Report
mBank Hipoteczny S.A.
for 2022

Official Financial Statements of mBank Hipoteczny SA for 2022 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Financial Statements of mBank Hipoteczny SA for 2022, 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 2022.

	Selected financial data	in PLN `000		in EUR `000	
		Period from 01.01.2022 to 31.12.2022	Period from 01.01.2021 to 31.12.2021	Period from 01.01.2022 to 31.12.2022	Period from 01.01.2021 to 31.12.2021
I.	Interest income	779 253	277 001	166 212	60 514
II.	Fee and commission income	349	1 090	74	238
III.	Net trading income	18 534	(145)	3 953	(32)
IV.	Operating result	(333 461)	61 235	(71 126)	13 377
V.	Profit/(loss) before income tax	(365 682)	30 172	(77 999)	6 591
VI.	Net profit/(loss) attributable to shareholders of mBank Hipoteczny S.A.	(303 378)	18 802	(64 710)	4 107
VII.	Net cash flows from operating activities	(34 859)	367 945	(7 435)	80 381
VIII.	Net cash flows from investing activities	(8 158)	(5 041)	(1 740)	(1 101)
IX.	Net cash flows from financing activities	352 742	(483 103)	75 239	(105 539)
X.	Total net cash flows	309 725	(120 199)	66 063	(26 259)
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	(90,29)	5,60	(19,26)	1,22

	Selected financial data	in PLN `000		in EUR `000	
		as at		as at	
		31.12.2022	31.12.2021	31.12.2022	31.12.2021
I.	Total assets	13 177 225	12 981 822	2 809 703	2 822 503
II.	Amounts due to other banks	5 544 817	3 981 015	1 182 289	865 551
III.	Amounts due to customers	596	1 933	127	420
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	883 687	1 264 290	188 423	274 882
V.	Share capital	336 000	336 000	71 643	73 053
VI.	Number of shares	3 360 000	3 360 000	3 360 000	3 360 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	263,00	376,28	56,08	81,81
VIII.	Total capital ratio (%)	15,71	19,08	15,71	19,08

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

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

Financial Statements of mBank Hipoteczny S.A. according to the International Financial Reporting Standards (IFRS) for use in the European Union for 2022

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for 2022 (in PLN thousand)

Income statement

	Note	Year ended 31 December	
		2022	2021
Interest income, including:	7	779 253	277 001
Interest income calculated using the effective interest rate method		*747 589*	248 272
Income similar to interest - financial assets measured at fair value through profit or loss		*31 664*	28 729
Interest expense	7	(647 149)	(137 278)
Net interest income		**132 104**	**139 723**
Fee and commission income	8	349	1 090
Fee and commission expenses	8	(8 864)	(8 880)
Net fee and commission income		**(8 515)**	**(7 790)**
Net trading income	9	18 534	(145)
Net income on modification	10	(350 659)	(2 796)
Net income on derecognition of financial instruments not measured at fair value through proft and loss		(1 384)	5
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(4 890)	864
Other operating income		880	385
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	13	(36 821)	(2 401)
Overhead costs	11	(64 981)	(51 445)
Amortisation and depreciation	22, 23	(14 406)	(13 264)
Other operating expenses	12	(3 323)	(1 901)
Operating result		**(333 461)**	**61 235**
Taxes on the Bank balance sheet items		(32 221)	(31 063)
Profit/(loss) before income tax		**(365 682)**	**30 172**
Income tax	14	62 304	(11 370)
Net profit/(loss)		**(303 378)**	**18 802**
Net profit/(loss) attributable to shareholders of the mBank Hipoteczny S.A.		**(303 378)**	**18 802**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	15	**3 360 000**	**3 360 000**
Earnings per ordinary share / Diluted earnings / (loss) per ordinary share (in PLN)	15	**(90,29)**	**5,60**

The entire profit/loss of mBank Hipoteczny S.A. for the 2022 and 2021 pertains to the performance of continuing operations.

Notes presented on pages 9 to 121 constitute an integral part of these Financial Statements.

for 2022 (in PLN thousand)

Statement of comprehensive incomes

		Year ended 31 December	
	Note	**2022**	**2021**
Net profit/(loss)		**(303 378)**	**18 802**
Other comprehensive income net of tax including:	16	**(77 225)**	**(44 752)**
Items that may be reclassified to the income statement		**(77 193)**	**(44 762)**
Change in the valuation of debt financial instruments measured at fair value through other comprehensive income (net)		(7 278)	(27 075)
Net cash flow hedge		(69 915)	(17 687)
Items that will not be reclassified to the income statement		**(32)**	**10**
Actuarial gains and losses on post-employment benefits (net)		(32)	10
Total comprehensive income net of tax		**(380 603)**	**(25 950)**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.		**(380 603)**	**(25 950)**

Notes presented on pages 9 to 121 constitute an integral part of these Financial Statements.

for 2022 (in PLN thousand)

Statement of financial position

ASSETS	Note	31.12.2022	31.12.2021
Cash and balances with the Central Bank	17	107 826	114 658
Financial assets held for trading and derivatives held for hedges	18	34 013	125 837
Non-trading financial assets mandatorily at fair value through profit or loss, including:	19	100 822	120 205
Loans and advances to customers		100 822	120 205
Changes in fair value of hedged items in portfolio hedging against interest rate risk		3 064	-
Financial assets at fair value through other comprehensive income	20	1 171 608	732 393
Financial assets at amortised cost, including:	21	11 537 672	11 760 943
Loans and advances to banks		*69 530*	152 668
Loans and advances to customers		*11 468 142*	11 608 275
Intangible assets	22	48 442	52 488
Tangible assets	23	27 844	29 434
Current income tax assets		30 281	-
Deferred income tax assets	28	81 863	19 960
Other assets	24	33 790	25 904
TOTAL ASSETS		**13 177 225**	**12 981 822**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	18	16 156	7 053
Financial liabilities measured at amortised cost, including:	25	12 249 798	11 686 843
Amounts due to banks		*5 544 817*	*3 981 015*
Amounts due to customers		*596*	1 676
Leasing liabilities		*22 032*	21 826
Debt securities issued		*6 581 915*	*7 603 677*
Subordinated liabilities		*100 438*	*100 218*
Provisions	26	12 487	5 382
Current income tax liabilities		-	2 551
Other liabilities	27	15 097	15 703
TOTAL LIABILITIES		**12 293 538**	**11 717 532**
Equity			
Share capital:		**884 631**	**884 631**
- Registered share capital	31	336 000	336 000
- Share premium	33	548 631	548 631
Retained earnings:	34	**103 134**	**406 512**
- Profit/(loss) from the previous years		406 512	387 710
- Profit/(loss) for the current period		(303 378)	18 802
Other components of equity	**35**	**(104 078)**	**(26 853)**
TOTAL EQUITY		**883 687**	**1 264 290**
TOTAL LIABILITIES AND EQUITY		**13 177 225**	**12 981 822**

Notes presented on pages 9 to 121 constitute an integral part of these Financial Statements.

Statement of changes in equity

Changes in equity from 1 January 2022 to 31 December 2022

	Share capital		Retained earnings				Total comprehensive income net of tax			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 hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2022	**336 000**	**548 631**	**342 910**	**44 800**	**18 802**	**-**	**(22 652)**	**(4 237)**	**36**	**1 264 290**
Net profit/(loss)	-	-	-	-	-	(303 378)	-	-	-	(303 378)
Other comprehensive income (gross)	-	-	-	-	-	-	(8 986)	(86 315)	(39)	(95 340)
Deferred tax on other comprehensive income	-	-	-	-	-	-	1 708	16 400	7	18 115
Total comprehensive income	-	-	-	-	-	**(303 378)**	**(7 278)**	**(69 915)**	**(32)**	**(380 603)**
Transfer to supplementary capital	-	-	18 802	-	(18 802)	-	-	-	-	-
As at 31 December 2022	**336 000**	**548 631**	**361 712**	**44 800**	**-**	**(303 378)**	**(29 930)**	**(74 152)**	**4**	**883 687**

Changes in equity from 1 January 2021 to 31 December 2021

	Share capital		Retained earnings				Total comprehensive income net of tax			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 hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2021	**336 000**	**548 631**	**338 032**	**44 800**	**4 878**	**-**	**4 423**	**13 450**	**26**	**1 290 240**
Net profit/(loss)	-	-	-	-	-	18 802	-	-	-	18 802
Other comprehensive income (gross)	-	-	-	-	-	-	(33 426)	(21 836)	12	(55 250)
Deferred tax on other comprehensive income	-	-	-	-	-	-	6 351	4 149	(2)	10 498
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**18 802**	**(27 075)**	**(17 687)**	**10**	**(25 950)**
Transfer to supplementary capital	-	-	4 878	-	(4 878)	-	-	-	-	-
As at 31 December 2021	**336 000**	**548 631**	**342 910**	**44 800**	**-**	**18 802**	**(22 652)**	**(4 237)**	**36**	**1 264 290**

Notes presented on pages 9 to 121 constitute an integral part of these Financial Statements

for 2022 (in PLN thousand)

Statement of cash flows

	Note	Year ended 31 December	
		2022	2021
A. Cash flows from operating activities		**(34 859)**	**367 945**
Profit /(loss) before income tax		**(365 682)**	**30 172**
Adjustments:		**330 823**	**337 773**
Income tax paid		(14 318)	(14 157)
Amortization and depreciation	22, 23	14 406	13 264
Foreign exchange (gains) losses related to financing activities		65 784	(13 042)
Profits/(losses) on investing activities		(1 241)	-
Interest income (income statement)	7	(779 253)	(277 001)
Interest expenses (income statement)	7	647 149	137 278
Interest received		585 393	266 897
Interest paid		(190 660)	(18 432)
Change in assets and liabilities on derivative financial instruments		(21 901)	69 269
Change in loans and advances to customers		323 416	(301 994)
Change in the balance of financial assets at fair value through other comprehensive income		(34 495)	(10 149)
Adjustments to intangible assets and property, plant and equipment	22,23	(612)	(22 697)
Change in other assets	24	(7 849)	(20 246)
Change in amounts due to banks		(82 305)	615 918
Change in amounts due to customers		(773)	(138)
Change in debt securities in issue		(178 160)	(88 821)
Change in subordinated liabilities		(218)	(150)
Change in provisions	26	7 065	2 002
Change in other liabilities	27	(605)	(28)
Net cash from operating activities		**(34 859)**	**367 945**
B. Cash flows from investing activities		**(8 158)**	**(5 041)**
Investing activity inflows		**274**	**6 288**
Due to the disposal of intangible assets and tangible fixed assets		274	6 288
Investing activity outflows		**8 432**	**11 329**
Due to the purchase of intangible assets and tangible fixed assets	22, 23	8 432	11 329
Net cash from investing activities		**(8 158)**	**(5 041)**
C. Cash flow from financing activites		**352 742**	**(483 103)**
Financing activity inflows		**3 709 911**	**1 954 693**
Due to the loans and advances from banks		2 959 827	1 350 000
Due to the issue of debt securities	25	735 000	600 000
Interest received from hedging derivative financial instruments		15 084	4 693
Financing activities outflows		**3 357 169**	**2 437 796**
Due to the repayment of loans and advances from banks		1 344 869	1 489 136
Due to the issue of debt securities	25	1 659 116	882 210
Payments of leasing liabilities	37	3 071	3 219
Interest paid on loans received, debt securities in issue, subordinated loan, payments of leasing liabilities		350 113	63 231
Net cash from financing activities		**352 742**	**(483 103)**
Net increase / decrease in cash and cash equivalents, total (A+B+C)		**309 725**	**(120 199)**
Cash and cash equivalents as at the beginning of the reporting period	**37**	**267 326**	**387 525**
Cash and cash equivalents as at the end of the reporting period	**37**	**577 051**	**267 326**

Notes presented on pages 9 to 121 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.

Bank is a specialised mortgage bank of which primary purpose is to issue mortgage bonds, which are intended to constitute the main source of long-term financing for loans secured with real estate property. There are two business lines in the Bank:

- retail line, focusing on the purchase of receivables from housing mortgage loans from mBank S.A.,
- commercial line, covering the financing of income-generating real property such as office buildings, shopping centres, hotels, warehouses and distribution premises, as well as financing of residential property (apartments and houses), carried out by housing developers.

Activities of Bank are carried out in the segments described in detail in Note 6.

Bank is not a parent company and a significant investor for associates and jointly controlled entities, both as at December 31, 2022 and December 31, 2021 Bank did not have any subsidiary.

Bank is not a parent company or a major investor to associate companies nor jointly controlled companies. Therefore, mBank Hipoteczny S.A. does not prepare consolidated financial statements. The parent company of Bank is mBank S.A., which prepares consolidated financial statements of mBank Capital Group.

