows	Liabilities
31.12.2024	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk - Relation A)	(34 989)
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk - Relation B)	9 794
Currency basis spread	1 128
Total	(24 067)

Balance sheet/ fair value of derivative instruments for protecting cash flows	Liabilities
31.12.2023	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk – Relation A)	(67 715)
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk – Relation B)	20 215
Currency basis spread	9 055
Total	(38 445)

Nominal value of security instruments by duration for implementation	up to 1 month	over 1 month to 3 months	over 1 year to 5 years	over 5 years Total	Total
31.12.2024					
CIRS					
PLN float sale	-	1 278 930	-	-	1 278 930
Fixed EUR purchase (original currency)	-	300 000	-	-	300 000

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Nominal value of security instruments by duration for implementation	up to 1 month	over 1 month to 3 months	over 1 year to 5 years	over 5 years Total	Total
31.12.2023					
CIRS					
PLN float sale	-	-	1 278 930	-	1 278 930
Fixed EUR purchase (original currency)	-	-	300 000	-	300 000
Currency basis spread					
31.12.2024					
Currency basis spread recognized as hedging cost (separate component of equity)					(767)
Difference from currency basis spread (WBS) between the real WBS element and the matched WBS element					0,4
The amount of amortization from separate equity to profit or loss related to the currency basis spread at the time of designation					1 894
Total					1 127,4

Currency basis spread	
31.12.2023	
Currency basis spread recognized as hedging cost (separate component of equity)	7 890
Difference from currency basis spread (WBS) between the real WBS element and the matched WBS element	29
The amount of amortization from separate equity to profit or loss related to the currency basis spread at the time of designation	1 137
Total	9 055

Estimates and assessments

The fair value of derivatives is determined using valuation models based on discounted future cash flows from a given financial instrument. The variables in the model and the assumptions used for valuation include, if available, data from observable markets (e.g. deposit rates on the interbank market, currency exchange rates, IRS and CCBS transaction quotes). The fair value of derivatives includes DVA's own credit risk (debit value adjustment) as well as the credit risk of the counterparty CVA (credit value adjustment). The process of calculating CVA and DVA adjustments involves choosing a method to determine the spread on the counterparty or Bank's credit risk as well as estimating the probability of the contractor or Bank's insolvency and the recovery rate. In addition, to reflect the impact of non-standard transaction parameters on the valuation level, the model uses historical prices used in CIRS transactions with similar parameters for which quotes can be obtained from active markets.

Estimate calculation

The Bank conducted a simulation to determine the possible impact of changes in yield curves on the transaction valuation.

Estimated change in valuation with a parallel income shift	Scenario + 50 bp.	Scenario -50 bp.
31.12.2024		
CIRS	(3 192)	3 192

For the purpose of calculating the valuation of CIRS transactions classified under level 3 of the fair value hierarchy, the Bank determines the value of the CVA and DVA adjustments using:

- available market data in the form of spread curves necessary to determine the probability of default, the input data range of which is summarized in the table below:

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Range of spread curves used for cva and dva calculations	Min	Max
31.12.2024		
Credit spread	0,0018%	0,1996%

- and unobserved LGD levels, for which, in the case of determining CVA and DVA, the Bank assumes the levels of 60% and 100%, respectively. The asymmetric LGD levels for CIRS transactions result from the specific nature of this transaction, described in detail in the section "Derivatives designated as cash flow hedges".

The tables below present the estimated impact of the applied input parameters on the valuation of CIRS transactions - a parallel shift of the spread curves by 50 basis points and the impact of different levels of the LGD parameter on the amount of CVA and DVA adjustments.

Estimated change in the valuation of a cirs transfer with a parallel shift of the spread curve	script +50pb.
31.12.2024	
CIRS transaction CVA change	1
CIRS transaction DVA change	(393)
Total impact on the valuation of CIRS transactions	(392)

Estimated values of the valuation of the cva and dva applying different lag levels	40%	60%	80%	100%
31.12.2024				
CVA	-	-	-	-
DVA	63	95	126	158

19. Financial assets measured at fair value through other comprehensive income

31.12.2024	Carrying value
Debt securities	1 285 083
- Central banks	334 843
- General governments, including::	950 240
<i>pledged securities</i>	299 192
Total financial assets at fair value through comprehensive income	1 285 083
Short-term (up to 1 year)	685 310
Long-term (over 1 year)	599 964
Based on fixed interest rate	794 227
Based on floating interest rate	491 047

Financial assets in the form of money bills and treasury bonds are recognized by the Bank as financial assets with low credit risk due to the fact that these assets are characterized by a low risk of default.

As at 31.12.2024 and 31.12.2023, all debt securities were classified in stage 1.

Change in financial assets at fair value through other comprehensive income.

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Change in the period from 01.01.2024 to 31.12.2024	
As at the beginning of the period	845 733
Additions	9 939 081
Disposals (sale, redemption and forfeiture)	(9 499 684)
Gains / losses from changes in fair value	(47)
As at the end of the period	1 285 083

31.12.2023	Carrying value
Debt securities	845 733
- Central banks	54 956
- General governments, including::	790 777
<i>pledged securities</i>	239 229
Total financial assets at fair value through comprehensive income	845 733
Short-term (up to 1 year)	462 181
Long-term (over 1 year)	383 552
Based on fixed interest rate	306 168
Based on floating interest rate	539 565

Change in financial assets at fair value through other comprehensive income

Change in the period from 01.01.2023 to 31.12.2023	
As at the beginning of the period	1 171 608
Additions	400 000
Disposals (sale, redemption and forfeiture)	(790 000)
Gains / losses from changes in fair value	64 125
As at the end of the period	845 733

Both as at 31 December 2024 and as at 31 December 2023, debt instruments had a rating of AAA on the scale of Standard & Poor's (S&P) rating agency.

Pledged assets are not subject to resale or further pledging.

20. Financial assets measured at amortised cost

31.12.2024	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	9 400	9 400	-	-	-	-	-	-	-
Loans and advances to customers	9 562 831	8 727 317	761 234	115 144	2 403	(3 210)	(10 251)	(29 614)	(192)
Individual customers	9 558 483	8 722 969	761 234	115 144	2 403	(3 210)	(10 251)	(29 614)	(192)
Financial institutions	4 348	4 348	-	-	-	-	-	-	-
Financial assets at amortised cost, total	9 572 231	8 736 717	761 234	115 144	2 403	(3 210)	(10 251)	(29 614)	(192)
Short-term (up to 1 year)	15 597								
Long-term (over 1 year)	9 556 634								

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In 2024, the Bank did not sell loan receivables.

In 2023, the Bank sold loan receivables with a total gross carrying amount of TPLN 21 369 qualified for stage 3. Obtained prices in the amount of TPLN 2 000 were included in the repayment of principal and interest, in accordance with the provisions of the sales agreements. Uncovered capital and interest in the amount of TPLN 19 369 was written off against previously created provisions for individual receivables.

Loan structure by past due days:

Loan structure by past due days 31.12.2024	Loans and advances to banks	Financial institutions	Individual customers	Total
Not overdue or up to 30 days	9 400	4 348	9 498 917	9 512 665
31 to 60 days	-	-	22 125	22 125
61 to 90 days	-	-	6 416	6 416
Over 90 days	-	-	31 025	31 025
Total	9 400	4 348	9 558 483	9 572 231

31.12.2023	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	12 596	12 596	-	-	-	-	-	-	-
Loans and advances to customers	9 048 883	8 385 392	608 627	91 760	1 843	(3 752)	(11 761)	(22 876)	(350)
Individual customers	9 036 935	8 373 444	608 627	91 760	1 843	(3 752)	(11 761)	(22 876)	(350)
Financial institutions	11 948	11 948	-	-	-	-	-	-	-
Financial assets at amortised cost, total	9 061 479	8 397 988	608 627	91 760	1 843	(3 752)	(11 761)	(22 876)	(350)

Short-term (up to 1 year)	26 735
Long-term (over 1 year)	9 073 483

Loan structure by past due days:

Loan structure by past due days 31.12.2023	Loans and advances to banks	Financial institutions	Individual customers	Total
Not overdue or up to 30 days	12 596	11 948	8 989 916	9 014 460
31 to 60 days	-	-	29 477	29 477
61 to 90 days	-	-	7 518	7 518
over 90 days	-	-	48 763	48 763
Total	12 596	11 948	9 075 674	9 100 218

As at December 31, 2024, in the Bank's valued loan portfolio at amortized cost, the gross carrying amount of loans granted to individual customers based on a variable interest rate amounted to TPLN 9 184 315, based on a fixed interest rate TPLN 374 168 (in 2023 based on a floating interest rate was: TPLN 9 075 674).

The item "Other financial institution" includes cash collateral (Initial margin) placed by the Bank as a security for derivative transactions with the central clearing house.

Gross carrying amount of the retail portfolio acquired in cooperation with mBank S.A. as at December 31, 2024, it amounted to TPLN 8 104 321 (in 2023: TPLN 8 234 195), including agency sales of PLN 5 895 150 (in 2023: TPLN 5 709 826) and as part of retail pooling TPLN 2 209 171 (in 2023: PLN 2 524 369).