As at December 31, 2022 the employment in the Bank was 117 FTEs and 132 persons (December 31, 2021: 121 FTEs; 129 persons).

Average employment in 2022 was 131 employees, in 2021 it was 130 employees.

These financial statements were approved by the Management Board of Bank on March 3, 2023.

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 2022. Comparative data presented in these financial statements relate to the period of 12 months ended on 31 December 2021. 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, equity instruments and liabilities related to cash-settled share-based payments that are carried at fair value through profit or loss, and except for financial instruments at fair value through other comprehensive income and equity instruments with the fair value through other comprehensive income option.

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 5. 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 loss achieved in 2022 is mainly the effect of credit holidays, which should be reversed in the coming years. The Bank analyzes macroeconomic conditions on an ongoing basis, including those affecting the limitation of business activity (e.g. sanctions, lockdown risk, etc.) and does not identify a significant impact on its operations. The financing maturing in 2022 will be extended for subsequent periods on market terms, which, in the Bank's opinion, will not be significantly less favorable than the existing ones. In addition, the scale of this financing may be lower by the volume of the commercial mortgage loan portfolio, which will probably be transferred to the shareholder in 2023 (Note 5).

As at the date of approval of these financial statements, there are no circumstances that would indicate a threat to the continuation of the Bank's operations.

As part of the demerger of the Bank by separating an organized part of the enterprise planned for 2023, the components of the Bank's balance sheet related mainly to the corporate banking segment were defined. The division is aimed at improving the Bank's credit risk profile and the profile of the pool of assets constituting collateral for the covered bonds issued, by eliminating the risk of concentration of large corporate exposures related to the financing of profitable commercial real estate.

After the Bank's Demerger, the main asset will be a homogeneous portfolio of retail mortgage loans in PLN. The Bank has the necessary agreements to continue its operations after the division in the most cost-effective business model, i.e. aimed at maximizing synergies within the mBank capital group.

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 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 leasing and commissions in connection with the judgment of the CJEU C / 383/18.

2.3. Fee and commission income and expenses

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

Step 1: Identifying the contract’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 preformance 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.

Accounting policies regarding the recognition of commission income from the sale of insurance products related to loans and borrowings are described in Note 2.4

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

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

The Bank does not offer insurance products which are not bundled with loans.

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

The remuneration included in interest income is recognised over time as part of effective interest rate calculation for the bundled loan. The remuneration included in commission income is recognised partly as upfront income and partly including deferring over time based on the analysis of the stage of completion of the service.

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

For insurance products considered as bundled with loans the Bank estimates also the part of remuneration which in the future will be returned due to early termination of insurance contract and appropriately decreases interest income or fee and commission income to be recognised.

In case of related products, when the premium is charged on a monthly basis, and a client may join insurance or discontinue it on a regular basis, revenue is recognised monthly on a cash basis in commission income.

For the purpose of recognition of interest income in terms of insurance associated with a mortgage loan, the income from a one-off premium charged for a period of the first two years is recognized by the Bank on a linear basis within the interest income, on a level that equals the level of subsequent consideration it receives from a regular premium charged on a monthly basis after the second year of insurance protection.

Since 31 March 2015, due to the termination on this date of agreement on cash bonus, which was concluded on 7 January 2014 between the Bank and BRE Ubezpieczenia Sp. z.o.o. (currently mFinanse S.A.) the Bank does not receive remuneration for offered insurance products associated with a loan product.

2.5. Segment reporting

An operating segment is a component of the entity:

- which engages in business activities and in connection with which revenues may be earned and costs incurred (including revenues and costs relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the chief operating decision maker in the entity and using those results to make decisions on resources allocated to a given segment and assessing the results of operations of the segment, and
- in respect of which separate financial information is available.

Operating segments are reported on the same basis as that used for internal reporting (reporting to management). The management is a function that allocates resources to the operating segments and assesses the performance thereof. As defined in IFRS 8, the Bank has determined the Management Board of the Bank as its "management".

In accordance with IFRS 8, the Bank distinguished the following operating segments: „Corporate Banking Segment", „Retail Banking Segment", „Treasury Segment", described in detail in Note 6.

2.6. Financial assets/financial liabilities

The Bank classifies its financial assets to the following categories:

- financial assets measured at fair value through profit or loss,
- financial assets measured at fair value through other comprehensive income with the option of reclassifying gains and losses on the instrument to the profit and loss account when the asset is derecognised,
- financial assets measured at fair value through other comprehensive income without the possibility of reclassifying gains and losses on the instrument to profit or loss when the asset is derecognised, and
- financial assets measured at amortized cost.

A debt financial asset is classified into one of the categories upon its initial recognition based on the Bank's business model for financial asset management and the contractual cash flow characteristics of the financial asset. An equity financial asset is classified as a financial asset measured at fair value through profit or loss unless, upon initial recognition, the Bank made an irrevocable choice with respect to certain investments in equity instruments to recognize subsequent changes in fair value through other comprehensive income.

Standardized purchase and sale transactions of financial assets measured at fair value through profit or loss and measured at fair value through other comprehensive income are recognized on the transaction settlement date - the date on which the Bank delivers or receives a given asset. Changes in the fair value between the trade date and the settlement date in the case of assets measured at fair value are recognized in the profit and loss account or in other items of equity. Loans are recognized when funds are withdrawn or made available to the borrower's account. Derivative financial instruments are recognized starting from the transaction date.

A financial asset is removed from the balance sheet 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 or investment strategy, 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.

Capital instrument

Dividends on equity instruments are recognized in the income statement when the entity’s right to receive payment is established.

The fair value of quoted investments in active markets is based on current market prices.

In reporting periods presented in these financial statements, there were no equity instruments at the Bank.

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 – only if the current borrower is exempted from the debt,
- change of the cash flow criterion from ’SPPI compliance’,
- change of the financed asset in the case of object finance and project finance,
- change of legal form / type of financial instrument.

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 effect of all identified not substantial modifications of cash flows are treated as not related to credit risk. 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 basket, for which, as a result of the modification, a transfer to the first basket 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.

Where the contractual terms are modified as a result of a market-wide reform of the interest rate benchmark, including the replacement of the interest rate benchmark with an alternative benchmark, where:

- in the contract the basis has changed for determining the cash flows resulting from the contract and the new basis has been recognized economically equivalent to the old one and such change is accounted for by a change in the effective interest rate;

- changes concern other areas, or have not been considered economically equivalent, so such changes are recognized on general principles, in particular they are assessed in terms of a significant modification.

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.

2.7. 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 recognised 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.

2.8. Impairment of financial assets

Financial instruments subject to estimation of allowance and provision are: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, loan commitments if not measured at fair value through profit or loss.

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 POCI contains assets identified as credit-impaired at initial recognition. Other loans and advances can be classified up to stage 1, 2 or 3. 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. Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met, (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. The exposure may also be transferred from Stage 3 to Stage 2 and from Stage 3 to Stage 1 (when no longer credit-impaired).

In the case of the retail portfolio acquired in cooperation with mBank S.A., there is no grace period and the exposure leaves basket 3 to basket 1 or 2 after the impairment premise ceases. There is also no grace period when switching from basket 2 to basket 1.

In the case of the commercial portfolio, the transfer from Cart 3 is preceded by a minimum 90-day quarantine period.

The transfer from Cart 2 to Cart 1 is possible after the appropriate period:

- for the Forborne flag (customer's status indicating his difficulties in paying off the credit obligation in accordance with the Forborne definition used in the Bank) - after a minimum of two years;
- for the Watch flag (the Bank's internal process indicating corporate customers subject to special observation with respect to changes in their credit quality, in accordance with the rules of classification into the Watch List adopted by the Bank) - after meeting the conditions for exit from the WL;
- for overdue receivables by more than 30 days - immediately after the condition is fulfilled.

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

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

An impairment indication with respect to credit exposures of a given debtor is a credit risk event as a result of which, based on information held, the Bank recognizes that the debtor is unlikely to repay a given credit obligation in full, without fulfilling the accepted collateral.

In case of the retail portfolio obtained in cooperation with mBank S.A., it is assumed that there is an evidence of loss of value of a retail exposure, when a natural person obliged due to a given product is in default state, which means:

- that the overdue of at least one loan liability of the debtor is maintained for a period exceeding 90 days and the total amount of overdue on all loan exposures of the debtor (overdue by over 31 days) exceeds PLN 500,
- one of the client’s transactions is subject to restructuring,
- loan claim is sold with significant economic credit loss,
- the Bank submits a motion to commence execution proceedings, bankruptcy or recovery proceedings (resulting with possible omission or delay in repayment) by the debtor,
- loss impairment was made as a result of significant deterioration of the client’s creditworthiness.

A credit exposure provides indication of impairment where:

- recovery actions are taken at the court stage or the contract is prepared for write-off,
- a payment of a benefit on account of low own contribution insurance was made by the insurance company,
- the transaction was deemed fraudulent (there was a case of falsification or of providing false data in documents establishing the identity of the debtor or in documents relating to collateral accepted).

Significant deterioration of credit quality

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

Qualitative criteria

Qualitative criteria are:

- where an amount is more than 30 days past due (days past due, with an activation threshold – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days),
- occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).

Quantitative criteria

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition. Where a relative change in long-term PD exceeds “the transition threshold”, the exposure is moved to 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)

Valuation allowances and provisions are measured at the level of a single contract by measuring expected credit losses (ECL). In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods discounted with the effective interest rate. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for the balance- and off-balance-sheet part of the exposure. The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

The long-term PD parameter is generated based on the customer's rating derived from the AIRB PD model, in line with the customer's belonging to a given class determined in the rating cross-section and product. In order to estimate the long-term PD parameter, estimation was used based on the Weibull function with exponential adjustment, in which the dependent variable is the cumulative DR value (cDR). Additionally, the obtained estimates are converted in the above manner to the values corresponding to the expected macroeconomic conditions (PIT). The curves obtained on the basis of the Weibull distribution allow to obtain estimates that correspond to the frequency of default events in each of the annual periods from the reporting date to the maturity date.

The long-term LGD parameter is determined at the exposure level and defined as the quotient of the economic loss and the EAD value, where the economic loss is defined as the difference between the outstanding amount at default (EAD) plus all direct costs related to the recovery process discounted as at default and all recoveries made during the default period, discounted at the default.

The long-term EAD parameter for mortgage contracts is calculated on the basis of future scheduled cash flows corrected by the prepayment ratios observed in the portfolio history in a given portfolio to which the loan product belongs.

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:

1. 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.

2. the expected loss value determined in the baseline scenario (reference estimate).

Simulation processing, the results of which are used to calculate the NLF, are performed on the basis of the same input data for exposure characteristics, but with different risk parameter vectors, where the macroeconomic expectations defined in the scenarios influence the values of these parameters.
Additionally, the inclusion of forward-looking information takes place in the models of all three credit risk parameters estimated in the lifetime horizon (LtPD, LtEAD, LtLGD). The data relating to the future is used to determine the values of parameters over a period from 12 months to 6 years. In its estimates, the Bank uses, inter alia, generally available macroeconomic indicators

(employment in the enterprise sector, unemployment rate, export / import level, wages, bond profitability, monetary receivables of financial institutions from households), expectations regarding the development of interest rates and exchange rates, as well as changes in real estate prices.

In the case of individual ECL estimation, the assumed recovery scenarios take into account different conditions of the macroeconomic environment.

Impairment - corporate portfolio

Corporate exposures, i.e. all non-retail credit exposures of the Bank (specialist loan portfolio, housing developers, local government units portfolio and other commercial exposures), are deemed to be credit-impaired where the results of an impairment test demonstrate the need to establish valuation allowances/provisions. A client is reclassified as in default when one or more of the following criteria are met:

a) deterioration of counterparty/transaction loan quality. The Bank recognises that the debtor probably will not fully fulfil its loan obligations against the Bank, parent entity of the Bank without actions of the Bank, such as implementation of collateral, if such exists,

b) delay in payments for over 90 days. Any of the exposures of a nature of debtor loan obligation against the Bank, parent entity of the Bank is overdue for more than 90 days, provided that the overdue amount exceeds PLN 3 000,

c) qualification of an entity to a default situation by the Bank's parent entity.

The following elements constitute "hard" evidence of failure to fulfil obligation and indicate deterioration of loan quality of a client/transaction in accordance with the above definition:

a) The Bank stopped charging interest on the credit exposure to the profit and loss account
b) The Bank determines the expected credit losses (ECL) as a result of a significant deterioration of creditworthiness after the liability to the Bank arises
c) disposal by the Bank of an exposure with a significant economic loss related to a change in its creditworthiness,
d) the Bank's authorization for a forced restructuring of the credit obligation provided that it may result in a reduction of financial liabilities by writing off a significant part of the liability or deferring the repayment of the principal amount, interest or - if applicable - commission
e) the Bank submits a petition to declare the debtor bankrupt or a similar petition with regard to the debtor's credit obligations towards the Bank, the parent entity of the Bank or a subsidiary of the Bank,
f) bankruptcy of the debtor or obtaining by him similar legal protection, resulting in the avoidance or delay of repayment of credit obligations towards the Bank, the parent entity of the Bank or a subsidiary of the Bank.

Moreover, the Bank defined additional hard premises for the occurrence of a default event for individual sub-portfolios within the corporate portfolio, allowing for a better reflection of the specificity of a given sub-portfolio.

Apart from hard evidence, which determine occurrence of default event, the Bank identifies soft evidence. Occurrence of a soft evidence does not automatically cause necessity for classification as a default event. Soft evidences have supplementary nature. These are issues which Bank should additionally consider during analysis of the situation of the borrower and which may indicate its deterioration. If in the Bank's assessment identified soft evidence have significant meaning for a particular case, the Bank should proceed with an assessment whether a default event occurred regardless of lack of hard evidence.

Significant deterioration

A significant deterioration in credit quality is recognised for the asset concerned on the basis of qualitative criteria.

Qualitative criteria are:

- where an amount is more than 30 days past due and exceeds PLN 3 000 (days past due, with an activation threshold – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days),
- occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).

- occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

The Transfer Logic quantitative criterion uses a measure of significant credit deterioration based on the absolute change in the PD value determined for the exposure at the reporting date compared to the PD measure of the exposure determined at the initial recognition date.

If, during the life of the exposure, the value of the PD change exceeds the so-called the transition threshold, then the exposure is transferred to Basket 2. Another initial recognition date is determined for the exposures for which the contractual terms have been significantly modified.

Estimating expected credit losses (ECL)

The determination of the expected credit loss (ECL) is done at the level of a single contract. In the portfolio approach, expected credit losses are the multiplication of individual for each exposure estimated value of PD, LGD and EAD and the final value of expected credit losses is the sum of expected credit losses in particular periods, the element of discounting expected losses determined for subsequent periods is included in the EAD parameter. If on the reporting date the exposure credit risk did not increase significantly since the initial recognition, the Bank calculates impairment provisions in the amount equal to 12-month expected credit losses (12m ECL). If the exposure credit risk increased significantly since the initial recognition (exposure is in the stage 2), the Bank calculates impairment provisions in the amount equal to life-time expected credit losses (Lt ECL). An expected loss is measured for non-zero exposures that are active at the reporting date (balance sheet and off-balance sheet). An expected credit loss is estimated separately for the balance- and off-balance-sheet part of the exposure. The parameters used to calculate an expected credit loss in Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

In the individual approach (all balance sheet and off-balance sheet credit exposures with an impairment in the corporate loan portfolio are treated as individually significant), the expected credit losses are calculated as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted with the effective interest rate. The method of calculating the expected recoveries takes place in scenarios and depends on the Bank's chosen strategy for the client. In case of restructuring strategy, the scenarios considered assume a significant share of recoveries from the customer's own payments. In case of vindication strategy, the scenarios are based on collateral recoveries.

Determining the long-term PD parameter for the majority of the corporate portfolio (94%) is made on the basis of generating income from the lease of various areas, taking into account 5 models of risk factor dynamics (exchange rate model, interest rate, rental prices, occupancy level, level of the price index on the market) real estate) affecting the amount of these revenues.

As part of the modeling, both specific market data (exchange rates, interest rates) and specific real estate data (forecasts of expected revenues, schedule liabilities) are subjected to stress in order to determine the value of revenues, liabilities, property value, LTV ratios in the horizon until the loan maturity.

Based on a set of default conditions (independent of the regulatory definition of default), the Monte Carlo simulation determines the probability of an unfavorable economic situation that may lead to or contribute to default, which allows the mPD curve to be determined.

For a part of the portfolio, i.e. for exposures without individual estimates of risk parameters, the estimation based on the Weibull function with exponential adjustment was used, in which the cumulative DR (cDR) is the dependent variable.

For the purpose of determining the long-term LGD parameter, the bank determines the components of this parameter, i.e. ZLGD, RR and BD. ZLGD (Zero Loss Given Default) determines the share of loans that have entered the default state and left this state without taking any debt collection measures in relation to the total defaults. The indicator is quantified based on historical observations as well as for unfinished default cases based on expected recovery scenarios.

RR (Recovery Rate) determines the expected recovery rate that the Bank is able to recover. The indicator is quantified based on the weighted average of the number of historical observations as well as for unfinished default cases based on the expected recovery scenarios.

BD (Bad Debt) defines the share of contracts in relation to which the realization of the security turned out to be impossible, ended with a total loss. Due to the fact that there are no such cases, the ratio is determined by experts, taking into account the impact of the expected changes in the legal and economic environment on the possibility of selling the real estate being the subject of collateral.

With regard to the long-term EAD parameter, due to the fact that all credit exposures are exposures with a repayment schedule, the bank, for the purposes of estimating the LtEAD value, uses the information on the gross carrying amount of the exposure, future principal and interest installments from the schedule available as at the reporting date and the effective amount interest rate. For the purpose of estimating the LtEAD value, the bank also uses information on the observed prepayment ratio in a given portfolio to which the loan product belongs.

<u>Use of macroeconomics scenarios in ECL estimation</u>

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL for corporate portfolio, this element is considered in the process of determining PD and LGD.

Determination of the risk of corporate client's insolvency within the credit maturity horizon is based on generation of income from lease of various properties, taking into account models of risk factors influencing changes in the amount of such income. As part of the modelling process, both specific market data (exchange rates, interest rates) as well as specific property data (expected revenue forecasts, schedule liabilities) are subject to distortions in order to determine the value of revenues, liabilities, property value and LTV ratios over the loan maturity horizon. The likelihood of an adverse economic situation, which may lead to or contribute to default, is modelled on the basis of a set of default conditions (independent of the regulatory definition of default), in a Monte Carlo simulation, which ensures that a wide range of scenarios for possible future macroeconomic developments considered.

Determination of the LGD level for a corporate client in the horizon up to the loan maturity is made on the basis of forecasted LtV levels, which in turn are affected by forecasted rental price levels, vacancy levels and exchange rates.

<u>Significant model changes</u>

In 2021, the Bank made the following significant changes to the models used to calculate expected credit risk losses:

updating the macroeconomic indicators used in the models along with recalibration of long-run PD models and a quantitative model of allocation to baskets, taking into account selected guidelines of the new recommendation R Polish Financial Supervision Authority (which came into force on January 1, 2022).
Total impact of the above-mentioned changes on the level of expected credit loss amounted to approximately PLN 1.2 million (positive impact on the result).

<u>Loan receivable write-off</u>

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.

2.9. Cash and cash equivalents

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

2.10. Derivative financial instruments and hedge accounting

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

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

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

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

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 recognised in other comprehensive income. The gain or loss concerning the ineffective part is recognised in the income statement of the current period.

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

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

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.

2.11. 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 recognises 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.

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

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

2.12. 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.

2.13. Intangible assets

Initially the Bank recognises intangible assets at acquisition cost. Subsequently intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) 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 recognised 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.

Development costs

The Bank identifies development costs as intangible asset as the asset will generate probable future economic benefits and fulfil the following requirements described in IAS 38, i.e., the Bank has the intention and ability to complete and to use the generated intangible asset, the availability of adequate technical and financial resources to complete and to use the generated intangible asset and the ability to measure reliably the expenditure attributable to the generated intangible asset during its development.

"Development costs" useful lives are finite and the amortization period does not exceed 3 years. Amortization rates are adjusted to the period of economic utilisation.

Expenditures on development work include all expenditures that can be directly attributed to development activities. they are mainly related to the development of IT systems.

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.

2.14. 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 recognised 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 recognised 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 ald 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 recognises 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 recognised in the income statement at the moment of removal of this position from the statement of financial situation.

2.15. 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 recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. 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 recognised, 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. Unrecognised deferred income tax asset is subject to reassessment for each balance sheet date and is recognised 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 recognised in the same manner as revaluation and actuarial profits and losses, directly in the other comprehensive income.

2.16. 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".

2.17. Provisions

Loan committments and financial guarantee contracts are subject to loan loss provisions requirements according to IFRS 9 Financial Instruments.

According to IAS 37, provisions are recognised 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.

2.18. Post-employment employee benefits and other employee benefits

The Bank forms provisions against future liabilities on account of post-employment benefits determined on the basis of an estimation of liabilities of that type, using an actuarial model. Current employment costs and net interest are recognized in the income statement under "Overhead costs". Actuarial profits and losses are recognised in other comprehensive incomes which will not be reclassified to the income statement.

Phantom share-based benefits settled in cash
The Bank runs a remuneration program for the Bank's Management Board and employees who have a significant impact on the Bank's risk profile, based on phantom shares settled in cash.
Pursuant to the provisions of IAS 19, the projected unit credit method was applied to determine the present value of employee benefit obligations. The basis for calculating the provision for the deferred part of the 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 Employee Remuneration Policy that has a significant impact on the Bank's risk profile.

Phantom shares are awarded in the number resulting from the valuation of these shares for the assessment period. The valuation of phantom shares is calculated each time at the end of the reporting period as the quotient of the Bank's book value (estimated by the Bank's internal experts) and the number of ordinary shares.

The payment of phantom shares depends on the valuation of these shares in the given reporting period in which they are bought back, adjusted for a capital increase above their nominal value, throughout the assessment period.

The final value of the bonus, being the product of the number of shares and their expected value as at the balance sheet date preceding the realization of each of the deferred tranches, is actuarial discounted. The actuarial discount is the product of the financial discount (the time value of money) and the probability that each participant will survive individually until the moment of full vesting of each of the deferred tranches. Probability, the aforementioned was determined by the competing risk method, where the following three risks were taken into account: the possibility of dismissal from work, the risk of complete incapacity for work, and the risk of death.
The possibility of an employee quitting work has been assessed using a probability distribution, taking into account the Bank's statistical data. The weighted average employee mobility coefficient was used for the valuation, which as at 31 December 2022 amounted to 12.35% for women and 12.83% for men.
The risk of death was expressed in the form of the latest statistical data from Polish life expectancy tables for men and women, published by the Central Statistical Office, as at the date of the valuation. A detailed description of the program is presented in note 41.

2.19. Issue of securities

The Bank’s liabilities resulting from issue of securities (covered bonds, bonds) upon initial recognition are valuated 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”.

2.20. Loans and advances received

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

2.21. 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,
- applying cash flow hedge accounting

2.22. 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

If the definition of a lease is met, the right to use an asset is recognized in the group of property, plant and equipment together with the appropriate lease liability, ie under financial liabilities measured at amortized cost.The Bank as a lessee applies simplified approach and it does not apply the requirements in terms of recognition, measurement and presentation for short-term lease contracts lasting no longer than 12 months for each class of underlying asset as well as for lease contracts for which the underlying asset is of low value, i.e. less than PLN 20 000 for separate leases. Lease payments are recognized as costs using straight-line method throughout the lease period for lease contracts for which the Group applies simplified approach. Perpetual usufruct right is classified as a lease according to IFRS 16 due to the occurrence of future fees for the use of this right. The Group assumed that the lease period for this type of contracts is the remaining period of the right granted since the transition to IFRS 16.

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

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

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

- 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 rightof-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 (such as LIBOR) 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 interest rate of lease if this rate can be easily determined. Otherwise, the Group applies the marginal interest rate of lessee. As the lessee the Group estimates the discount rate taking into account the duration and the currency of the contract. Cash payments of lease liabilities are classified in statement of cash flows within financial activities. Short term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified in statement of cash flows within operating activites. 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, 2022 amounted to TPLN 3.777, while as at December 31, 2021 they amounted to TPLN 3.959.

Before the implementation of IFRS 16, the Bank, as a lessee, classified lease agreements existing in the Bank as operating lease agreements. All lease payments made under operating lease were charged to costs on a straight-line basis over the lease term. There were no financial lease agreements in the Bank.

2.23. Valuation of items denominated in foreign currencies

Functional 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 recognised in the income statement.

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

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

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

for 2022 (in PLN thousand)

2.24. 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.

2.25. Received financial guarantees

Guarantees received during the life of the loan are not an integral part of the loan and should not be considered as collateral for the loan. They are accounted for as a separate financial instrument and the cash flows from which are not included in the measurement of ECL for a loan that is guaranteed.