Credit quality of financial assets measured at amortized cost according to internal rating as at December 31, 2024 and December 31, 2023

31.12.2024	Stage 1	Stage 2	Stage 3	POCI	Total
1	807 772	2 475	-	-	810 247
2	7 348 117	364 627	-	795	7 713 539
3	452 507	134 148	-	-	586 655
4	114 414	130 804	-	-	245 218
5	4 507	56 932	-	-	61 439
6	-	10 917	-	-	10 917
7	-	61 331	-	-	61 331
default	-	-	115 144	1 608	116 752
Gross carrying amount	8 727 317	761 234	115 144	2 403	9 606 098
Accumulated impairment	(3 210)	(10 251)	(29 614)	(192)	(43 267)
Net carrying amount	8 724 107	750 983	85 530	2 211	9 562 831

31.12.2023	Stage 1	Stage 2	Stage 3	POCI	Total
1	17 034	-	-	-	17 034
2	7 284 164	192 464	-	328	7 476 956
3	839 012	140 148	-	-	979 160
4	223 423	121 010	-	242	344 675
5	21 759	69 607	-	-	91 366
6	-	7 035	-	-	7 035
7	-	78 363	-	-	78 363
default	-	-	91 760	1 273	93 033
Gross carrying amount	8 385 392	608 627	91 760	1 843	9 087 622
Accumulated impairment	(3 752)	(11 761)	(22 876)	(350)	(38 739)
Net carrying amount	8 381 640	596 866	68 884	1 493	9 048 883

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

Sub-portfolio	1				2				3		4		5		6	7	8	
PD rating	1,0-1,2	1,4	1,6	1,8	2	2,2	2,4-2,6	2,8	3	3,2-3,4	3,6-3,8	4	4,2-4,6	4,8	5	5,2-5,8	No rating	6,1-6,5
S/P	AAA	AA+	AA, AA-	A+, A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	B-	CCC+ do C	Not applicable	D
	Investment Grade						Sub-investment Grade				Non-investment Grade					Default		

Change in expected credit losses as of December 31, 2024

	Opening balance	Transferred to stage 1	Transferred to stage 2	Transferred to stage 3	Acquisitions	Repayments	Model changes	Transcripts	Closing balance
Loans	(38 739)	-	-	-	(2 484)	(3 736)	1 640	52	(43 267)

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Stage 1	(3 752)	(2 480)	309	30	(1 315)	2 693	1 305	-	(3 210)
Stage 2	(11 761)	2 028	(1 269)	1 541	(1 062)	561	(289)	-	(10 251)
Stage 3	(22 876)	452	960	(1 571)	(97)	(7 152)	618	52	(29 614)
POCI	(350)	-	-	-	(10)	162	6	-	(192)
Provision related to financial assets, total	(38 739)	-	-	-	(2 484)	(3 736)	1 640	52	(43 267)

Changes in the gross carrying amount of financial instruments as at December 31, 2024

	Opening balance	Transferred to stage 1	Transferred to stage 2	Transferred to stage 3	Acquisitions	Repayments*	Transcripts	Security deposit and others	Closing balance
Receivables from banks	12 596	-	-	-	-	-	-	(3 196)	9 400
Stage 1	12 596	-	-	-	-	-	-	(3 196)	9 400
Loans	9 087 622	-	-	-	1 679 770	(1 153 852)	(52)	(7 390)	9 606 098
Stage 1	8 385 392	161 770	(318 566)	(16 878)	1 612 990	(1 090 001)	-	(7 390)	8 727 317
Stage 2	608 627	(159 200)	324 954	(21 642)	65 790	(57 295)	-	-	761 234
Stage 3	91 760	(2 570)	(6 388)	38 520	613	(6 739)	(52)	-	115 144
POCI	1 843	-	-	-	377	183	-	-	2 403
Gross carrying amount of financial assets measured at amortized cost	9 100 218	-	-	-	1 679 770	(1 153 852)	(52)	(10 586)	9 615 498

*including accrued interest

Change in expected credit losses as of December 31, 2023

	Opening balance	Transferred to stage 1	Transferred to stage 2	Transferred to stage 3	Acquisitions	Repayments	Model changes	Changes due to portfolio transfer within ZCP (net)	Transcripts	Transcripts
Loans	(171 497)	-	-	-	(1 080)	(24 540)	(3 401)	140 344	21 435	(38 739)
Stage 1	(7 728)	(949)	640	55	(255)	(2 533)	(804)	7 822	-	(3 752)
Stage 2	(9 854)	684	(973)	695	(205)	(9 959)	(2 661)	10 512	-	(11 761)
Stage 3	(153 806)	265	333	(750)	(410)	(11 508)	44	121 521	21 435	(22 876)
POCI	(109)	-	-	-	(210)	(540)	20	489	-	(350)
Provision related to financial assets, total	(171 497)	-	-	-	(1 080)	(24 540)	(3 401)	140 344	21 435	(38 739)

Changes in the gross carrying amount of financial instruments as at December 31, 2023

	Opening balance	Transferred to stage 1	Transferred to stage 2	Transferred to stage 3	Acquisitions	Repayments*	Change due to modifications that do not result in removal from the balance sheet (net)	Transcripts	Security deposit and others	Closing balance
Receivables from banks	13 126	-	-	-	-	-	-	-	(530)	12 596
Stage 1	13 126	-	-	-	-	-	-	-	(530)	12 596
Loans	11 639 639	-	-	-	603 551	(1 307 053)	(1 807 373)	(21 435)	(19 650)	9 087 622
Stage 1	10 714 236	39 350	(428 369)	(16 187)	580 922	(1 192 150)	(1 292 760)	-	(19 650)	8 385 392

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Stage 2	412 004	(37 329)	430 203	(11 769)	20 868	(63 330)	(142 020)	-	-	608 627
Stage 3	490 713	(2 021)	(1 834)	27 956	989	(51 552)	(350 999)	(21 435)	-	91 760
POCI	22 686	-	-	-	772	(21)	(21 594)	-	-	1 843
Gross carrying amount of financial assets measured at amortized cost	11 709 169	-	-	-	603 551	(1 307 053)	(1 807 373)	(21 435)	(20 180)	9 100 218

*including accrued interest

Financial effect of collaterals

As at 31 December 2024	Gross amount	Established impairment write downs	impairment write downs without the collateral cash flows	Financial effect of collaterals
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Balance sheet data

Amounts due from other banks	9 400	-	-	-
Loans and advances to customers, including:	9 606 098	(43 267)	(53 239)	9 972
Individual customers	9 601 750	(43 267)	(53 239)	9 972
Other receivables	4 348	-	-	-
Total balance sheet data	9 615 498	(43 267)	(53 239)	9 972

As at 31 December 2023	Gross amount	Established impairment write downs	impairment write downs without the collateral cash flows	Financial effect of collaterals
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Balance sheet data

Amounts due from other banks	12 596	-	-	-
Loans and advances to customers, including:	9 087 622	(38 739)	(50 933)	12 194
Individual customers	9 075 674	(38 739)	(50 933)	12 194
Other receivables	11 948	-	-	-
Total balance sheet data	9 100 218	(38 739)	(50 933)	12 194

Loan commitments	3 129	-	-	-
Total off-balance sheet data	3 129	-	-	-

The table below presents information on financial assets that were modified without derecognition from the balance sheet and for which expected credit losses were calculated as credit losses over the life of the exposure.

	31.12.2024	31.12.2023
Financial assets that were subject to modification in the period		
Gross carrying amount of financial assets at amortized cost before modification, for which the write-down for expected credit losses as calculated in the lifetime horizon	256 521	398 195
Net profit / loss due to modification	(5 386)	1 317
Financial assets modified from the moment of initial recognition		
Gross carrying amount of financial assets whose valuation horizon of the write-off for expected credit losses during the period changed from lifetime to 12-month	-	-

21. Intangible assets

	31.12.2024	31.12.2023
Concessions, patents, licences and similar assets, including:	21 638	24 844
computer software	21 638	24 844
Intangible assets under development	4 216	2 970
Intangible assets, total	25 854	27 814

Movements in intangible assets

Movements in the period from 01.01.2024 to 31.12.2024	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2024	59 459	2 970	62 429
Increase (due to)	5 009	4 835	9 844
-purchase	1 420	4 793	6 213
-transfer from intangible assets under development	3 589	-	3 589
-other increase	-	42	42
Decrease (due to)	(3 311)	(3 589)	(6 900)
-transfer from intangible assets under development	-	(3 589)	(3 589)
-liquidation	(3 311)	-	(3 311)
Gross value of intangible assets as at the end of the period 31.12.2024	61 157	4 216	65 373
Accumulated amortisation as at the beginning of the period: 01.01.2024	(34 615)	-	(34 615)
Amortisation for the period (due to):	(4 904)	-	(4 904)
-amortisation	(6 752)	-	(6 752)
-liquidation	1 848	-	1 848
Accumulated amortisation as at the end of the period : 31.12.2024	(39 519)	-	(39 519)
Net value of intangible assets as at the end of the period: 31.12.2024	21 638	4 216	25 854

Movements in the period from 01.01.2023 to 31.12.2023	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2023	80 029	3 057	83 086
Increase (due to)	5 887	4 792	10 679
-purchase	1 008	4 420	5 428
-transfer from intangible assets under development	4 879	-	4 879
-other increase	-	372	372
Decrease (due to)	(26 457)	(4 879)	(31 336)
-transfer from intangible assets under development	-	(4 879)	(4 879)
-liquidation	(26 457)	-	(26 457)
Gross value of intangible assets as at the end of the period 31.12.2023	59 459	2 970	62 429
Accumulated amortisation as at the beginning of the period: 01.01.2023	(34 644)	-	(34 644)
Amortisation for the period (due to):	29	-	29
-amortisation	(7 356)	-	(7 356)
-liquidation	7 385	-	7 385
Accumulated amortisation as at the end of the period : 31.12.2023	(34 615)	-	(34 615)
Net value of intangible assets as at the end of the period: 31.12.2023	24 844	2 970	27 814

22. Property, plant and equipment

	31.12.2024	31.12.2023
Technical equipment and machinery	6 757	5 906
Fixed assets under construction	1 120	1 500
The right to use under leasing contracts:	15 442	17 210
buildings	14 660	16 573
vehicals	782	637
Tangible fixed assets, total	23 319	24 616

On June 8, 2021, the Bank concluded with mBank S.A. a sublease agreement for space in the Mennica Tower GGH MT building located at 18 Prosta St. in Warsaw, to which the seat of the Bank has been transferred. The agreement was concluded for a fixed period from June 8, 2021 to February 28, 2031. The value of the rights to use due to the above-mentioned the agreement was shown under the right of use under leasing agreements, where as at December 31, 2024 it amounted to TPLN 12 073 (as at 31 December 2023 it was TPLN 13 419). On September 30, 2018, the Bank entered into a sublease agreement with mBank S.A. for space in the Przystanek mBank building located at 74 Kilińskiego Street in Łódź, to which the Bank's registered office was moved. The agreement was concluded for a fixed period from November 27, 2017 to October 15, 2029. The value of the right of use under the aforementioned agreement was disclosed under right of use under lease agreements, where it amounted to TPLN 2 587 as at December 31, 2024 and TPLN 3 154 as at December 31, 2023.