Where the cash flows under the financial guarantee contract are not included in the expected credit losses on the guaranteed loan, the guarantee return is treated as a separate expected return asset (Other assets). As at the date of granting the guarantee, no asset to be reimbursed is recognized in the amount of the present value of the write-down for expected credit losses, and the impact on the financial result is neutral. This is due to the fact that the mechanism of this instrument is designed to cover the potential increases in the write-off for expected credit losses on the guaranteed portfolio. The change in the value of the asset to be returned, which is referred to the income statement in the same line as the costs of expected credit losses (impairment or reversal of impairment on financial assets not measured at fair value through profit or loss), is conditional on the recognition of an increase in credit risk on a given exposure.

2.26. New standards, interpretations and amendments to published standards

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

Standards and interpretations endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Bank's financial statements in the period of their initial application
Annual Improvements to IFRS Standards 2018-2020	Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture. The amendment to IFRS 9 clarifies which fees the entity includes when it applies the '10 percent test' in assessing whether to derecognise a financial liability. The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements.	1 January 2022	The application of the amended standard had no significant impact on the financial statements.
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	Amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.	1 January 2022	The application of the amended standard had no significant impact on the financial statements.
Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract	Amendments to IAS 37 specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.	1 January 2022	The application of the amended standard had no significant impact on the financial statements.
Amendments to IFRS 3 Reference to the Conceptual Framework	Amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. They also added a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of conceptual framework) to identify the liabilities it has assumed in business combination. Moreover, the standard added an explicit statement that an acquirer does not recognise contingent asset acquired in a business combination.	1 January 2022	The application of the amended standard had no significant impact on the financial statements.

for 2022 (in PLN thousand)

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

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Bank's financial statements in the period of their initial application
Amendment to IAS 8, Definition of Accounting Estimates	In amendment to IAS 8, the definition of a change in accounting estimates was replaced with a definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The introduction of a definition of accounting estimates and other amendments to IAS 8 was aimed to help entities distinguish changes in accounting policies from changes in accounting estimates.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies	Amendments to IAS 1 and IFRS Practice Statement 2 are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments introduce the requirement to disclose material accounting policy information instead of significant accounting policies with some clarifications and examples how an entity can identify material accounting policy information.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: methods for the valuation of insurance liabilities, recognition revenues and result from insurance contract.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17, Deferral of use and exclusion of certain products from the scope	Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 17 and IFRS 9 - Comparative data	The amendment to the standards introduces optional facilities to minimize the accounting mismatch between financial assets and liabilities presented in the comparative data of the financial statements of entities applying IFRS 17 and IFRS 9 for the first time.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.

Standards and interpretations not yet endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of binding period	Impact on the Bank's financial statements in the period of their initial application
Amendments to IAS 1, Classification of liabilities as current or non-current	Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 16 Leasing	Amendment to IFRS 16 requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.	1 January 2024	The application of the amended standard will have no significant impact on the financial statements.

2.27. Application of hedge accounting in accordance with IFRS 9

Until 30 June 2022 the Group applied the hedge accounting requirements in accordance with IAS 39, instead of the requirements set forth in IFRS 9. Starting 1 July 2022 the Group applies IFRS 9

requirements in the area of hedge accounting to all hedge relations except for fair value portfolio hedges of interest rate risk where the hedged item is designated as portion that is a currency amount.
The hedge relations, that starting 1 July 2022 are accounted for in line with IFRS 9, qualifies for hedge accounting provided that:

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

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

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

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.

The maximum exposure to credit risk equals to the amount of positions presented in the statement of financial position and off-balance sheet data presented in the note 24.

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. This assurance is based on analysis of long-term profitability of a given real estate, completed by establishing of the amount of capitalised net proceeds possible in long-term to achieve from a given real estate.

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 recognised.

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 - in case of loans for refinancing, loans to commercial developers, loans to housing developers, loans for land purchase, loans to natural persons, loans to natural persons - agency model, pooling,
- assignment of rights from insurance policy against fire and other random events of a real estate mortgaged to the Bank or assignment of rights from policy against any construction risk of the financed real estate (depending on whether financing covers a completed real estate or an estate under construction) - in case of loans for refinancing, loans to commercial developers, loans to housing developers, loans to natural persons, loans to natural persons - agency model, pooling,
- assignment or pledge on receivables under lease agreements - in case of loans for refinancing, loans to commercial developers,
- blank promissory note of the borrower with bill declaration - in case of loans granted to local government units,
- guarantee of local government units according to civil law - in case of loans for health care facilities and companies appointed by local government units.

In case of commercial loans a dominating organisational form of borrowers of the Bank are so called special purpose companies. To the best knowledge of the Bank, Members of the Management Board and employees of the Bank do not hold positions in bodies of companies that are borrowers of the Bank.

According to IFRS 10, the Bank conducts analysis of exercising of control over units by the Bank. The Bank did not invest in securities and shares of other business units giving it a possibility to exercise current management over significant activities of those units and has no subsidiaries or associated, thus the analysis is related to possible interactions between the Bank and entities credited by it.

If those companies are companies with share capital, i.e. limited liability companies and joint stock companies, the Bank accepts registered pledge on shares or stocks as a legal collateral for repayment of a loan. Therefore, there is also significant concentration of registered pledges on shares or stocks as legal collateral of loan repayment. In case of financing of limited and limited joint stock companies, as legal collateral of repayment of loan the Bank accepts a pledge on shares/stocks of a general partner - an entity authorised to manage affairs of a limited or limited joint stock company.

Regardless of collaterals referred to above, the Bank may accept additional legal forms of collaterals for loans, in particular:

a) bank guarantee,
b) guarantee under civil law or according to the law on bills of exchange,
c) registered pledge on rights or receivables,
d) pledge according to the civil code on rights or receivables,
e) transfer of receivables other than those referred to above,
f) reservation of money on accounts,
g) power of attorney to account,
h) accession to a loan debt,
i) loan insurance,
j) debtors' declaration on submission to execution,
k) deposit,
l) borrower's shareholders' obligations
m) other forms provided by law.

The Bank establishes the form and value of legal collateral taking into account the specificity of a transaction, i.e. considering:

a) type and amount of loan and period of lending,
b) borrower's legal status,
c) borrower's financial situation,
d) history of cooperation with the borrower and capital group to which the borrower belongs,
e) costs of establishing collateral,
f) possibility of satisfying from accepted collateral of claims of the Bank in the shortest possible time.

In the scope of bank guarantees and assignment of rights from insurance policies, the Bank while selecting counterparties pays attention to financial results and rating of collateral issuers, accepting collaterals from reliable banks and insurance companies only.

3.1.2. Description of the rating system and credit risk management

For the analysis of the loan portfolio the Bank uses rating models which are updated annually. Rating systems currently cover 99% of total sum of risk-weighted exposures with standard method including portfolios covered with a plan of gradual implementation and 34% without including those portfolios. The difference results from the fact, that 65% of the total sum of risk-weighted exposures with standard method are retail exposures gained from the cooperation with mBank S.A., which are part of gradual implementation of the IRB method, accepted by the Polish Financial Supervision Authority. The Bank intends to apply in the future for the acceptance to use the statistical methods to measure regulatory capital requirements for the credit risk of these exposures.

The Bank applies rating models:

- for the purposes of credit risk management, including credit decision making, transaction credit risk assessment and capital adequacy - in the case of a commercial portfolio;
- for the purposes of credit risk management, including making credit decisions, assessing the credit risk of transactions, determining expected credit losses (ECL), ultimately also for the purposes of capital adequacy - for exposures within the retail portfolio obtained in cooperation with mBank S.A.

The increase from PLN 2.4 million to PLN 36.8 million results from a higher reservation of default loans due to changes in the value of collateral and developments in enforcement/bankruptcy proceedings.
In the case of the retail portfolio, in 2022 there was a significant increase in the amount of write-offs for the expanding portfolio with evidence of impairment and model changes in terms of risk parameters (recalibration and updates of macroeconomic forecasts), while in 2021, provisions for the retail portfolio decreased as a result of the implementation of the New Default Definition.
Using the individual approach, the Bank assesses the reclassification of credit exposures to individual baskets on an ongoing basis, in particular in terms of identifying a significant increase in credit risk and identifying evidence of default in the individual approach.
Using the individual approach, the Bank assesses the reclassification of credit exposures to individual baskets on an ongoing basis, in particular in terms of identifying a significant increase in credit risk and identifying evidence of default in the individual approach.

<u>Commercial portfolio including commercial receivables purchased from mBank S.A.</u>

In the area of commercial loans, the Bank applies a model based on supervisory criteria defined for specialized lending in the Commission Delegated Regulation (EU) 2021/598 of 14 December 2020 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council (hereinafter: the Regulation) with regard to regulatory technical standards for assigning risk weights to specialized lending exposures.

Ratings that analyse the structure of transaction are applicable to financing implemented:

- using "project finance", where as a principle a special purpose company is a borrower,
- for different types of transactions related to financing or refinancing of construction/purchase of office, service and commercial buildings, commercial and service spaces, warehouses, single- and multi-family housing estates for rental or sale, hotels and business premises for commercial activity, offices or warehouses.

For the purposes of determining the risk parameters of exposures classified as FN specialist lending, the Bank applies supervisory regulations and parameters specifying the requirements for applying supervisory risk weights. These requirements apply in particular:

- the need to take into account risk factors indicated by the Supervisor;
- distinguishing 4 risk categories for non-performing debtors and one category of defaulting debtors, and
- use of risk weights and expected loss (EL) for exposures classified as specialized lending.

Assignment of appropriate supervisory categories takes place subsequent to risk assessment of a transaction using defined to supervisory categories.

Retail portfolio obtained in cooperation with mBank S.A.

For the purposes of assessment of reliability of a client applying for a retail loan product secured with mortgage and monitoring/reporting of credit risk for this portfolio, group credit risk models, which the Bank is a local user, are applied. Detailed rules and scope of cooperation between Banks in terms of group risk models are specified by provisions of a separate agreement on cooperation in the scope of risk management. The capital requirement for credit risk for this part of the portfolio is calculated using the standard method.

This retail portfolio is included in the AIRB phasing-in plan.

The following models comprised by the rating system are used in the retail banking area:

- Loss Given Default (LGD) model. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected during enforcement procedures,
- Credit Conversion Factor (CCF) model. This factor is an integral part of the EAD model (CCF as a degree of implementation of off-balance sheet liabilities by the client on the day of default occurrence),
- probability of default model (PD) which is a modular model that integrates functioning in the area of retail banking application cards, behavioural and based on external data from Credit Information Bureau (BIK).

Additional information

Ratings assigned by external rating agencies have very limited significance in the credit risk assessment of the Bank due to dominating organisational form of borrowers - special purpose companies.

The risk-weighted exposure amounts to credit risk calculated using the internal ratings method using the supervisory approach for assigning specialized lending exposures to risk categories (IRB slotting approach) are presented in note 44.

Assessment of quality of the Bank's loan portfolio is made on the basis of monitoring of timely repayments and monitoring of analysis of economic and financial situation of the borrower.
Loans to natural persons are monitored monthly for timely repayments and regularities in terms of established effective mortgage collaterals. All contractual obligations of the client are realised in the same monitoring period (including insuring of the real estate and assignment of the rights under insurance policies).

Commercial and public sector portfolio is monitored monthly for timely repayments, while the economic and financial situation is monitored quarterly or semi-annually depending on risk assessment of a transaction measured with obtained amount of points in the rating model. Additionally, the implementation of investment and settlement with contractors is also subject to monthly monitoring - in case of financing of a construction.

3.1.3. Repossessed collateral

The Bank may acquire a real estate of the debtor of the Bank on which mortgage that secures the repayment of loan was established in exchange for cancellation of the loan liability or part thereof resulting from the loan agreement, directly to its assets.

The Bank repossesses real estates of the debtor that constitute subject of mortgage collateral of repayment of liabilities arising from loan agreement or other real estates indicated by the Bank's debtor and accepted by the Bank as a subject of repossession.

for 2022 (in PLN thousand)

The Bank is obliged to take measures aimed at sale of repossessed real estate or part thereof immediately after its purchase/repossession.

The decision regarding the strategy of sale of repossessed/purchased by the Bank real estate or part thereof and its procedure is taken by the Management Board of the Bank.

In both 2022 and 2021, the Bank did not take over any collaterals.

3.1.4. The policy of Bank in terms of forbearance

For customers, who are temporarily in financial distress and are unable to meet their original contractual repayment terms, the Bank offers agreements with less restrictive terms of repayment, without which financial difficulties would prevent satisfactory repayment under the original terms and conditions of the contract.

Changes to these agreements may be initiated by the customer or the Bank and include e.g. debt restructuring, new repayments schedule, capital repayments deferrals with interest repayments kept.

The type of concession offered should be appropriate to the nature and the expected duration of the customer's financial distress. If the customer wants to conclude an agreement it must convince the Bank about its willingness and ability to repay the loan. Prior to granting any concession, an assessment of its impact on improving customer's ability to repay the loan is carried out.

The Bank renegotiates loan agreements with customers in financial difficulties to maximise possibility of loan receivables repayment and minimise the risk of client's default.

In case of retail customers, in accordance with the forbearance policy, forborne activities may take on various forms depending on the type and scale of the customer's financial problems. Activities of short-term nature are subject mainly to temporary reduction of the amounts of instalments or suspension of capital instalments while maintaining payment of interests. For customers under long term financial distress extension of contractual repayment schedule may be offered by the Bank which can include instalments reduction.

For the corporate clients in financial distress the Bank uses, in accordance with the forbearance policy, a wide range of activities aimed at supporting of the business process, starting from omission of actions to which the Bank is entitled in case of breach of contractual provisions or covenants, and finishing on restructuring of loan agreements. At the same time restructuring agreements may repeal or alleviate additional conditions concluded in the original agreement, if it is an optimum strategy for survival of the customer's business.

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

The structure of the loan portfolio measured at amortized cost in the forbearance category in Bank as at 31 December 2022 is as follows:

31.12.2022	Gros value	Of which defaulted	Write-downs created	Net value
Loans and advances to customers, including:	462 277	398 209	134 733	327 544
Corporate customers	297 689	297 690	108 920	188 769
Individual customers	164 588	100 519	25 813	138 775
Total balance sheet data	**462 277**	**398 209**	**134 733**	**327 544**

As at 31 December 2022, 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 2021 is as follows:

31.12.2021	Gros value	Of which defaulted	Write-downs created	Net value
Loans and advances to customers, including:	339 390	293 339	70 069	269 321
Corporate customers	305 787	285 126	67 834	237 953
Individual customers	33 602	8 213	2 235	31 367
Total balance sheet data	**339 390**	**293 339**	**70 069**	**269 321**

for 2022 (in PLN thousand)

The structure of the loan portfolio measured mandatorily at fair value through profit or loss in the forbearance category in Bank as at 31 December 2021 is as follows:

31.12.2021	Fair value	Of which defaulted
Non-trading finansial assets mandatorily at fair value trough profit or loss – loans and advances to customers, including:	7 086	5 785
Corporate customers	7 086	5 785
Total	**7 086**	**5 785**

The size of the portfolio of the customers to whom the Bank has granted relief is still small compared with the total size of the Bank's loan portfolio. The forbearance portfolio represents 3.95% (2.90% as at 31.12.2021) of the entire portfolio. As at 31 December 2022, the forbearance exposure portfolio in the default category represented 86.14% of the forbearance portfolio (86.43% as at 31.12.2021). The portfolio of exposures measured at amortized cost default was covered by expected credit losses of 33.83% (23.89% as at 31.12.2021).

The risk of default on the forbearance portfolio is mitigated with the accepted collateral in the form of a mortgage on a property with a mortgage lending value of TPLN 700 853 (TPLN 566 445 as at 31.12.2021), including TPLN 620 030 in the default category (TPLN 482 339 as at 31.12.2021).

Changes in the carrying amount of the forbearance exposures measured at amortized cost in 2022:

31.12.2022	Gros value	Of which defaulted	Write-downs created	Net value
Balance 01.01.2022	**339 390**	**293 339**	**70 069**	**269 321**
Outputs from forbearance	(13 988)	(1 115)	(156)	(13 832)
Change in exposure	(3 698)	(2 163)	41 900	(45 598)
New forbearance	140 573	108 147	22 920	117 653
Balance 31.12.2022	**462 277**	**398 208**	**134 733**	**327 544**

In 2022, 226 new exposures in the forbearance category were added, of which 0 were corporate clients. In 2021, 49 new exposures in the forbearance category were added, of which 3 were corporate clients for a total gross amount of TPLN 102 257.

Changes in the carrying amount of the forbearance exposures measured at amortized cost in 2021:

31.12.2021	Gros value	Of which defaulted	Write-downs created	Net value
Balance 01.01.2021	**275 228**	**161 279**	**61 307**	**213 921**
Outputs from forbearance	(15 399)	(1 029)	(310)	(15 089)
Change in exposure	(36 130)	28 521	(1 601)	(34 529)
New forbearance	115 691	104 568	10 673	105 018
Balance 31.12.2021	**339 390**	**293 339**	**70 069**	**269 321**

Changes in the fair value of the forbearance exposures which is mandatorily at fair value through profit or loss in 2022:

31.12.2022	Fair value	Of which defaulted
Balance 01.01.2022	**7 269**	**5 929**
Outputs from forbearance	(7 269)	(5 929)
Change in exposure	-	-
New forbearance	-	-
Balance 31.12.2022	**-**	**-**

for 2022 (in PLN thousand)

Changes in the fair value of the forbearance exposures which is mandatorily at fair value through profit or loss in 2021:

31.12.2021	Fair value	Of which defaulted
Balance 01.01.2021	**7 698**	**5 921**
Outputs from forbearance	-	-
Change in exposure	(429)	8
New forbearance	-	-
Balance 31.12.2021	**7 269**	**5 929**

Forbearance exposures measured at amortized cost by type of concession as at 31 December 2022:

31.12.2022	Gros value	Of which defaulted	Write-downs created	Net value
Refinancing	433	433	415	18
Modifications of terms and conditons	459 178	397 443	134 282	324 896
Total	**459 611**	**397 876**	**134 697**	**324 914**

Forbearance exposures measured at amortized cost by type of concession as at 31 December 2021

31.12.2021	Gros value	Of which defaulted	Write-downs created	Net value
Refinancing	1 639	1 639	1 196	443
Modifications of terms and conditons	336 405	291 152	68 869	267 536
Total	**338 044**	**292 791**	**70 065**	**267 979**

Forbearance exposures measured mandatorily at fair value through profit or loss by type of concession as at 31 December 2021

31.12.2021	Fair value	Of which defaulted
Refinancing	-	-
Modifications of terms and conditons	7 086	5 785
Total	**7 086**	**5 785**

Forbearance exposures measured at amortized cost without recognised loss impairment per length of overdue period as at 31 December 2022

Forbearance ex posures without impairment reconised (31.12.2022)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	63 790	-	492	63 298
Up to 30 days	278	-	1	277
31 to 90 days	-	-	-	-
Over 90 days	-	-	-	-
Total	**64 068**	**-**	**493**	**63 575**

Forbearance exposures measured mandatorily at fair value through profit or loss per length of overdue period as at 31 December 2021

31.12.2021 Past due period	Fair value	Of which defaulted
Not overdue	1 301	-
Over 90 days	5 785	5 785
Total	**7 086**	**5 785**

for 2022 (in PLN thousand)

Forbearance exposures measured at amortized cost without recognised loss impairment per length of overdue period as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	40 080	-	2 842	37 238
Up to 30 days	3 635	-	120	3 515
31 to 90 days	1 992	-	98	1 894
Over 90 days	344	-	17	327
Total	**46 051**	**-**	**3 077**	**42 974**

Forbearance exposures measured at amortized cost with recognised loss impairment per length of overdue period as at 31 December 2022

Forbearance ex posures without impairment reconised (31.12.2022)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	242 568	242 568	41 634	200 934
Up to 30 days	28 149	28 149	14 335	13 814
31 to 90 days	1 039	1 039	151	888
more than 90 days	126 453	126 453	78 120	48 333
Total	**398 209**	**398 209**	**134 240**	**263 969**

Forbearance exposures measured at amortized cost with recognised loss impairment per length of overdue period as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Gross value	Of which defaulted	Write downs created	Net value
Not overdue	168 059	168 059	9 950	158 109
Up to 30 days	3 978	3 978	766	3 212
31 to 90 days	17 455	17 455	2 747	14 708
more than 90 days	103 846	103 846	53 528	50 318
Total	**293 338**	**293 338**	**66 991**	**226 347**

Forbearance exposures measured at amortized cost by industry as at 31 December 2022

As at 31 December 2022	Gross value	Of which defaulted	Write-downs created	Net value
Activity related to the real estate market	272 551	272 551	76 694	195 857
Building industry	89 140	89 140	50 758	38 382
Natural persons	100 586	36 518	7 281	93 305
Total	**462 277**	**398 209**	**134 733**	**327 544**

Forbearance exposures measured mandatorily at fair value through profit or loss by industry as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Fair value	Of which defaulted
Activity related to the real estate market	7 086	5 785
Building industry	-	-
Total	**7 086**	**5 785**

Forbearance exposures measured at amortized cost by industry as at 31 December 2021

Forbearance ex posures without impairment reconised (31.12.2021)	Gross value	Of which defaulted	Write-downs created	Net value
Activity related to the real estate market	218 673	213 329	30 153	188 520
Building industry	87 115	71 797	37 681	49 434
Natural persons	33 602	8 213	2 235	31 367
Total	**339 390**	**293 339**	**70 069**	**269 321**

Interest income related to forbearance exposures at the end of 2022, amounted to TPLN 8 051 (for the period ended 31 December 2021: TPLN 2 955).

Retail Banking

The Bank does not consider loans with modified terms as falling under the forbearance policy in the case when changes result from the customer's application and there are no current or anticipated customer's financial difficulties, and, in addition, modifications of the contract meet the criteria of decision-making policy for a healthy portfolio. In the normal course of cooperation with a customer, the customer who is not in financial distress submits application to change the conditions of agreement, for example, in the scope of renegotiation of pricing conditions due to change of market conditions or in order to increase its ability to service another loan. If such application meets all decision criteria and is granted according to market conditions, then such loan is not classified to the forbearance category.

If case when a customer applies for prolongation of the repayment term, reduction of the amount of paid instalments or other alleviation of conditions, when it is caused by financial distress of the customer, modified agreements are treated as forborne products subject to the forbearance policy and are appropriately reported in the financial statement.

Forborne products (forbearance) available in retail banking are offered only to customers who are in financial distress. The type of offered forborne product depends of the scale and nature of the customer's financial distress.

The following list of forborne 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 forborne 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 recognise the product as forbearance in the following cases:

- repayment of loan is considered as performing,
- at least 2 years passed since an attempt to recognise exposure as performing, or the contract was in the non-performing category at the moment of granting of a concession,
- there were regular inflows from receivables or interests (delays is payment on the contract not exceeding 31 DPD in significant amount), since at least from the half of the sample period,
- no exposure of debtors is overdue by over 31 days at the end of sample period in the amount greater than PLN 500.

Gross portfolio of products of forbearance status in the retail part as at 31 December 2022 amounted to TPLN 164 588 (as at 31.12.2021 TPLN 33 602).

Corporate banking

Credit relationships between the Bank and corporate clients are based on products the granting conditions of which take into account the type of business activity conducted by the client and are subject to negotiations.

Mortgage loans renegotiated for commercial reasons, e.g. in cases of significant improvement of the client's financial situation or in order to maintain relationship with a client without difficult credit situation are not treated as forbearance and are not subject to the following disclosure.

Forbearance occurs when, due to current or future financial distress of a client, the Bank grants products on conditions that are below standard conditions applicable in the Bank, which in other circumstances would not be accepted.

The change of conditions is treated as a relief subject to the forbearance policy,when it improves the client's ability to repay the debt or prevents the client's default.

For corporate clients in financial distress the Bank applies a wide range of action aimed at supporting of the Client's business process, wherein the following list of possible restructuring actions subject to the forbearance policy do not exhaust all available actions, but includes the most commonly used:

- loan increase,
- change of scheduled repayments,
- extension of the tenor,
- restructuring (medium or long term refinancing),
- capitalization of interest,
- lowering of the Bank's margin,
- granting of a grace period for repayment of capital while maintaining payment of interests,
- suspending, waiving from realization of actions resulting from additional conditions in agreement (so-called covenants).

The assessment of impairment on the basis of individual analysis is performed in every situation in which any criterion of recognising exposure as default in accordance with methodology applicable in the Bank occurred.

The portfolio of loans classified to the forbearance category in the Bank is subject to particular monitoring by all units participating in the lending process and constant assessment whether any evidence of permanent impairment of the Bank's receivable occurred. Transactions qualified to this category remain in this portfolio and are reported as forbearance for minimum 24 months from the day of granting of a concession (so called trial period). The following conditions must be met:

- recognizing the exposure as non-risky (performing),
- At least 24 months have passed since the exposure was considered non-performing (performing),
- there were regular receipts from receivables or interest (delays in repayment on the contract not exceeding 30 DPD in a significant amount), at least from the middle of the trial period,
- none of the obligor's exposures are more than 30 days past due at the end of the trial period.