Movements in tangible fixed assets

Movements in the period from 01.01.2023 to 31.12.2024	Equipment	Other fixed assets	Building	Vehicles	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2024	19 940	3 524	23 600	1 032	48 096
Increase (due to)	3 314	62	683	449	4 508
- purchase	3 314	62	-	-	3 376
- other increase	-	-	683	449	1 132
Decrease (due to)	(368)	(108)	-	(211)	(687)
- sale	(189)	(7)	-	-	(196)
- liquidation	(179)	(101)	-	-	(280)
- other decrease	-	-	-	(211)	(211)
Gross value of tangible fixed assets as at the end of the period: 31.12.2024	22 886	3 478	24 283	1 270	51 917
Accumulated amortisation as at the beginning of the period: 01.01.2024	(14 034)	(2 024)	(7 027)	(395)	(23 480)
Amortisation for the period (due to):	(2 095)	(334)	(2 596)	(93)	(5 118)
- amortisation	(2 452)	(440)	(2 596)	(298)	(5 786)
- sale	183	5	-	-	188
- liquidation	174	101	-	-	275
- other changes	-	-	-	205	205
Accumulated amortisation as at the end of the period: 31.12.2024	(16 129)	(2 358)	(9 623)	(488)	(28 598)
Impairment charge as at the beginning of the period: 01.01.2024	-	-	-	-	-
Impairment charge as at the end of the period: 31.12.2024	-	-	-	-	-
Net value of tangible fixed assets as at the end of the period: 31.12.2024	6 757	1 120	14 660	782	23 319

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Movements in the period from 01.01.2023 to 31.12.2023	Equipment	Other fixed assets	Right to use		Total
			Building	Vehicles	
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2023	21 039	3 481	25 866	845	51 231
Increase (due to)	2 961	331	1 856	651	5 799
- purchase	2 943	331	-	-	3 274
- other increase	18	-	1 856	651	2 525
Decrease (due to)	(4 060)	(288)	(4 122)	(464)	(8 934)
- sale	(94)	(43)	-	-	(137)
- liquidation	(3 966)	(225)	-	-	(4 191)
- other decrease	-	(20)	(4 122)	(464)	(4 606)
Gross value of tangible fixed assets as at the end of the period: 31.12.2023	19 940	3 524	23 600	1 032	48 096
Accumulated amortisation as at the beginning of the period: 01.01.2023	(15 986)	(1 763)	(5 143)	(495)	(23 387)
Amortisation for the period (due to):	1 952	(261)	(1 884)	100	(93)
- amortisation	(2 054)	(524)	(2 798)	(243)	(5 619)
- sale	94	38	-	-	132
- liquidation	3 912	225	-	-	4 137
- other changes	-	-	914	343	1 257
Accumulated amortisation as at the end of the period: 31.12.2023	(14 034)	(2 024)	(7 027)	(395)	(23 480)
Impairment charge as at the beginning of the period: 01.01.2023	-	-	-	-	-
Impairment charge as at the end of the period: 31.12.2023	-	-	-	-	-
Net value of tangible fixed assets as at the end of the period: 31.12.2023	5 906	1 500	16 573	637	24 616

23. Other assets

	31.12.2024	31.12.2023
Other, including:	6 212	6 336
-other prepayments	1 040	1 367
-receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	4 947	4 776
-income receivable	132	150
-debtors	77	20
-other	16	23
Total other assets	6 212	6 336
Short-term (up to 1 year)	6 212	6 336

As at December 31, 2024 and December 31, 2023, the bank did not have any assets taken over for debts.

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

31.12.2024	Liabilities to banks	Total amounts due to customers	Individual customers	Corporate customers
Loans received	2 799 240	-	-	-
Other financial liabilities, including:	727 018	846	-	846
Liabilities with deferred payment term	712 730	-	-	-
Liabilities in respect of cash collateral	-	-	-	-
Leasing liabilities	14 288	797	-	797

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Other liabilities	-	49	-	49
Total	3 526 258	846	-	846
Short-term (up to 1 year)	29 256	363		
Long-term (over 1 year)	3 497 002	483		

31.12.2023	Liabilities to banks	Total amounts due to customers	Individual customers	Corporate customers
Loans received	2 850 474	-	-	-
Other financial liabilities, including:	525 148	702	2	700
Liabilities with deferred payment term	508 814	-	-	-
Liabilities in respect of cash collateral	-	2	2	-
Leasing liabilities	16 334	641	-	641
Other liabilities	-	59	-	59
Total	3 375 622	702	2	700
Short-term (up to 1 year)	28 165	286		
Long-term (over 1 year)	3 347 457	416		

In the item other financial liabilities with deferred payment dates, they relate to the liabilities resulting from the agreement concluded with mBank S.A. on November 30, 2018, an agreement to transfer the retail mortgage-backed loan portfolio. Other financial liabilities with deferred payment terms were subject to a floating interest rate. The transactions are described in Note 37.

Deferred liabilities act as a bridge financing for the portfolio of credit receivables taken over from mBank S.A. The value of this category of liabilities will increase after taking over subsequent tranches of pooling and decrease after issuance of mortgage covered bonds or in the case of repayment of tranches from excess liquidity. The original maturity of the deferred liability is 24 months until the date of transfer of the pooling.

In 2024, the Bank took over 6 tranches of pooling, which resulted in a deferred liability for the total amount of TPLN 1 782 122. At the same time, the Bank repaid tranches of liabilities for the total amount TPLN 1 580 894 from excess liquidity. In 2023, the Bank took over 4 tranches of pooling, which resulted in a deferred liability for the total amount of TPLN 628 821. At the same time, the Bank repaid tranches of liabilities for the total amount TPLN 1 419 698 from excess liquidity.

Cash collateral liabilities relate to the value of the variable margin securing derivative instruments.

Loans received were based on variable interest rates (MPLN 2.550) and fixed interest rates (MPLN 230).

Bank it failed to provide collateral to its creditors. The Bank did not register any breaches of contractual terms related to liabilities under contracted loans.

In the above table, the item "Other liabilities" mainly presents funds that were not yet cleared after the closing of escrow accounts and remained in the transitory account until the account holder made relevant instructions as to the balance settlement.

Leasing liabilities

The lease liabilities item presents the value of liabilities under the agreement concluded with mBank S.A. for the sublease of space in the Mennica Tower GGH MT building in Warsaw and Przystanek in Łódź.

Below are the liabilities due to leasing by maturity dates.

	31.12.2024	31.12.2023
Up to 3 months	724	688
3-12 months	2 150	2 035
1-5 years	10 024	9 964
Over 5 years	2 187	4 288
Total	15 085	16 975

Liabilities from debt securities in issue

The basis for the issue of mortgage covered bonds is the Bank's receivables secured by mortgages.

The basis for the issue of mortgage bonds may also be the funds of the mortgage bank:

- 1) deposited in securities referred to in Article 16(1)(3), provided that they do not constitute underlying assets
- 2) deposited with the National Bank of Poland
- 3) deposited with domestic banks within the meaning of Article 4 (1) item 1 of the Act of 29 August 1997. - Banking Law or a credit institution within the meaning of Article 4 (1) item 17 of the Act of 29 August 1997. - Banking Law, meeting the requirements set out in Article 129(1)(c) of Regulation (EU) No 575/2013.

Rules on the permissible amount of Alternative Security

A mortgage bank is obliged to maintain, for mortgage bonds, a surplus created from assets meeting the conditions set out in Article 18 (3c) of the Mortgage Bills and Mortgage Banks Act, in an amount not lower than the maximum cumulative net liquidity outflow over a consecutive period of 180 days. The net liquidity outflow shall be the outflows of payments due on a given payment date, including payments of the amount of the nominal value of and interest on mortgage bonds and payments on derivatives under the mortgage bond programme, after deducting the inflows of payments due on the same date on assets pledged as collateral for mortgage bonds. For the calculation of the payment of the amount of the nominal value of the mortgage bonds referred to in Article 18(3a) of the Act, the maturity of the mortgage bonds extended by 12 months shall be used.

The amount of replacement assets that remains after deducting the surplus referred to above constitutes Replacement Assets from the pool of assets constituting security for covered bonds.

Rules on the statutory oversecuring of mortgage bonds

The sum of the nominal amounts of the mortgage bank's mortgage-backed claims and the rights and funds referred to in Article 18 para. 3 and 4 of the Act on Mortgage Bills and Mortgage Banks, entered in the mortgage bond security register, which are the basis for the issuance of mortgage bonds, may not be lower than 105% of the total amount of the nominal values of the mortgage bonds traded, whereby the sum of the nominal amounts of the mortgage bank's mortgage-backed receivables, which are the basis for the issuance of mortgage bonds, may not be lower than 85% of the total amount of the nominal values of the mortgage bonds traded.

Rules on the refinancing of loans with the proceeds of covered bond issues

Pursuant to the Act on mortgage bonds and mortgage banks, from the proceeds of the from the issue of mortgage bonds, the Bank may refinance mortgage-secured loans and acquired receivables of other banks from mortgage-secured loans granted by them; however, refinancing in respect of a single loan or a single receivable may not exceed an amount equivalent to 60% of the bank-mortgage value of the property, and in the case of residential property 80% of the bank-mortgage value of the property.

The tables below present data related to the issue of covered bonds as at 31 December 2024 and as at 31 December 2023.

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Mortgage covered bonds	31.12.2024	31.12.2023
1. Trading covered bonds	6 599 646	5 870 561
2. Underlying assets from the collateral pool	8 250 312	8 058 268
3. Replacement assets from the collateral pool	300 000	240 000
4. Derivatives from the pool of assets pledged as collateral	2 970	25 470

The mortgage bonds traded as at 31 December 2024 and as at 31 December 2023, were listed on three markets: the regulated market operated by BondSpot S.A., regulated parallel market operated by the Warsaw Stock Exchange S.A. and on the regulated market operated by the Luxembourg Stock Exchange, with the exception of mortgage bonds offered in a private placement (series A PLN 100 million and B PLN 500 million - issued in 2021, series C PLN 500 million and D PLN 200 million - issued in 2022, series E PLN 1.000 million- issued in 2023, series F PLN 500 million, series G PLN 200 million and series H PLN 500 million- issued in 2024).