A client may be removed from the forbearance portfolio before the end of the trial period only in case of complete repayment of the debt.

All loan products granted to a client serviced in the area of restructuring in the scope of the Bad Loans Section in the Commercial Loans Risk Department have the forbearance status and are subject to disclosure.

3.1.5. 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 2022 and 2021, there were no cases of exceeding the limits. As of December 31, 2022 and on On December 31, 2021, 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.

3.1.6. 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 2022 amounted to TPLN 1 171 608, of which: treasury bonds amounted to TPLN 771 913 and NBP money bills in the amount of TPLN 399 695. As at 31 December 2021 amounted to TPLN 732 393, NBP money bills did not occur. Debt securities on both 31 December 2022 and 31 December 2021 had A- rating in the scale of Standard & Poor's (S&P) Ratings.

As at December 31, 2022, the Bank created an allowance for expected credit losses (ECL) on treasury bonds in the amount of TPLN 20 (as at December 31,2021 TPLN 99) and treasury bonds TPLN 61.

Both as at 31 December 2022 and 31 December 2021 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 a risk that can significantly influence stability and security of the Bank's actions through failure to perform liability by a single entity, entities related in capital or organisationally as well as through group of entities in case of which the probability of failure to perform this liability 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) economic and quality information regarding the process of management in entities against which it holds exposure from which the concentration risk results,
h) 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,
i) 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) capital groups monitoring,
b) exposures concentration limit monitoring,
c) large exposures limit monitoring,
d) monitoring of the limit of loans granted to Bank's related entities,
e) internal limits monitoring.

<u>Sector concentration risk</u>

The Bank focuses its activity on granting of loans secured with mortgage established on real estate to legal entities, loans to local government units and loans secured with guarantee or guarantee of local government units. Regardless of external loan concentration limits the Management Board of the Bank establishes internal limits associated with e.g.:

a) industry concentration according to the type of financed real estate,
b) financing of real estates under construction and land purchases,
c) share of the financing of particular types of real estates in the loan portfolio,
d) geographical concentration, currency concentration,
e) type of applied in the Bank interest rates (fixed and variable interest rates),
f) lending period.

As at 31 December 2022 and 31 December 2021 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.

The assessment of individual credit risk in case of financing of commercial real estates is made on the basis of assessment of borrowers' creditworthiness, credit transaction ratings which include selected quantitative indicators, i.e. debt service coverage ratio (DSCR), interests service coverage ratio (ISCR), level of own funds, and in case of housing developers the level of benchmark price and quality measures, e.g. the means of project management and identification of default event. Ratings in the Bank cover different segments of specialist financing defined in bank procedures in terms of their distinction as to the type and investment phase. The Bank assesses the risk of credit transactions through risk parameters estimates. In particular the Bank, whose activity is subject to credit risk, before concluding a transaction or over its course - in monitoring mode - conducts risk assessment based on individualised rating systems that were created on the basis of an expert approach.

Credit risk management in financing of commercial real estate also includes: creation of impairment losses provisions for balance sheet credit exposures and write-offs for off-balance sheet credit exposures, indicators of creation and release of write-offs, application of limits, stress tests, scenario analyses, receivables concentration limits monitoring, application of credit collaterals, application of conservative rules of specifying of mortgage lending value of the property, application of statistical models for revaluing properties.

The table below presents the structure of concentration of balance sheet exposures in particular sectors.

No.	Trade	31.12.2022		31.12.2021	
		Net carrying amount (PLN '000)	Share in the portfolio (%)	Net carrying amount (PLN '000)	Share in the portfolio (%)
1.	Natural persons	9 515 623	82,25	9 136 876	77,90
2.	Activity related to the real estate market	1 355 279	11,71	1 695 338	14,45
3.	Building industry	500 090	4,32	664 546	5,67
4.	Proffesional, scientific and technical activity	54 498	0,47	77 751	0,66
5.	Activity related to culture, enteraiment ald leisure	50 315	0,43	56 373	0,48
6.	Public administration and defence;Compulsory social security	28 644	0,25	36 580	0,31
7.	Healt protection and social welfare	25 015	0,22	31 915	0,27
8.	Financial activities	31 886	0,28	20 371	0,17
9.	Activity related to accommodation and catering services	7 614	0,07	8 730	0,07
	Total	**11 568 964**	**100,00**	**11 728 480**	**100,00**

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 recognised 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 2022, VaR amounted to TPLN 4 703.1 compared with TPLN 3 283.8 as at 31 December 2021, 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 2022 until 31 December 2022 and from 1 January 2021 until 31 December 2021.

	12 months until 31.12.2022		12 months until 31.12.2021	
	average	maximum	average	maximum
Credit spread risk	2 712	3 068	2 226	3 089
Interest rate risk	3 211	4 157	2 110	2 986
Currency risk	349	976	79	647
VaR Total	**4 155**	**5 144**	**2 671**	**3 321**

Stress test and scenario analyses

An additional measure of market risk, supplementing the measurement of value at risk, is a stress test which shows a hypothetical change in the current valuation of the Bank's portfolio, that would take place as a result of risk factors (foreign exchange rates, interest rates, credit spreads) assuming the defined extreme values within a one-day time horizon. The Bank makes use of standard and expanded scenarios of big changes in the values of risk factors. Standard scenarios include changes in interest rates and exchange rates, extended scenarios additionally include scenarios of changes in credit spreads for securities.

As at December 31, 2022, the amount of risk resulting from the extended scenario was TPLN 35 704, while the average amount of risk for this scenario in the period from January 1, 2021 to December 31, 2022 was TPLN 40 207.

Below is a decomposition of amount of risk resulting from described stress test to the amount assigned to interest rate risk and currency risk.

Stress test	31.12.2022				31.12.2021			
	Total	Interes rate risk	Currency risk	Credit spread risk	Total	Interes rate risk	Currency risk	Credit spread risk
Amount of risc in PLN '000	(35 704)	(21 265)	(3 074)	(11 365)	(45 598)	(26 918)	(2 290)	(16 390)

for 2022 (in PLN thousand)

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 19). 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 31.12.2022 and as at 31.12.2021. 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	31.12.2022	31.12.2021
EUR	+10%	(3 077 448)	(2 161 675)
USD	+10%	9 069	(128 018)

The following table presents exposures of the Bank to currency risk as at 31 December 2022 and 31 December 2021. The table presents assets and liabilities of the Bank according to balance sheet amount broken down by particular currencies of transactions.

31.12.2022	PLN	EUR	USD	Total
Assets				
Cash and balances with the Central Bank	107 826	-	-	**107 826**
Financial assets held for trading and derivatives held for hedges	1 862	30 546	1 605	**34 013**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	60 365	40 457	-	**100 822**
Loans and advances to customers	60 365	40 457	-	**100 822**
Changes in fair value of hedged items in portfolio hedging against interest rate risk	3 064	-	-	**3 064**
Financial assets at fair value through other comprehensive income	1 171 608	-	-	**1 171 608**
Financial assets at amortised cost:	9 997 311	1 526 715	13 646	**11 537 672**
Loans and advances to banks	13 257	56 016	257	**69 530**
Loans and advances to customers	9 984 054	1 470 699	13 389	**11 468 142**
Intangible assets	48 442	-	-	**48 442**
Tangible assets	27 844	-	-	**27 844**
Current income tax receivables	30 281	-	-	**30 281**
Deferred income tax assets	81 863	-	-	**81 863**
Other assets	33 790	-	-	**33 790**
TOTAL ASSETS	**11 564 256**	**1 597 718**	**15 251**	**13 177 225**
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	1 713	14 443	-	**16 156**
Financial liabilities measured at amortised cost, including:	8 486 749	3 763 041	9	**12 249 798**
Amounts due to banks	5 107 481	437 336	-	**5 544 817**

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Amounts due to customers	578	9	9	**596**
Leasing liabilities	5 322	16 710	-	**22 032**
Debt securities issued	3 272 929	3 308 986	-	**6 581 915**
Subordinated liabilities	100 438	-	-	**100 438**
Provisions	12 487	-	-	**12 487**
Other liabilities	15 097	-	-	**15 097**
TOTAL LIABILITIES	**8 516 045**	**3 777 484**	**9**	**12 293 538**
Net balance sheet position	**3 037 941**	**(2 181 708)**	**15 224**	**871 457**
Loan commitments	**3 615**	**-**	**-**	**3 615**

31.12.2021	**PLN**	**EUR**	**USD**	**Total**
Assets				
Cash and balances with the Central Bank	114 658	-	-	**114 658**
Financial assets held for trading and derivatives held for hedges	1 163	124 618	56	**125 837**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	70 389	49 816	-	**120 205**
Loans and advances to customers	70 389	49 816	-	**120 205**
Financial assets at fair value through other comprehensive income	732 393	-	-	**732 393**
Financial assets at amortised cost:	9 742 520	1 991 689	26 733	**11 760 943**
Loans and advances to banks	495	152 127	46	**152 668**
Loans and advances to customers	9 742 025	1 839 562	26 687	**11 608 275**
Intangible assets	52 488	-	-	**52 488**
Tangible assets	29 434	-	-	**29 434**
Deferred income tax assets	19 960	-	-	**19 960**
Other assets	25 904	-	-	**25 904**
TOTAL ASSETS	**10 788 910**	**2 166 123**	**26 789**	**12 981 822**
Liabilities				
Financial liabilities held for trading and derivatives held for hedges	327	6 726	-	**7 053**
Financial liabilities measured at amortised cost, including:	7 134 154	4 552 689	-	**11 686 843**
Amounts due to banks	3 401 866	579 149	-	**3 981 015**
Amounts due to customers	1 829	104	-	**1 933**
Debt securities issued	3 630 241	3 973 436	-	**7 603 677**
Subordinated liabilities	100 218	-	-	**100 218**
Provisions	5 382	-	-	**5 383**
Current income tax liabilities	2 551	-	-	**2 551**
Other liabilities	15 703	-	-	**15 702**
TOTAL LIABILITIES	**7 158 117**	**4 559 415**	-	**11 717 533**
Net balance sheet position	**3 630 793**	**(2 393 292)**	**26 789**	**1 264 290**
Loan commitments	**9 700**	**-**	**-**	**9 700**

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)	31.12.2022	31.12.2021
For items expressed in PLN	1 975	5 115
For items expressed in USD	2	41
For items expressed in EUR	816	91

When calculating those values it was assumed that the structure of assets and liabilities recognised in financial statements as at 31 December 2022 and as at 31 December 2021 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 2022 on similar level as in 2021 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.

31.12.2022	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 balances with the Central Bank	107 826	-	-	-	-	-	**107 826**
Financial assets held for trading and derivatives held for hedges	3 313	30 700	-	-	-	-	**34 013**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	10 701	85 483	4 638	-	-	-	**100 822**
Financial assets at fair value through other comprehensive income	738 408	-	175 249	257 951	-	-	**1 171 608**
Financial assets at amortised cost loans and advances to banks	69 530	-	-	-	-	-	**69 530**
Financial assets at amortised cost loans and advances to customers	1 161 765	9 280 460	503 551	522 367	-	-	**11 468 142**
TOTAL ASSETS	**2 091 543**	**9 396 642**	**683 438**	**780 318**	**-**	**-**	**12 951 941**
Liabilities							
Financial liabilities held for trading and derivatives held for hedges	4 303	4 022	7 830	-	-	-	**16 156**
Financial liabilities measured at amortised cost - amounts due to banks	3 075 490	2 368 443	-	100 884	-	-	**5 544 817**
Financial liabilities measured at amortised cost - amounts due to customers	-	-	-	-	-	596	**596**
Financial liabilities measured at amortised cost - amounts due to leasing	-	-	-	-	-	22 032	**22 032**
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	59 260	2 908 686	246 917	3 167 873	199 179	-	**6 581 915**
Subordinated liabilities	-	100 438	-	-	-	-	**100 438**
TOTAL LIABILITIES	**3 139 054**	**5 381 589**	**254 748**	**3 268 756**	**199 179**	**22 628**	**12 265 954**
balance sheet gap	**(1 047 511)**	**4 015 053**	**428 691**	**(2 488 439)**	**(199 179)**	**(22 628)**	**685 987**

31.12.2021	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 balances with the Central Bank	114 658	-	-	-	-	-	**114 658**
Financial assets held for trading and derivatives held for hedges	57	111 299	14 482	-	-	-	**125 838**
Non-trading financial assets mandatorily at fair value through profit or loss, including:	15 224	100 472	4 509	-	-	-	**120 205**

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Financial assets at fair value through other comprehensive income	322 253	-	146 479	263 662	-	-	**732 394**
Financial assets at amortised cost loans and advances to banks	152 668	-	-	-	-	-	**152 668**
Financial assets at amortised cost loans and advances to customers	1 480 230	9 635 421	432 437	59 829	358	-	**11 608 275**
TOTAL ASSETS	**2 085 090**	**9 847 192**	**597 907**	**323 491**	**358**	**-**	**12 854 038**
Liabilities							
Financial liabilities held for trading and derivatives held for hedges	2 081	4 972	-	-	-	-	**7 053**
Financial liabilities measured at amortised cost - amounts due to banks	1 732 216	2 248 799	-	-	-	-	**3 981 015**
Financial liabilities measured at amortised cost - amounts due to customers	-	-	-	-	-	1 933	**1 933**
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	465 414	2 834 964	920 649	3 182 549	200 102	-	**7 603 678**
Subordinated liabilities	-	100 218	-	-	-	-	**100 218**
TOTAL LIABILITIES	**2 199 711**	**5 188 953**	**920 649**	**3 182 549**	**200 102**	**1 933**	**11 693 897**
balance sheet gap	**(114 621)**	**4 658 239**	**(322 742)**	**(2 859 058)**	**(199 744)**	**(1 933)**	**1 160 141**

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 2022, 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

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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, 2022 and December 31, 2021, their average and minimum values and maximum:

Liquidity norm*	Value as at 31.12.2022	average	minimum	maximum
LCR	853%	765%	178%	2 389%
NSFR	117%	112%	108%	118%

Liquidity norm*	Value as at 31.12.2021	average	minimum	maximum
LCR	876%	1 627%	516%	2 792%
NSFR	110%	115%	109%	119%

In 2022 and 2021 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.

31.12.2022	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 balances with the Central Bank	107 826	-	-	-	-	107 826
Non-trading financial assets mandatorily at fair value through profit or loss, including:	474	1 116	4 151	22 573	72 508	100 822
Financial assets at fair value through other comprehensive income	412 775	-	30 447	837 876	-	1 281 098
Financial assets at amortised cost loans and advances to banks	198 043	-	-	-	-	198 043
Financial assets at amortised cost loans and advances to customers	115 653	272 617	1 013 475	5 511 819	17 704 565	24 618 129
TOTAL ASSETS	**834 771**	**273 733**	**1 048 073**	**6 372 268**	**17 777 073**	**26 305 918**
Planned payments of the off-balance sheet liabilities to grant loans or guarantees	**13**	**31**	**137**	**696**	**2 739**	**3 616**
Total assetes and off-balance sheet	**834 784**	**273 764**	**1 048 210**	**6 372 964**	**17 779 812**	**26 309 534**
Liabilities (by contractual dates of maturity)						
Financial liabilities measured at amortised cost - amounts due to banks	191 561	53 429	856 128	3 303 374	2 592 022	6 996 514
Financial liabilities measured at amortised cost - amounts due to customers	596	-	-	-	-	596
Financial liabilities measured at amortised cost - amounts due to leasing	262	522	2 319	11 785	7 879	22 767
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	61 177	280 461	1 457 140	5 270 702	323 108	7 392 588
Subordinated liabilities	-	2 342	7 158	38 026	109 526	157 052
TOTAL LIABILITIES	**253 596**	**336 754**	**2 322 745**	**8 623 887**	**3 032 535**	**14 569 517**
Off-balance sheet liabilities to grant loans or guarantees	**3 615**	**-**	**-**	**-**	**-**	**3 615**
Total liabilities and off-balance sheet	**257 211**	**336 754**	**2 322 745**	**8 623 887**	**3 032 535**	**14 573 132**
Net liquidity gap	**577 573**	**(62 990)**	**(1 274 535)**	**(2 250 923)**	**14 747 277**	**11 736 402**

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31.12.2021	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 balances with the Central Bank	114 658	-	-	-	-	114 658
Non-trading financial assets mandatorily at fair value through profit or loss, including:	541	1 184	6 491	29 296	82 694	120 206
Financial assets at fair value through other comprehensive income	413	-	7 718	769 448	-	777 579
Financial assets at amortised cost loans and advances to banks	152 881	-	-	-	-	152 881
Financial assets at amortised cost loans and advances to customers	73 514	160 956	882 066	3 981 208	11 237 857	16 335 601
TOTAL ASSETS	**342 007**	**162 140**	**896 275**	**4 779 952**	**11 320 551**	**17 500 925**
Planned payments of the off-balance sheet liabilities to grant loans or guarantees	**17**	**35**	**5 332**	**911**	**3 405**	**9 700**
Total asetes and off-balance sheet	**342 024**	**162 175**	**901 607**	**4 780 863**	**11 323 956**	**17 510 625**
Liabilities (by contractual dates of maturity)						
Financial liabilities held for trading and derivatives held for hedges	268 144	24 152	366 145	1 744 735	2 029 782	4 432 958
Financial liabilities measured at amortised cost - amounts due to banks	1 933	-	-	-	-	1 933
Financial liabilities measured at amortised cost - amounts due to customers	102 256	132 445	1 534 338	5 782 096	324 018	7 875 153
Financial liabilities measured at amortised cost - amounts due to the issue of debt securities	-	1 161	3 549	18 853	109 433	132 995
Subordinated liabilities	**372 333**	**157 758**	**1 904 032**	**7 545 684**	**2 463 233**	**12 443 039**
TOTAL LIABILITIES	**5 367**	**1 705**	**2 629**	**-**	**-**	**9 701**
Off-balance sheet liabilities to grant loans or guarantees	**377 700**	**159 463**	**1 906 661**	**7 545 684**	**2 463 233**	**12 452 740**
Total liabilities and off-balance sheet	268 144	24 152	366 145	1 744 735	2 029 782	4 432 958
Net liquidity gap	**(35 676)**	**2 712**	**(1 005 054)**	**(2 764 821)**	**8 860 723**	**5 057 885**

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 cost - payable to clients and banks. Maturity structure of liabilities due to leasing was presented in note 28.

3.7.2. Cash flows from transactions in derivative financial instruments

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

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 recognised in the table are not discounted contractual cash outflows.

As at December 31, 2022

Derivatieves 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
Interes rate swaps (IRS)	4 513	5 439	(47 534)	(69 944)	365	(107 161)
Total net valuation	4 513	5 439	(47 534)	(69 944)	365	(107 161)

As at December 31, 2021

Derivatieves 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
Interes rate swaps (IRS)	-	20 116	5 829	46 593	11 163	83 701
Total net valuation	-	20 116	5 829	46 593	11 163	83 701

for 2022 (in PLN thousand)

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, 2022

Derivatieves 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	922 306	94 356	-	-	-	1 016 662
- inflows	920 621	93 798	-	-	-	1 014 419
Intrest-rate contracts CIRS:						
- outflows	-	25 187	77 509	1 429 984	-	1 532 680
- inflows	-	-	3 405	1 413 780	-	1 417 185

As at December 31, 2021

Derivatieves 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	737 326	546 282	-	-	-	1 283 608
- inflows	735 049	538 130	-	-	-	1 273 179
Intrest-rate contracts CIRS:						
- outflows	-	10 082	46 393	1 437 616	-	1 494 091
- inflows	-	-	3 339	1 389 837	-	1 393 176

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.

for 2022 (in PLN thousand)

Financial assets and liabilities	31.12.2022		31.12.2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets valued at amortised cost				
Cash and balances with the Central Bank	**107 826**	**107 826**	**114 658**	**114 658**
Amounts due from other banks	**69 530**	**69 530**	**152 668**	**152 668**
Loans and advances to customers, including:	**11 468 142**	**11 446 008**	**11 608 275**	**12 259 684**
Individual customers	9 515 623	9 463 161	9 136 875	9 738 518
Corporate customers	1 866 973	1 895 561	2 379 628	2 427 270
Public sector customers	53 660	55 400	71 401	73 525
Other financial institutes	31 886	31 886	20 371	20 371
Total financial assets	**11 645 498**	**11 623 364**	**11 875 601**	**12 527 010**
Financial liabilities at amortised cost				
Amounts due from other banks	**5 544 817**	**5 544 817**	**3 981 015**	**3 981 015**
Amounts due to the customers, including:	**596**	**596**	**1 933**	**1 933**
Corporate customers	594	594	1 881	1 881
Individual customers	2	2	21	21
Public sector customers	-	-	31	31
Leasing liabilities	**22 032**	**22 032**	**21 826**	**21 826**
Debt securities in issue	**6 581 915**	**6 414 333**	**7 603 677**	**7 567 578**
Surbordinated liabilities	**100 438**	**100 438**	**100 218**	**100 218**
Total financial liabilities	**12 249 798**	**12 082 216**	**11 686 843**	**11 650 744**

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.

The Bank does not hold financial instruments on the side of liabilities of fixed interest rate of above 1 year apart from liabilities due to covered bonds issued by the Bank.

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.

for 2022 (in PLN thousand)

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, 2022 and December 31, 2021.

31.12.2022	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION FOR DISCLOSURE ONLY				
Financial assets				
Cash and balances with the Central Bank	**107 826**	**-**	**-**	**107 826**
Amounts due from other banks	**69 530**	**-**	**-**	**69 530**
Loans and advances to customers, including:	**11 446 008**	**-**	**-**	**11 446 008**
Individual customers	9 463 161	-	-	9 463 161
Corporate customers	1 895 561	-	-	1 895 561
Public sector customers	55 400	-	-	55 400
Other financial institutes	31 886	-	-	31 886
Financial liabilities				
Amounts due from other banks	**5 544 817**	**-**	**-**	**5 544 817**
Amounts due to the customers, including:	**596**	**-**	**-**	**596**
Corporate customers	594	-	-	594
Individual customers	2	-	-	2
Public sector customers	-	-	-	-
Leasing liabilities	**22 032**	-	-	**22 032**
Debt securities in issue	**6 414 333**	**-**	**-**	**6 414 333**
Surbordinated liabilities	**100 438**	**-**	**-**	**100 438**
Total financial assets	**11 623 364**	**-**	**-**	**11 623 364**
Total financial liabilities	**12 082 216**	**-**	**-**	**12 082 216**

31.12.2021	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
VALUATION FOR DISCLOSURE ONLY				
Financial assets				
Cash and balances with the Central Bank	**114 658**	**-**	**-**	**114 658**
Amounts due from other banks	**152 668**	**-**	**-**	**152 668**
Loans and advances to customers, including:	**12 259 684**	**-**	**-**	**12 259 684**
Individual customers	9 738 518	-	-	9 738 518
Corporate customers	2 427 270	-	-	2 427 270
Public sector customers	73 525	-	-	73 525
Other financial institutes	20 371	-	-	20 371

for 2022 (in PLN thousand)

Financial liabilities				
Amounts due from other banks	**3 981 015**	**-**	**-**	**3 981 015**
Amounts due to the customers, including:	**1 933**	**-**	**-**	**1 933**
Corporate customers	1 881	-	-	1 881
Individual customers	21	-	-	21
Public sector customers	31	-	-	31
Debt securities in issue	**7 567 578**	-	-	**7 567 578**
Surbordinated liabilities	**100 218**	-	-	**100 218**
Total financial assets	**12 527 010**	**-**	**-**	**12 527 010**
Total financial liabilities	**11 650 744**	**-**	**-**	**11 650 744**

Items valued at fair value

The tables below present the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 31 December 2022.