Debt financial instruments by type as at 31.12.2024	Nominal value	Interest rate as at 31.12.2024	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period gain/(loss)	Carrying amount of liability
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Long-term issues (with original maturity of over 1 year)

Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage register of covered bonds	05.03.2025	1 293 159	(4 924)	1 288 235
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage register of covered bonds	24.04.2025	47 405	(336)	47 069
Mortgage covered bonds (EUR)	300 000	0,24%	Mortgage register of covered bonds	15.09.2025	1 282 387		1 282 387
Mortgage covered bonds (PLN)	100 000	6,37%	Mortgage register of covered bonds	03.09.2026	100 450		100 450
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage register of covered bonds	20.09.2026	149 939	(4 707)	145 232
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage register of covered bonds	20.09.2026	55 686	(1 876)	53 810
Mortgage covered bonds (PLN)	500 000	6,39%	Mortgage register of covered bonds	10.12.2026	501 900		501 900
Mortgage covered bonds (PLN)	200 000	6,40%	Mortgage register of covered bonds	22.06.2027	200 302		200 302
Mortgage covered bonds (PLN)	500 000	6,39%	Mortgage register of covered bonds	10.09.2027	501 894		501 894
Mortgage covered bonds (PLN)	100 000	6,66%	Mortgage register of covered bonds	20.12.2028	100 081		100 081
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage register of covered bonds	28.02.2029	34 949	(120)	34 829
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage register of covered bonds	15.03.2029	65 483	(221)	65 262
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage register of covered bonds	30.05.2029	86 476	(325)	86 151
Mortgage covered bonds (PLN)	1 000 000	6,55%	Mortgage register of covered bonds	12.09.2028	1 002 779		1 002 779
Mortgage covered bonds (PLN)	500 000	6,60%	Mortgage register of covered bonds	05.09.2029	502 384		502 384
Mortgage covered bonds (PLN)	200 000	6,35%	Mortgage register of covered bonds	21.09.2026	200 399		200 399
Mortgage covered bonds (PLN)	500 000	6,45%	Mortgage register of covered bonds	13.09.2029	501 621		501 621
Debt securities in issue (carrying value)					6 627 294	(12 509)	6 614 785

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Debt financial instruments by type as at 31.12.2023	Nominal value	Interest rate as at 31.12.2023	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	The change in the value of the hedged item from the date of designation used as the basis for recognizing the hedge ineffectiveness in a given period gain/(loss)	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage register of covered bonds	01.02.2024	109 191	(328)	108 863
Mortgage covered bonds (PLN)	310 000	6,43%	Mortgage register of covered bonds	10.06.2024	311 076	-	311 076
Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage register of covered bonds	05.03.2025	1 315 228	(38 465)	1 276 763
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage register of covered bonds	24.04.2025	48 195	(1 639)	46 556
Mortgage covered bonds (EUR)	300 000	0,24%	Mortgage register of covered bonds	15.09.2025	1 304 327	-	1 304 327
Mortgage covered bonds (PLN)	100 000	6,37%	Mortgage register of covered bonds	03.09.2026	100 400	-	100 400
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage register of covered bonds	20.09.2026	152 508	(8 886)	143 622
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage register of covered bonds	20.09.2026	56 638	(3 505)	53 133
Mortgage covered bonds (PLN)	500 000	6,39%	Mortgage register of covered bonds	10.12.2026	501 797	-	501 797
Mortgage covered bonds (PLN)	200 000	6,40%	Mortgage register of covered bonds	22.06.2027	200 334	-	200 334
Mortgage covered bonds (PLN)	500 000	6,39%	Mortgage register of covered bonds	10.09.2027	501 792	-	501 792
Mortgage covered bonds (PLN)	100 000	6,66%	Mortgage register of covered bonds	20.12.2028	100 053	-	100 053
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage register of covered bonds	28.02.2029	35 511	(496)	35 015
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage register of covered bonds	15.03.2029	66 552	(923)	65 629
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage register of covered bonds	30.05.2029	87 892	(1 258)	86 634
Mortgage covered bonds (PLN)	1 000 000	6,55%	Mortgage register of covered bonds	12.09.2028	1 002 936	-	1 002 936
Bonds (PLN)	35 000	6,23%	Unsecured	03.12.2024	35 166	-	35 166
Debt securities in issue (carrying value)					5 929 595	(55 499)	5 874 096

Movements in the balance of debt securities issued

	Year ended 31 December	
	2024	2023
As at the beginning of the period	5 874 096	6 581 915
Increase (due to)	1 481 640	1 312 267
-issue	1 200 000	1 000 000
-accrued interest, interest non-linearity adjustments, EIR commission	238 651	249 537
-hedge accounting adjustments related to fair value of hedged items	42 989	62 730
Decrease (due to)	(740 951)	(2 020 086)
-redemption	(452 685)	(1 510 000)
-interest repayment, interest non-linearity adjustments, EIR commission,	(235 036)	(261 559)
-exchange differences	(53 230)	(248 527)
-hedge accounting adjustments related to fair value of hedged items	-	-
As at the end of the period	6 614 785	5 874 096
Short-term (up to 1 year)	2 617 691	421 800
Long-term (over 1 year)	3 997 094	5 452 296
Fixed interest rate debt securities issued	3 002 976	3 120 543
Floating interest rate debt securities issued	3 611 809	2 753 553

25. Provisions

Mortgage covered bonds	31.12.2024	31.12.2023
Provision (due to)	2 164	937
provisions for retirement and disability benefits	164	114
provisions for legal proceedings	2 000	823
Provision, in total	2 164	937
Short-term (up to 1 year)	419	397
Long-term (over 1 year)	1 745	540

Movements in provisions

Change of status in the period from 1 January to 31 December	2024	
	Changes in provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions as at the beginning of the period	823	114
increase on provisions	1 177	16
release of provisions	-	(26)
other changes/ transfer to assets	-	60
Provisions as at the end of the period	2 000	164
Expected settlement period of provisions:		
Short-term (up to 1 year)	404	15
Long-term (over 1 year)	1 596	149

Change of status in the period from 1 January to 31 December	2023		
	Changes in provisions for future liabilities	Changes in provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions as at the beginning of the period	11 690	678	119
increase on provisions	(3 803)	145	5
release of provisions	-	-	(18)
transfer to assets	(7 887)	-	-
other changes	-	-	8
Provisions as at the end of the period	-	823	114
Expected settlement period of provisions:			
Short-term (up to 1 year)	-	370	27
Long-term (over 1 year)	-	453	87

26. Other liabilities

	31.12.2024	31.12.2023
Other liabilities (due to)	14 032	13 816
-accrued expenses	9 147	9 610
-settlements due to tax from Bank balance sheet items	1 942	1 656
-provision for holiday equivalents	902	794

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-settlements with insurers	647	682
-liabilities due to income tax on salaries, Social Security contributions and VAT	487	480
-other	907	594
Other liabilities, in total	14 032	13 816
Short-term (up to 1 year)	14 032	13 816

27. Deferred income tax assets and provision

Deferred income tax is presented as the difference between the tax value of assets and liabilities and their carrying amount using the income tax rate expected to be applicable in the year when the tax obligation arises.

Changes in deferred tax provisions and assets are presented in mandatory charges to the financial result, except for provisions and assets related to items recognized in other comprehensive income.

Changes in deferred tax assets and liabilities in the period from January 1, 2024 to December 31, 2024 are presented below.

Deferred income tax assets	As at 01.01.2024	Through the profit and loss account	Recognized in the income statement	As at 31.12.2024
Interest accrued	17 938	16		17 954
Valuation of derivative financial instruments	26 043	(9 128)	(6 302)	10 613
Valuation of debt financial instruments measured at fair value through other comprehensive income	3 103		(1 736)	1 367
Provisions and write-offs for impairment of loans and credits	5 027	(13)		5 014
Provisions and other liabilities related to employment benefits	1 321	(38)	11	1 294
Accruals of costs	2 196	452		2 648
The difference between the depreciation of the right to use and the cost of financing the lease (IFRS 16)	3 225	(359)		2 866
Revenues to be settled (commissions settled using the effective interest rate method)	(2 644)	593		(2 051)
Total deferred income tax assets	56 209	(8 477)	(8 027)	39 705

Settled within 12 months	31 825
To be settled after more than 12 months	7 880

Deferred income tax liabilities	As at 01.01.2024	Through the profit and loss account	Recognized in the income statement	As at 31.12.2024
Interest accrued	(17 021)	(521)	-	(17 542)
Valuation of derivative financial instruments	(13 331)	8 624	(515)	(5 222)
Valuation of debt financial instruments measured at fair value through other comprehensive income	(263)	-	(164)	(427)
Provisions and other liabilities related to employment benefits	(1)	-	-	(1)
Costs paid in advance	(7 400)	3 400	-	(4 000)
Difference between tax and balance sheet depreciation/amortisation	(4 331)	(136)	-	(4 467)
Total deferred income tax liabilities	(42 347)	11 367	(679)	(31 659)

Settled within 12 months	(27 191)
To be settled after more than 12 months	(4 467)

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Deferred income tax assets (net)	As at 01.01.2024	Through the profit and loss account	Recognized in the income statement	Other changes	As at 31.12.2024
Total deferred income tax assets (net)	13 862	2 891	(8 706)	-	8 047

Settled within 12 months	4 634
To be settled after more than 12 months	3 413

Changes in deferred tax assets and liabilities in the period from January 1, 2023 to December 31, 2023 are presented below.

Deferred income tax assets	As at 01.01.2023	Through the profit and loss account	Recognized in the income statement	Other changes	As at 31.12.2023
Interest accrued	24 428	(3 543)		(2 947)	17 938
Valuation of derivative financial instruments	51 708	(18 229)	(14 947)	7 511	26 043
Valuation of debt financial instruments measured at fair value through other comprehensive income	7 209		(4 106)		3 103
Value of impairment losses on receivables and adjustment to fair values *	33 271	2 262		(30 506)	5 027
Provisions and other liabilities related to employment benefits	1 356	20		(55)	1 321
Accruals of costs	2 966	(770)			2 196
The difference between the depreciation of the right to use and the cost of financing the lease (IFRS 16)	4 186	(961)			3 225
Revenues to be settled (commissions settled using the effective interest rate method)	8 525	(10 439)		(730)	(2 644)
Total deferred income tax assets	133 649	(31 660)	(19 053)	(26 727)	56 209

Settled within 12 months	47 957
To be settled after more than 12 months	8 252

* Item "Value of write-downs on receivables and adjustment to fair value" refers to expected credit losses value of loans measured at amortized cost and fair value adjustments for loans that are mandatorily carried at fair value by the financial result for which the Bank expects that their uncollectibility will be documented.

Deferred income tax liabilities	As at 01.01.2023	Through the profit and loss account	Recognized in the income statement	Other changes	As at 31.12.2023
Interest accrued	(20 376)	(228)	-	3 583	(17 021)
Valuation of derivative financial instruments	(41 223)	18 823	9 069	-	(13 331)
Valuation of debt financial instruments measured at fair value through other comprehensive income	(188)	-	(75)	-	(263)
Provisions and other liabilities related to employment benefits	(1)	-	-	-	(1)
Costs paid in advance	15 912	(23 312)	-	-	(7 400)
Difference between tax and balance sheet depreciation/amortisation	(5 909)	874	-	704	(4 331)
Total deferred income tax liabilities	(51 785)	(3 843)	8 994	4 287	(42 347)

Settled within 12 months	(38 016)
To be settled after more than 12 months	(4 331)

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Deferred income tax assets (net)	As at 01.01.2023	Through the profit and loss account	Recognized in the income statement	Change due to modifications that do not result in removal from the balance sheet (net)	As at 31.12.2023
Total deferred income tax assets (net)	81 864	(35 503)	(10 059)	(22 440)	13 862
Settled within 12 months	9 941				
To be settled after more than 12 months	3 921				

Deferred tax recognized in the income statement	Year ended 31 December	
	2024	2023
Interest accrued	(505)	(3 771)
Valuation of derivative financial instruments	(503)	594
Amount of impairment write-downs on receivables and adjustment to fair value*	(13)	2 262
Provisions and other liabilities related to employment benefits	(38)	20
Accruals	452	(770)
Revenue to be settled (commissions settled using the effective interest rate method)	593	(10 439)
Prepaid costs	3 400	(23 312)
Difference between tax sheet depreciation/amortization	(495)	(87)
Total, deferred tax recognized in the income statement	2 891	(35 503)

* Item "Value of write-downs on receivables and adjustment to fair value" refers to expected credit losses value of loans measured at amortized cost and fair value adjustments for loans that are mandatorily carried at fair value by the financial result for which the Bank expects that their uncollectibility will be documented.

28. Proceedings pending before a court, an authority competent for arbitration proceedings or a public administration authority

In 2024 as well as in 2023, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority, where the value of such proceedings represented at least 10% of the Bank's equity. No significant actions were brought by the Bank or against the Bank within the presented reporting periods. The Bank made no provisions for ongoing disputes of that category.

29. Off-balance sheet commitments

Off-balance-sheet commitments of the Bank include:

- lending commitments
- liabilities received due to unused available credit lines (revolving loans, stand-by lines, overdrafts),
- liabilities in respect of derivative financial instruments.

The tables below present the off-balance-sheet liabilities made and received by the Bank, and the nominal value of open derivative transactions of the Bank as at 31 December 2024.

31.12.2024	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Off-balance sheet liabilities granted and received	-	894 956	500 000	1 394 956
Liabilities received:				
a) Financial liabilities received	-	894 956	500 000	1 394 956
Derivative financial instruments (nominal value of contracts)	8 639 450	1 877 686	-	10 517 136

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1. Interest rate derivatives	2 657 806	1 877 686	-	4 535 492
2. Foreign exchange derivatives	5 981 644	-	-	5 981 644
Total off-balance sheet items	8 639 450	2 772 642	500 000	11 912 092

The tables below present the off-balance sheet commitments granted and received by the Bank, the nominal value of the Bank's open derivative transactions and the change in provisions for loan commitments as at December 31, 2023.

31.12.2023	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Off-balance sheet liabilities granted and received	975 218	170 000	3 129	1 148 347
Liabilities granted	-	-	3 129	3 129
Financial liabilities:	-	-	3 129	3 129
a) Lending commitments	-	-	3 129	3 129
Liabilities received:	975 218	170 000	-	1 145 218
a) Financial liabilities received	975 218	170 000	-	1 145 218
Derivative financial instruments (nominal value of contracts)	2 508 587	8 109 804	373 928	10 992 319
1. Interest rate derivatives	216 530	4 221 864	373 928	4 812 322
2. Foreign exchange derivatives	2 292 057	3 887 940	-	6 179 997
Total off-balance sheet items	3 483 805	8 279 804	377 057	12 140 666

31.12.2023	Nominal amount of off-balance sheet loan commitments				Provisions for off-balance sheet loan commitments			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Lending commitments	2 988	141	-	-	-	-	-	-

The table below show off-balance sheet commitments to grant credit and provisions for off-balance sheet commitments granted by the levels of the internal rating system on December 31, 2023.

Nominal amount of off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
2	2 935	-	-	-	2 935
3	53	78	-	-	131
7	-	63	-	-	63
Total	2 988	141	-	-	3 129

30. Pledged assets

The Bank secured the issued mortgage bonds with receivables from credits and loans granted, which are described in Note 24. Moreover, the Bank entered the CIRS hedging transaction in the covered bond collateral register.

A mortgage bank shall be obliged to maintain, for mortgage covered bonds, a surplus created from assets meeting the conditions set out in Article 18 (3c) of the Mortgage Bills and Mortgage Banks Act, in an amount not lower than the maximum cumulative net liquidity outflow over a consecutive period of 180 days. The net liquidity outflow shall be the outflows of payments due on a given payment date, including payments of the face value of and interest on mortgage bonds and payments on derivatives under the mortgage bond programme, after deducting the inflows of payments due on the same date on assets pledged as collateral for mortgage bonds.

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The amount of the substitute security may be withdrawn from the register at any time (released), provided that the trustee agrees. The amount of the excess varies over time and must remain in the register, until all mortgage bonds are redeemed.

The Bank secured the issued mortgage covered bonds with Treasury bonds with a carrying amount as at December 31, 2024, TPLN 299 192 (as at December 31, 2023: TPLN 239 229).

31. Registered share capital

As at 31 December 2024 and at 31 December 2023 the total number of ordinary shares was 2 200 000 shares with the nominal value of PLN 100 per share. All shares in issue are fully paid up.

On 14 June 2023. The District Court for the City of Warsaw, XII Commercial Division of the National Court Register, made an entry concerning the cancellation of 1 160 000 ordinary shares with a nominal value of PLN 100 each, in connection with the transaction of demerging the Bank by spinning off part of its business and transferring it to mBank.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 31 DECEMBER 2024 and 2023							
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue at par value (PLN)	Means of covering share capital	Registration date	Right to dividend
registered	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registered	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registered	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registered	-	-	450 000	45 000 000	cash	08.01.2013	01.01.2013
Total number of shares			2 200 000	-			
Total registered share capital			220 000 000				

The shareholders of Bank as at December 31, 2024 and 2023 are presented in the table below:

Shareholder's name	Equity (PLN)	Shares		Voting rights at the General Shareholders' Meeting	
		Numbers of shares	%	Numbers of vote	%
mBank S.A.	220 000 000	2 200 000	100,00	2 200 000	100,00
Total	220 000 000	2 200 000	100,00	2 200 000	100,00

32. Supplementary capital from the sale of shares above their nominal value

Supplementary capital from the sale of shares above their nominal value in 2024 and 2023 was TPLN 507 362. The supplementary capital is created from the surplus achieved on the issue of shares above par value remaining after covering the costs of the issue, for the purpose of covering balance sheet losses that may arise in connection with the Bank's operations.

33. Retained earnings

	31.12.2024	31.12.2023
Other supplementary capital	361 712	361 712
General banking risk reserve	44 800	44 800
Profit for the current year	(279 661)	(303 378)
Retained earnings from previous years	(5 172)	23 717
Total retained earnings	121 679	126 851

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Other supplementary capital and the General Risk Fund are created as a result of profit appropriation and are intended for the purposes specified in the Memorandum of Association or other legal regulations.

The Bank is obliged to transfer at least 8% of its net profit to its statutory supplementary capital until it has reached the level of one-third of the Bank's share capital. The Bank may also transfer a part of its net profit to the General Risk Fund to cover unforeseen losses.

34. Dividend per share

Bank does not plan to pay a dividend for 2024, nor did it pay any for 2023.

35. Notes to the statement of cash flows**Cash and cash equivalents**

For the purpose of the statement of cash flows, the balance of cash and cash equivalents includes the following balances with maturities of up to three months.

	31.12.2024	31.12.2023
Cash and Cash equivalents (Note 17)	63 398	20 280
Amounts due from other banks (Note 20)	17 779	43 018
Money bills	334 843	54 956
Total cash and cash equivalents	416 020	118 254

Supplementary information to the statement of cash flowsChange in the status of items of operational activity

The following table provides additional information to the statement of cash flows and presents differences between the balance-sheet changes in items and changes in such items recognized under operating activities in the statement of cash flows.

	Year ended 31 December	
	2024	2023
Financial assets and liabilities held for trading and derivative hedging instruments - change in balance due to balance sheet balances	(11 547)	62 436
The difference between the interest accrued and paid in cash in the period	(71 193)	(64 003)
Valuation recognized in other comprehensive income	35 879	30 935
Financial assets and liabilities held for trading and derivative hedging instruments, total	(46 861)	29 368
Loans and advances to clients, change resulting from balance-sheet values	(513 948)	2 520 081
The difference between the interest accrued and paid in cash in the period	13 587	167 489
Changes in fair value of hedged items in portfolio hedging against interest rate risk	3 313	(29 736)
Change in connection with the Spin-off	-	(1 746 378)
Change in loans and advances to clients, total	(497 048)	911 456
Financial assets at fair value through other comprehensive income - change resulting from balance-sheet values	(439 350)	325 875
Exclusion of change in cash and cash equivalents	279 887	(344 739)
Valuation recognized in other comprehensive income	10 000	22 005
Result on disposal	-	-
The difference between the interest accrued and paid in cash in the period	8 896	9 331
Change in respect Financial assets at fair value through other comprehensive income, total	(140 567)	12 472
Debt securities issued at amortised cost - change resulting from balance-sheet values	740 689	(707 819)
The difference between the interest accrued and paid in cash in the period	(2 239)	11 922

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Exclusion of change in cash from financing activities	(782 315)	510 000
(Foreign exchange gains) losses	52 650	248 527
Change in debt securities in issue at amortised cost, total	8 785	62 630
Amounts due to other banks, change resulting from balance-sheet values	152 682	(2 185 529)
The difference between the interest accrued and paid in cash in the period	(26 982)	(43 309)
Exclusion of change in cash from financing activities	(201 025)	(238 848)
Change in connection with the Spin-off	-	1 661 491
Change in amounts due to banks, in total	(75 325)	(806 195)
Debt securities in issue - change resulting from balance-sheet values	(12)	(535)
The difference between the interest accrued and paid in cash in the period	(31)	-
Transfer to cash flows from financing activities - leasing	504	563
Change in amounts due to clients, in total	461	28

Interest received and paid with respect to the operational activity

	Year ended 31 December	
	2024	2023
Interest received from:		
Cash and Cash equivalents	1 112	3 504
Loans and advances to banks	2 854	1 945
Loans and advances to customers	680 662	643 731
Financial assets at fair value through other comprehensive income	35 532	37 382
Derivative instruments classified to the banking book	49 657	37 723
Income from interest received, total	769 817	724 285

	Year ended 31 December	
	2024	2023
Interest paid on account:		
Settlements with banks on account of received credits, security deposits with the original maturity below 1 year, liabilities on account of deferred payment	182 132	231 679
Settlements with banks on account of debt securities issued with an original maturity of less than one year	2 187	2 361
Total costs of interest received	184 319	234 040

Cash flows from financing activities

The following tables present a change in liabilities in connection with the financing activities

	OB.	Cash flow	Other changes	CB
	2024.01.01			2024.12.31
Debt securities in issue (long-term)	5 452 296	747 315	(2 210 768)	3 988 843
Amounts due to banks (long-term)	3 333 621	202 228	(50 575)	3 485 274
Leasing liabilities	14 253	(2 941)	899	12 211

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	OB.	Cash flow	Other changes	CB
	2023.01.01			2023.12.31
Debt securities in issue (long-term)	5 119 088	(510 000)	843 208	5 452 296
Amounts due to banks (long-term)	4 943 851	239 123	(1 849 353)	3 333 620
Leasing liabilities	22 031	(3 445)	(4 333)	14 253
Subordinate liabilities	100 251	(100 000)	(251)	-

Column "Other Changes" shows non-cash flows resulting from accrued interest, commissions accounted for with the effective interest rate method, exchange differences, changes in hedge accounting adjustments related to fair value of hedged items, financial liabilities with deferred maturity resulting from agreements concluded with mBank S.A. on the transfer of a portfolio of retail loans secured with a mortgage on real estate.

36. Incentive plan for the Bank's Management Board and employees having a material impact on the risk profile of the Bank

The rules for determining the variable remuneration components of persons holding positions that have a significant impact on the Bank's risk profile are set out in the "Remuneration policy for persons having a significant impact on the risk profile at mBank Hipoteczny S.A." hereinafter referred to as the "Policy", adopted for the first time by the Resolution of the Supervisory Board no. 21/2012 of 19 September 2012. Since then, the Policy has been subject to annual verification and modification by the Management Board and Supervisory Board of the Bank. The currently applicable policy was approved by resolution of the Supervisory Board No. 62/2024 of December 2, 2024.

Persons eligible to participate in the programme are those holding positions identified as having a material impact on the Bank's risk profile in accordance with the Risk Taker identification policy, defined as Risk Taker - Member of the Bank's Management Board and Risk Taker - Employee of the Bank.

Bonus for Risk Takers - Members of the Bank's Management Board

The bonus amount of individual members of the Bank's Management Board is determined by the Supervisory Board, which determines the bonus amount for the respective Risk Taker - Member of the Bank's Management Board, whereby the bonus amount granted to individual Risk Takers - Members of the Bank's Management Board need not be identical. The amount of the bonus is determined based on the performance evaluation of each Risk Taker. The Supervisory Board carries out the analysis and performs the Assessment on the basis of the targets set for the Risk Taker, which are set with reference to a period of at least 3 years. The decision regarding the determination of the bonus amount and the assessment of the Risk Taker's performance of the targets set is left to the sole discretion of the Supervisory Board.

The bonus consists of a non-deferred portion representing 60% of the bonus and a deferred portion representing 40% of the bonus.

The Non-Deferred Portion is subject to payment as follows:

- the first half (50%) of the Non-Deferred Portion is paid in cash after the Bank's AGM has approved the Bank's financial statements for the previous calendar year, i.e. the statements for the year for which the bonus was granted, but no later than 31 July of the year in which the Bank's AGM was held,
- the second half (50%) of the Non-Deferred Portion is paid out in the form of phantom shares, no earlier than 12 months after the date of the Bank's AGM approving the Bank's financial statements for the previous calendar year, i.e. the statements for the year for which the bonus was granted.

The Deferred Portion is payable in 5 equal annual tranches starting from the year following the year in which the financial statements for the year for which the bonus is granted are approved, on the following basis:

- the first half (50%) of each tranche of the Deferred Portion shall be paid in cash after the Bank's AGM approves the Bank's financial statements for the previous calendar year, but no later than 31 July of the year in which the Bank's AGM is held,
- the second half (50%) of each tranche of the Deferred Portion shall be paid in the form of phantom shares, no earlier than 12 months after the date of the Bank's AGM approving the Bank's financial statements for the previous calendar year.

The deferral period for the cash portion as well as the portion paid out in the form of phantom shares for 5 years applies from the bonus awarded for 2021. In previous years it was 3 years.

Bonus for Risk Takers - Bank Employees

The bonus amount of individual Risk Takers - Bank Employees is determined by the Bank's Management Board. The Bank's Management Board carries out the analysis and performs the Appraisal on the basis of the targets set for the Risk Taker, which are set with reference to a period of at least 3 years. The decision on the amount of the bonus is at the sole discretion of the Bank's Management Board.

The bonus consists of a non-deferred portion representing 60% of the bonus and a deferred portion representing 40% of the bonus.

The Risk Taker - Bank Employee bonus must be paid in deferred form if at least one of the conditions applies:

- the bonus amount exceeds one-third of the total annual remuneration (i.e. the sum of the fixed remuneration and the Bonus) or
- the amount of the Bonus is higher than the Polish zloty equivalent of EUR 50,000 (converted at the average exchange rate of the National Bank of Poland as at the date of the decision to grant the bonus).

Making a payment of the entire bonus in cash in a non-deferred form requires a decision of the Bank's Board of Directors with regard to the Risk Taker - Bank Employee.

The Non-Deferred Portion is subject to payment as follows:

- the first half (50%) of the Non-Deferred Portion shall be paid in cash after the Bank's AGM has approved the Bank's financial statements for the previous calendar year, i.e. the statements for the year for which the bonus was granted, but no later than 31 July of the year in which the Bank's AGM was held,
- the other half (50%) of the Non-Deferred Portion will be paid out in phantom shares, no earlier than 12 months after the date of the Bank's AGM approving the Bank's financial statements for the previous calendar year, i.e. the statements for the year for which the bonus was granted.

The Deferred Portion is payable in 4 equal annual tranches starting from the year following the year in which the financial statements for the year for which the Bonus is granted are approved, as follows:

- the first half (50%) of each tranche of the Deferred Portion shall be paid in cash after the AGM approves the Bank's financial statements for the previous calendar year, but no later than 31 July of the year in which the Bank's AGM is held,
- the second half (50%) of each tranche of the Deferred Portion will be paid out in phantom shares, no earlier than 12 months after the date of the of the Bank's AGM approving the Bank's financial statements for the previous calendar year.

The deferral period of the cash portion as well as the portion paid out in the form of phantom shares for 4 years applies from the bonus awarded for 2021.

In previous years, it was 3 years. Starting with the 2020 bonus, the Supervisory Board in respect of the members of the Management Board and the Management Board in respect of the Risk Taker - employees of the Bank, in particularly justified cases related to minimising the risks associated with maintaining the Bank's solid capital base in order to ensure the Bank's ability to respond effectively to the country's economic situation, e.g. related to the COVID-19 pandemic, may adopt a resolution to pay out part or all of the cash tranches (both the non-deferred tranche and the deferred tranches) in phantom shares of the Bank under the terms and conditions set out above. Accordingly, the Supervisory Board in the case of members of the Management Board and the Management Board in the case of employees may decide to withhold in full or reduce the amount of a deferred tranche if it determines that, over a longer time horizon than 1 calendar year (i.e. for

a period of at least 3 years) Risk Taker has had a direct and negative impact on the financial result or market position of the Bank or Group of mBank during the assessment period, has breached the principles and norms adopted in the Group, has directly led to significant financial losses, when at least one of the elements included in the scorecard has not been met or when any of the prerequisites referred to in Article 142 of the Banking Act has occurred, in particular the cases in paragraph 2.

If the events referred to above occur at the stage of determining the bonus for Risk Takers, the Supervisory Board or the Management Board, respectively, may decide not to grant the bonus in full or to reduce it for a given calendar year.

The withholding in full or reduction of the bonus as well as any deferred tranche may also apply to the bonus and/or the deferred tranche paid to the employee after the expiry or termination of the employment contract.

In addition, the Risk Taker may be obliged, under the terms and within the timeframe determined by a decision of the Supervisory Board or the Management Board respectively, to repay the bonus granted and paid for the calendar year in question (i.e.: the non-deferred portion and all deferred portions), in the event that he or she has violated the principles and norms adopted in the mBank Group, has committed a material breach of generally applicable laws or has directly led to significant financial losses resulting from a deliberate negative action to the detriment of the mBank Group or has led to financial sanctions being imposed on the Bank by supervisory authorities on the basis of a legally valid decision.

The decision on the occurrence of the above-described events may be taken up to the end of the calendar year in which the last tranche of the deferral part of the bonus for the year in which the event occurs will be paid. The accounting treatment of incentive programs is described in Note 2.17.

37. Related party transactions

All transactions between the Bank and related entities were typical transactions and routine, concluded in the opinion of the Management Board on conditions not deviating from market ja terzby the Bank. Transactions with related entities carried out in the ordinary course of business include loans, debt securities issued and derivative transactions.

The following table presents financial liabilities towards mBank S.A., broken down by contractual maturity dates.

2024.12.31	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Loans received	-	-	-	1 445 879	1 353 359	2 799 238
Covered bonds and bonds in issue	-	-	-	3 549 790	-	3 549 790
Other financial liabilities with deferred payment date	-	-	-	712 730	-	712 730
Derivative financial instruments	-	9 344	313	85	-	9 742

2023.12.31	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Loans received	-	-	-	1 447 019	1 403 455	2 850 474
Covered bonds and bonds in issue	-	-	68 440	-	2 277 094	2 345 534
Other financial liabilities with deferred payment date	-	-	-	508 813	-	508 813
Derivative financial instruments	1 666	524	-	4 335	1 655	8 180

Other financial liabilities with deferred payment term related to a liability resulting from agreements concluded with mBank S.A. on 30 November 2018 on the transfer of retail loans secured with a mortgage on real estate.

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The table below presents the amounts of the Bank's transactions with related entities. The transaction value covers assets and liabilities' balances as at 31 December 2024 and 31 December 2023, and related costs and income for 2024 and 2023.

(PLN '000)	Supervisory and Management Board members of Bank S.A./mBank S.A., management personnel of mBank S.A.		Other persons and entities related*		mBank Group companies***		mBank S.A.		Commerzbank Group companies***	
	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023
As at the end of the period										
Statement of financial position										
Total assets	1 452	1 426	579	-	782	637	43 049	51 139	-	-
Receivables from Banks	-	-	-	-	-	-	27 179	32 374	-	-
Derivative financial instruments held for trading	-	-	-	-	-	-	249	2 143	-	-
Receivables from credits	1 452	1 426	579	-	-	-	-	-	-	-
Derivative hedging instruments	-	-	-	-	-	-	912	-	-	-
Intangible assets	-	-	-	-	-	-	49	49	-	-
Fixed assets	-	-	-	-	782	637	14 660	16 573	-	-
Total liabilities	-	-	-	-	797	641	7 085 791	5 729 336	32 206	67 085
Derivative financial instruments held for trading	-	-	-	-	-	-	9 345	4 755	-	-
Liabilities due to loans received from the financial sector	-	-	-	-	-	-	398	3 426	-	-
Cash collateral liabilities	-	-	-	-	-	-	2 799 240	2 850 474	-	-
Liabilities due to deferred payment (retail pooling)	-	-	-	-	-	-	-	-	-	-
Subordinated loan	-	-	-	-	-	-	712 730	508 813	-	-
Covered bonds and bonds	-	-	-	-	-	-	-	-	-	-
Liabilities for the right of use - buildings	-	-	-	-	-	-	3 549 790	2 345 534	32 206	67 085
Liabilities due to the right to use - means of transport	-	-	-	-	-	-	14 288	16 334	-	-
Contingent liabilities	-	-	-	-	797	641	-	-	-	-
Liabilities received										
Commitment granted	-	-	-	-	-	-	1 394 956	1 145 218	-	-
Guarantee received	-	-	-	-	-	-	-	-	-	-
Derivatives (purchase, sales)										
CRS contracts	-	-	-	-	-	-	1 713 140	1 304 610	-	-
IRS contracts	-	-	-	-	-	-	461 484	469 584	-	-
FX SWAP contracts	-	-	-	-	-	-	1 706 819	2 290 319	-	-

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Property, plant and equipment include lease contracts classified in accordance with IFRS 16, relating to buildings, i.e. rental of office space in Warsaw and Łódź and redemption of the above-mentioned asset components.

(PLN '000)	Supervisory and Management Board members of Bank , management personnel of mBank S.A.		Other persons and entities related*		mBank Group companies***		mBank S.A.		Commerzbank Group companies***	
	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023
Year ended										
Income statement										
Interest income	115	25	43	39	213	240	42 230	27 829	-	-
Interest expense	-	-	-	-	(28)	(10)	(500 819)	(510 994)	(2 365)	(2 886)
Fee and commission expenses	-	-	-	-	(1)	(1)	(4 382)	(4 873)	-	-
Net trading income	-	-	-	-	-	-	(2 109)	10 079	-	-
Other operating income	-	-	-	-	-	-	18 359	15 242	-	-
Other operating expenses	-	-	-	-	(2)	(16)	(547)	(625)	-	-
Overhead costs, amortisation and depreciation	-	-	-	-	(528)	(452)	(4 202)	(4 721)	-	-

* Other persons and related parties encompass the loan extended to the a close relative of a member of Supervisory Board of mBank S.A.

** The item "mBank Group companies" includes transactions with the following mBank Group companies: mFinanse S.A., mLeasing Sp. z o.o

*** The item "Commerzbank Group companies" includes transactions of acquisition of mortgage covered bonds on the secondary market by Commerzbank AG and Future Tech.

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Composition and remuneration of Members of the Bank's Management Board

As at 31 December 2024, the composition of the Management Board was as follows:

Piotr Petelewicz	—	President of the Management Board
Katarzyna Dubaniewicz	—	Member of the Management Board
Andrzej Kulik	—	Member of the Management Board

On May 15, 2024 Mr. Krzysztof Dubejko, President of the Management Board of mBank Hipoteczny S.A. resigned from his position.

On April 18, 2024, the Supervisory Board appointed Mr. Piotr Petelewicz as a Member of the Management Board of mBank Hipoteczny S.A., who took up the function on May 16, 2024.

On October 25, 2024, the Polish Financial Supervision Authority agreed to the appointment of Mr. Piotr Petelewicz as the President of the Management Board of mBank Hipoteczny.

Information on the value of remuneration and bonuses paid to the Management Board Members who held their positions at the end of 2024 and 2023 as at December 31, 2024 is presented below and December 31, 2023.

Remuneration paid in PLN	31.12.2024	31.12.2023
Management Board		
Gross base salary	1 440 806	1 655 000
Other benefits *	106 162	115 172
Settlement of the incentive program	261 128	325 288
Remuneration of former Members of the Management Board		
Gross base salary	246 613	320 000
Other benefits *	49 297	23 918
Settlement of the incentive program	442 803	274 751
Compensation - non-competition	330 887	-

* "Other benefits" include co-financing of medical care, insurance, multisport card, company car, PPK contributions.

As at 31 December 2024, the amount of the provision for bonuses / bonuses for employees and the Bank's Management Board was TPLN 5 687 (as at December 31, 2023, TPLN 6 042 respectively).

The variable remuneration program for Members of the Management Board and employees who have a significant impact on the Bank's risk profile is described in Note 36.

The composition of the Supervisory Board of Bank as at 31 December 2024:

1.	Marek Lusztyn	-	Chairman of the Supervisory Board
2.	Pascal Ruhland	-	Vice-chairman of the Supervisory Board
3.	Monika Bączyńska	-	Member of the Supervisory Board
4.	Łukasz Maculewicz	-	Member of the Supervisory Board
5.	Paweł Graniewski	-	Independent Member of the Supervisory Board
6.	Michał Popiołek	-	Member of the Supervisory Board
7.	Mariusz Tokarski	-	Independent Member of the Supervisory Board
8.	Grzegorz Ostrowski	-	Member of the Supervisory Board
9.	Marta Żyndul	-	Member of the Supervisory Board

On September 6, 2024, Mikołaj Tatarkiewicz resigned from the position of member of the Supervisory Board with effect from September 14, 2024.

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On September 25, 2024, the General Meeting appointed Marta Żyndul to the Supervisory Board, and then on November 28, 2024, the General Meeting appointed Monika Bączyńska to the Supervisory Board.

In 2024, the Supervisory Board worked without remuneration, with the exception of Paweł Graniewski and Mariusz Tokarski, who, as members of the Supervisory Board, received remuneration for 2024 in the amount of TPLN 184 000 (TPLN 92 respectively).

The composition of the Supervisory Board of Bank as at 31 December 2023:

1.	Marek Lusztyn	-	Chairman of the Supervisory Board
2.	Pascal Ruhland	-	Vice-chairman of the Supervisory Board
3.	Frank Bock	-	Member of the Supervisory Board
4.	Łukasz Maculewicz	-	Member of the Supervisory Board
5.	Paweł Graniewski	-	Independent Member of the Supervisory Board
6.	Michał Popiołek	-	Member of the Supervisory Board
7.	Mariusz Tokarski	-	Independent Member of the Supervisory Board
8.	Mikołaj Tatarkiewicz		Member of the Supervisory Board
9.	Grzegorz Ostrowski	-	Member of the Supervisory Board

On January 18, 2023, Andreas Boeger resigned from his position as Chairman of the Bank's Supervisory Board and from further service on the Supervisory Board. The resignation took effect on April 30, 2023.

On 28 April 2023, an EGM resolution appointed Pascal Ruhland as a member of the Bank's Supervisory Board for a period starting from 1 May 2023.

On December 31, 2023, Frank Bock due to his resignation, he ceased to serve as a member of the Supervisory Board. In 2023, the Supervisory Board worked without remuneration, with the exception of Paweł Graniewski and Mariusz Tokarski, who, as members of the Supervisory Board, received remuneration for 2023 in the amount of TPLN 120 (respectively TPLN 60).

38. Information on the registered audit company

On March 1, 2024, the Supervisory Board selected KPMG Audyt Sp. z o. o. sp. k. as a company providing audit services related to statutory audits and reviews of Bank statements. for the years 2024 and 2025.

The total remuneration paid to KPMG Audyt Sp. z o. o. sp. k. for the review of the condensed semi-annual financial statements of the Bank and the reporting packages for the purposes of preparing the consolidated financial statements of the mBank S.A. Group. amounted to TPLN 320 in 2024 gross. As at December 31, 2024, the provision for remuneration for the annual audit in 2024 amounted to TPLN 180.

39. Capital adequacy

One of the Bank's main tasks is to ensure an appropriate level of capital. Within the framework of the capital management policy, the Bank prepares the guidelines for the most effective planning and use of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets, 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 Bank's capital management policy is based on two basic pillars:

- maintenance of an optimal level and structure of own funds with the application of available methods and means, like retention of net profit, subordinated loan or issue of shares,
- effective use of existing capital, among others through application of a set of measures of effective use of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective use of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and as a result forming a stable foundation of reinforcement of the capital basis in future periods. This helps to maintain the Tier 1 common equity ratio (calculated as the quotient of Tier 1 common equity and total amount of risk exposure), Tier 1 capital ratio (calculated as the quotient of Tier 1 capital and total amount of risk exposure), and combined capital ratio (calculated as the quotient of own funds and total amount of risk exposure), at a level significantly higher than required by the regulatory authority.

The strategic capital objectives of the Bank are aimed at maintaining both the combined capital ratio and the Common Equity Tier 1 capital ratio at a level significantly higher than required by the regulatory authority. This permits a safe growth of the business while meeting supervision standards in long term.

Capital ratios

The measurement of own funds adequacy, including i.a. calculation of capital ratios and leverage ratio, own funds and the Bank's total exposure to risk, is performed on the basis of the following regulations:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as amended (hereinafter referred to as CRR Regulation) and other Commission (EU) implementing regulations to the CRR Regulation,
- Commission Implementing Regulation (EU) No 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 by institutions and repealing Implementing Regulation (EU) No 680/2014,
- Act of August 29, 1997 — Banking Law (Journal of Laws of 2002 No 72, item 665) as amended,
- Act of August 5, 2015 (Journal of Laws 2015, item 1513) on the macro-prudential oversight of the financial system and crisis management in the financial system ("Macro Prudential Oversight Act"),
- Regulation of the Minister of Development and Finance of May 25, 2017 on the application of higher risk weights to credit exposures secured by mortgages on real estate property,
- Regulation of the Minister of Finance of March 18, 2020 repealing the regulation on the systemic risk buffer.

In connection with the Macro-Prudential Oversight Act coming into force as of 1 January 2016, which transposes CRD IV into the Polish legal regime, as at 31 December 2023 the Bank was compelled to maintain own funds as such a level as would permit covering the conservation buffer determined under the Act at 2.5% of the total exposure to risk.

In accordance with the decision of the Financial Stability Committee, the anti-cycle buffer imposed on the Bank as at 31 December 2024 was 0%.

On March 19, 2020, the repeal of the regulation on the systemic risk buffer entered into force. The value of the systemic buffer as at 31 December 2024 is 0% of the total risk exposure amount.

Ultimately, the combined buffer requirement for Bank at the end of 2024 it was 2.5%.

Capital ratios both as at the end of 2024 and at the end of 2023 were above the minimum required values, which was presented in the table below. In 2024 and 2023, the Bank met external capital requirements.

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Capital ratio	31.12.2024	
	Minimum ratio	Presented ratio
Total capital ratio	10,50%	19,51%
Equity Tier 1 capital ratio	8,50%	19,51%
Equity Tier 1 core capital ratio	7,00%	19,51%

Capital ratio	31.12.2023	
	Minimum ratio	Presented ratio
Total capital ratio	10,50%	20,74%
Equity Tier 1 capital ratio	8,50%	20,74%
Equity Tier 1 core capital ratio	7,00%	20,74%

The Bank decided that for the purposes of capital adequacy calculation, including the calculation of own funds, based on Article 1(9) of the Regulation (EU) No 2017/2395 of the European Parliament and of the Council of December 12, 2017 (Regulation) amending the CRR, it will not apply the transitional period, which permits to alleviate the impact on capital, connected with the implementation of IFRS 9.

The capital ratios, own funds, leverage ratio reported in this document fully reflect the impact of IFRS 9.

Own funds

In accordance with the CRR Regulation, own funds consist of Common Equity Tier 1 capital, Additional Tier I capital and Tier II capital, however Bank does not identify items that could be treated as Additional Tier I capital.

Common Equity Tier I capital of mBank Hipoteczny S.A. encompasses:

- paid-up equity instruments and the related share premium accounts,
- earnings retained in previous years,
- independently verified interim profits,
- other accumulated comprehensive income,
- other capital reserves,
- general risk funds,
- items reducing the Common Equity Tier 1 capital (value adjustments due to the requirements regarding prudent valuation, intangible assets, deficiency in credit risk adjustments in light of anticipated losses, regulatory adjustments concerning other accumulated comprehensive income, and net write-downs).

Tier II capital of Bank encompasses subordinated liabilities.

The Bank's own funds as at December 31, 2024 amounted to TPLN 825 392 (as at December 31, 2023, they amounted to TPLN 820 262). At the same time, the Common Equity Tier I capital amounted to TPLN 825 392 (as at December 31, 2023 it was TPLN 820 262).

Leverage ratio

The regulatory leverage ratio as at 31 December 2024 was calculated on the basis of the provisions of 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 (hereinafter: "Regulation 2015/62").

The leverage ratio is calculated as a measure of Tier 1 capital divided by the total exposure measure and is expressed as a percentage. The total exposure measure is the sum of the exposure values specified in accordance with Regulation 2015/62 in respect of all assets and off-balance sheet items not deducted when determining the measure of Tier 1 capital.

Tier 1 capital to the leverage ratio was calculated in accordance with Regulation CRR using national options defined in the Banking Law, Art. 171a.

The financial leverage ratio at the end of 2024 was 7.48%, at the end of 2023 it was 8.10%.

40. Other information

Reform of interest rate benchmarks

Bank as an entity providing services both in the field of granting loans and issuing securities and entering into derivative transactions (only for its own account) is an entity exposed to the risk related to the evolution of rates and market migration to rates compliant with the Regulation of the European Parliament and of the Council (EU) 2016/1011 of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or for measuring the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014 (hereinafter the "BMR Regulation").

Since 2020, Bank has been working intensively to implement the reference rate reform. In order to effectively implement the changes resulting from the IBOR reform, a project was launched at Bank already in 2020, which simultaneously implemented the solutions agreed within the mBank Group. It should also be emphasized that Bank has its own "Action Plan" covering: index inventories, template of continuity clauses for retail clients, template of continuity clauses for commercial clients, method of implementing clauses in existing and new contracts, base of products based on benchmarks with inventory of continuity clauses contained therein, specifying the situation in which Bank should inform clients about events on indicators.

The key risks Bank was exposed to in connection with the IBOR reform, identified and managed as part of the project, are:

- risk related to the lack of established market practices and uncertainty related to the manner of transition of contracts to new alternative indices, which may lead to an unfavorable change in the risk profile of these contracts,
- the risk of non-cooperation of the Bank's customers in introducing changes to the contracts required by the IBOR reform and, as a result, uncertainty regarding the appropriate basis for calculating contractual cash flows after the indicators cease to be published or lose their representativeness,
- risk of failure to implement the required changes in IT systems on time.

The impact of the reform of reference interest rate indices in Bank is observed in the area of financial instruments, in particular loans and securities whose interest rates are based on WIBOR and EURIBOR reference indices.

Of the three ratios, the greatest risk was generated by transactions based on WIBOR.

In the second half of 2022, the National Working National Working Group (NGR) was established by the Polish Financial Supervision Authority at the request of financial market participants.

The aim of the work of the NGR is to prepare the process of effective implementation of the new reference index on the Polish financial market and to replace it with the currently used reference index of the WIBOR interest rate. In the course of the work of expert teams of the National Working Group, tasks were identified, prioritized and time-consuming to be estimated, the implementation of which by all market participants is required for the correct and safe replacement of the previously used WIBOR reference rates by the new reference index. In 2023, there were changes to the dates of the so-called Roadmap, according to which the reform of the benchmarks will be implemented by the end of the end of 2027, with the simultaneous implementation of a new offer of financial products based on WIRON in 2024-2027 and full readiness to stop developing and publishing WIBOR benchmarks from the beginning of 2028.

On March 29, 2024, the NGR Steering Committee decided to launch an additional round of public consultations regarding the review and verification of alternative indicators / indices to WIBOR of the RFR type (risk free rate).

On December 6, 2024, NGR decided to select an index with the technical name WIRF - based on deposits of unsecured credit institutions and financial institutions, as the target interest rate

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benchmark, which is to replace the WIBOR benchmark. It will be used in financial contracts (e.g. loan agreements), financial instruments (e.g. debt securities or derivatives).

Thus, the NGR Steering Committee verified and modified its earlier decision from 2023 on the selection of the WIRON indicator. The WIRON index was characterized by the highest volatility compared to other analyzed indices and, as a result, the lowest probability of creating a liquid derivatives market.

At the end of 2024, Bank holds 95.1% of the WIBOR-based loan portfolio. It also has 9 issues of securities bearing interest based on the WIBOR index, the longest of which expires in 2029. In addition, the Bank has 6 IRS transactions and 4 CIRS transactions based on the WIBOR index.

In the case of the EURIBOR rate, the process of adjusting the rate to the requirements of the BMR Regulation was completed in June 2019 by expanding the range of transactions used to determine the rate and introducing the cascade method, which allows for the determination of a transition rate in the absence of transactions.

The risk associated with the reform of the EURIBOR index as a result of the action of European regulators, according to Bank, has been significantly reduced.

Bank holds 0.02% of the EURIBOR-based loan portfolio. Bank has no issued securities bearing interest based on the EURIBOR index. However, it has 7 IRS transactions hedging issues of covered bonds with a fixed interest rate in EUR.

The Bank's strategy is to adapt to the new reality as quickly as possible, taking into account external and internal constraints. First, the bank plans to implement derivatives based on new ratios, then take over loan tranches based on these ratios to issue mortgage covered bonds based on them. With regard to the existing loan portfolios, the bank plans to actively offer customers annexes implementing clauses on ratio continuity.

	31.12.2024	
	Nominal value (T PLN)	Weighted average maturity (in years)
Interest rate swaps (IRS)		
Wibor 3M	250 000	2,2
Total interest rate swaps (IRS)	250 000	
Foreign Currency Interest Rate Swaps (CIRS)		
Wibor 3M	(1 281 900)	0,5
Foreign currency interest rate swaps (CIRS), total	(1 281 900)	
Total	(1 031 900)	

in T PLN	Non-derivative financial assets at contract value	Non-derivative financial liabilities at contract value	Derivatives at nominal value as net receivables and payables for derivative transactions
	31.12.2024	31.12.2024	31.12.2024
PLN WIBOR	9 350 772	6 855 273	(1 886 500)

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	31.12.2023	
	Nominal value (TPLN)	Weighted average maturity (in years)
Interest rate swaps (IRS)		
Wibor 3M	250 000	3,2
Total interest rate swaps (IRS)	250 000	
Foreign Currency Interest Rate Swaps (CIRS)		
Wibor 3M	(1 304 400)	1,7
Foreign currency interest rate swaps (CIRS), total	(1 304 400)	
Total	(1 054 400)	

in TPLN	Non-derivative financial assets at contract value	Non-derivative financial liabilities at contract value	Derivatives at nominal value as net receivables and payables for derivative transactions
	31.12.2023	31.12.2023	31.12.2023
PLN WIBOR	8 873 266	5 848 620	(1 706 600)
USD LIBOR	46	-	-

For the rate:

- Wibor - Bank plans to switch to an alternative indicator in accordance with the NGR road map.

Article 35, (1b) of the Bond Act

The total value of financial liabilities referred to in the Act of January 15, 2015 on bonds, Article 35, (1), (2), resulting from this financial statement amounts to BPLN 10.14 and does not differ significantly from the forecasts of financial liabilities as of the last day of the financial year contained in the proposals for the acquisition of covered bonds dated March 1, 2024, amounting to BPLN 9.89 for mortgage covered bonds series F, June 3, 2024, amounting to BPLN 10.15 for mortgage covered bonds series G, and September 9, 2024, amounting to BPLN 9.82 for mortgage covered bonds series H.

41. Post balance-sheet date events

On 18 February 2025, the Bank decided to issue bearer mortgage bonds with a total value of up to TPLN 500,000.