31.12.2022	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
Recurring fair value measurements				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**34 013**	**-**	**2 123**	**31 890**
Derivative financial instruments, including:	**34 013**	**-**	**2 123**	**31 890**
Derivative financial instruments held for trading:	**1 975**	**-**	**1 975**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	1 975	-	1 975	-
Derivative financial instruments held for hedging:	**32 038**	**-**	**148**	**31 890**
Derivatives designated as fair value hedges	148	-	148	-
- Derivatives designated as cash flow hedges	31 890	-	-	31 890
Non-trading financial assets mandatorily at fair value through profit or loss	**100 822**	**-**	**-**	**100 822**
Loans and advances to custumers	**100 822**	**-**	**-**	**100 822**
Corporate customers	100 822	-	-	100 822
Financial assets at fair value through other comprehensive income	**1 171 608**	**771 913**	**399 695**	**-**
- Treasury bonds	771 913	771 913	-	-
- Money bills	399 695	-	399 695	-
TOTAL FINANCIAL ASSETS	**1 306 443**	**771 913**	**401 818**	**132 712**

31.12.2022	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**16 156**	**-**	**16 156**	**-**
Derivative financial instruments held for trading:	**4 964**	**-**	**4 964**	**-**
- Interest rate derivatives	1 881	-	1 881	-
- Foreign exchange derivatives	3 083	-	3 083	-
Derivative financial instruments held for hedging:	**11 192**	**-**	**11 192**	**-**
-Derivatives designated as fair value hedges	11 192	**-**	11 192	-
TOTAL FINANCIAL LIABILITIES	**16 156**	**-**	**16 156**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 306 443**	**771 913**	**401 818**	**132 712**
TOTAL FINANCIAL LIABILITIES	**16 156**	**-**	**16 156**	**-**

for 2022 (in PLN thousand)

Level 3 financial assets measured at fair value	Non-trading loans and advances at mandatory fair value through profit or loss - change in 2022
Opening balance sheet	**120 205**
Gains or losses recognised in the profit and loss account	(4 890)
Gains or losses on non-trading financial assets required to be measured at fair value through profit or loss	(4 890)
Changes due to modifications that do not result in derecognition (net)	(14 493)
Closing balance sheet	**100 822**

The tables below present the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 31 December 2021.

31.12.2021	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
Recurring fair value measurements				
Financial assets				
Financial assets held for trading and derivatives held for hedges	**125 837**	**-**	**33 594**	**92 243**
Derivative financial instruments, including:	**125 837**	**-**	**33 594**	**92 243**
Derivative financial instruments held for trading:	**1 229**	**-**	**1 229**	**-**
- Interest rate derivatives	1 172	-	1 172	-
- Foreign exchange derivatives	57	-	57	-
Derivative financial instruments held for hedging:	**124 608**	**-**	**32 365**	**92 243**
Derivatives designated as fair value hedges	32 365	-	32 365	-
- Derivatives designated as cash flow hedges	92 243	-	-	92 243
Non-trading financial assets mandatorily at fair value through profit or loss	**120 205**	**-**	**-**	**120 205**
Loans and advances to custumers	**120 205**	**-**	**-**	**120 205**
Corporate customers	120 205	-	-	120 205
Financial assets at fair value through other comprehensive income	**732 393**	**732 393**	**-**	**-**
- **Treasury bonds**	732 393	732 393	-	-
TOTAL FINANCIAL ASSETS	**978 435**	**732 393**	**33 594**	**212 448**

31.12.2021	including	Level 1	Level 2	Level 3
		Quoted prices in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**7 053**	**-**	**7 053**	**-**
Derivative financial instruments held for trading:	**7 053**	**-**	**7 053**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	7 053	-	7 053	-
Derivative financial instruments held for hedging:	**-**	**-**	**-**	**-**
-Derivatives designated as fair value hedges	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**7 053**	**-**	**7 053**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**978 435**	**732 393**	**33 594**	**212 448**
TOTAL FINANCIAL LIABILITIES	**7 053**	**-**	**7 053**	**-**

for 2022 (in PLN thousand)

Level 3 financial assets measured at fair value	Non-trading loans and advances at mandatory fair value through profit or loss - change in 2021
Opening balance sheet	**133 838**
Gains or losses recognised in the profit and loss account	864
Gains or losses on non-trading financial assets required to be measured at fair value through profit or loss	864
Changes due to modifications that do not result in derecognition (net)	(14 497)
Closing balance sheet	**120 205**

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 2022 and 2021, 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 2022, 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 771 913 (31 December 2021: TPLN 732 393).
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 399 695 (December 31, 2021: PLN 0), 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
At level 3 of the hierarchy, the fair value of Loans and advances to customers is disclosed, which are obligatorily measured at fair value through profit or loss in the amount of TPLN 100 822 (December 31, 2021 - TPLN 120 205). The valuation model uses credit risk parameters (e.g. PD, LGD) and information obtained from the market (including spreads implied from transactions). The PD and LGD parameters are not observed in active markets and therefore have been derived from statistical analyzes. The credit spread model has been built internally in risk units, has been approved by the Model Risk Committee and is subject to periodic monitoring and validation carried out by a unit independent of the units responsible for model building and maintenance. There were no carry-overs at level 3.

The table below presents the sensitivity of the fair value measurement to the change in unobservable parameters used in models for loans and advances to customers measured at fair value at level 3.

Portfolio	Fair value 31.12.2022	Sensitivity to the change of the unobservable parameterego		Description
Loans and advances to customers are obligatorily measured at fair value through profit or loss in a non-default situation	70 981	(-)	(+)	The valuation model uses the PD credit risk parameters Sensitivity calculated assuming a PD change of +/- 10%
		39	(78)	

for 2022 (in PLN thousand)

Portfolio	Fair value 31.12.2021	Sensitivity to the change of the unobservable parameterego		Description
Loans and advances to customers obligatorily measured at fair value through profit or loss in the def	29 841	(2 984)	2 984	The valuation model uses individual estimates of expected cash flows. Sensitivity calculated assuming a change in flows of +/- 10%
		(-)	(+)	
Loans and advances to customers are obligatorily measured at fair value through profit or loss in a non-default situation	104 931	95	(188)	The valuation model uses the PD credit risk parameters Sensitivity calculated assuming a PD change of +/- 10%
Loans and advances to customers obligatorily measured at fair value through profit or loss in the def	15 274	(1 527)	949	The valuation model uses individual estimates of expected cash flows. Sensitivity calculated assuming a change in flows of +/- 10%

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

		31.12.2022	31.12.2021
Fair value measurement of CIRS transactions		**(1 324)**	**92 334**
Includings	CVA of the CIRS transaction	(59)	(42)

for 2022 (in PLN thousand)

	DVA of the CIRS transaction	1 332	382
	Value of the valuation of the CIRS transaction to be settled over time	3 337	4 563

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 Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to establish whether the impairment should be reported in the income statement, the Bank assesses whether there are any evidence indicating possible to measure decrease of estimated future cash flows arising from granted loans and advances. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows, discounted according to original effective interest rate of a given element of financial assets. If the current value of estimated cash flows for the portfolio of loans with recognized individual impairment changed by +/- 10%, as at 31 December 2022 the estimated amount of loan impairment would decrease by MPLN 24.8 or increase by MPLN 30.2 respectively (as at 31 December 2021, the amount of estimated cash flows would decrease by MPLN 30.2 or increase by PLN 38.4 respectively). This estimate was made for a portfolio of loans in the case of which impairment is recognized on the basis of an individual analysis of future cash flows from recoveries from collateral (stage 3).

On December 17, 2020, the Bank (acting as the Beneficiary) concluded with mBank S.A. (acting as the Guarantor) Guarantee Framework Agreement and 23 Detailed Guarantee Agreements (in total: Guarantee Agreements) concerning 23 commercial credit exposures mainly in stage 2 granted by mBank Hipoteczny SA (Beneficiary) to its borrowers. At the time of granting, ECL was PLN 16.2 million. At the end of the first half of 2022, the result of the write-offs was positively affected by the guarantee valuation in the amount of PLN 26 552 thousand (as at December 31, 2021 it was PLN 18 556 thousand) to cover the increase in credit risk, which was included in a part of the commercial portfolio.

As at December 31, 2022, the Guarantee Agreement covered 17 commercial credit exposures. The total value of the guarantee instruments as at December 31, 2022 was PLN 66.1 million and EUR 85.7 million. As at December 31, 2021, the guarantee covered 21 exposures in the amount of: PLN 91.64 million and EUR 102.96 million.

Under the Guarantee Agreements mBank S.A. (Guarantor) is a provider of unfunded credit protection within the meaning of Art. 194 paragraph. 6 CRR.

As at December 31, 2022 and December 31, 2021, the Bank did not apply management overlays.

In the case of the retail portfolio acquired as part of cooperation with mBank S.A. the key changes in the value of write-downs were caused by changes in the models used for the calculation of expected credit risk losses.

In 2022, the Bank made the following significant changes to the models used to calculate expected credit risk losses:

- implementation of a new behavioral card under the PD 12M model, related PD LT and TL calibrations to the indications of this model. The estimated impact of the change on the level of expected loss was MPLN -0.61 (positive impact on the result),

- update of macroeconomic indicators used in the models, taking into account changes in macroeconomic scenarios in the forecast non-linearity coefficient. The estimated impact of these changes on the level of expected credit loss will amount to approximately MPLN +2 (negative impact on the result),
- cyclical recalibration of PD LT and LGD LT models. The estimated impact of these changes on the level of expected credit loss was approximately MPLN +2.3 (negative impact on the result),
- update of macroeconomic indicators used in the models, taking into account changes in macroeconomic scenarios in the forecast non-linearity coefficient. The estimated impact of these changes on the level of expected credit loss was approximately MPLN +0.56 (negative impact on the result).

<u>The most important changes resulting from the implementation of Recommendation R</u>

On April 15, 2021, the Polish Financial Supervision Authority issued Recommendation R on principles of classification of credit exposures, estimating and recognizing expected credit losses and credit risk management which entered into force on January 1, 2022.

Revised Recommendation R is a collection of good practices on credit exposure classification estimating and recognizing expected credit losses in accordance with the accounting and credit risk management policies adopted and in force at banks.

The most important adjustments resulting from the content of the Recommendation covered the following areas of the Bank:

- definition of default - no need to change the definition of default was identified as part of the adjustment to Recommendation R. The provisions of the recommendation contributed to the specification of some premises for impairment and the modification of the debt collection process;
- Baskets classification - adaptation of the criteria catalog of the Transfer Logic algorithm:

  in terms of quality criteria, the following two elements were added to the previously used criteria:

  - deterioration of the risk profile of the entire exposure portfolio due to the type of product, industry or distribution channel - applies to retail banking,
  - a delay in repayment for a given exposure exceeding 90 days from the maturity of a credit / loan installment - principal, interest or fees, in a situation where the materiality criteria for an overdue credit obligation have not been met for a given exposure - applies to retail and corporate banking;

  in terms of the quantitative criterion, the following changes were made:

  - adjusting the definition of the relative and absolute change of the long-term PD to the requirements of Recommendation R,
  - updating the thresholds of the Transfer Logic, taking into account the long-term perspective (departure from the cyclical recalibration of thresholds based on the current portfolio data; ensuring the constancy of the thresholds expected by the supervisor throughout the life of the contract by determining the thresholds based on a long-term sample of data),
  - taking into account the model segmentation compliant with the cross-sections suggested in the R recommendation;
- process changes:
  - inclusion of the Management Board Member for Risk Management (CRO) in the process of approval of expected credit losses,
  - clarifying the process of determining expected credit losses through, inter alia, detailed description of data sources, IT systems, information flow and schedule.

The most important changes implemented in the scope of expected credit losses and their impact are presented in Note 2.8.

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, ie 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 2.6.

Credit holidays

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

In 2022, the Bank recognised the impact of credit holidays in the total amount of TPLN 351 851. The provision for credit holidays is recorded in the balance sheet in accounts dedicated to credit receivables from customers as an adjustment of the ESP to be settled over time. It is recognized in the income statement as a modification cost. The negative impact of credit holidays on the valuation of the loan portfolio is settled by the appropriate recognition of interest income calculated using the effective interest rate in periods in which customers taking advantage of credit holidays do not pay the interest according to the original schedules of the loan agreements.

At the time the Act entered into force, the Bank estimated that the credit holidays would have a negative impact on the gross result of mBank Hipoteczny for 2022 in the amount of PLN 300 million to PLN 400 million. This range was based on an estimated participation of between 60% and 80% of assumed eligible borrowers, each of whom would benefit from an average of 7.5 months of credit holidays. In order to calculate the impact of credit holidays, the Bank estimated that customers whose loans represent 89.2% of the value of the assumed portfolio of mortgage loans meet the statutory criteria.

By December 31, 2022, applications were submitted by customers whose loans represented 80.8% of the eligible mortgage loan portfolio. The gross carrying amount of loans covered by credit holidays as at 31 December 2022 amounted to PLN 7 361 million. These customers applied for an average of 6.74 months of credit holidays.

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.

Benefits based on phantom shares
The Bank runs a remuneration program for the Bank's Management Board and employees who have a significant impact on the Bank's risk profile, based on phantom shares settled in cash.

Pursuant to the provisions of IAS 19, the projected unit credit method was applied to determine the present value of employee benefit obligations. The basis for calculating the provision for deferred part of the 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 Employee Remuneration Policy that has a significant impact on the Bank's risk profile.

Phantom shares are awarded in the number resulting from the valuation of these shares for the assessment period. The valuation of phantom shares is calculated each time at the end of the reporting period as the quotient of the Bank's book value and the number of ordinary shares. The payment of phantom shares depends on the average valuation of these shares derived from two values: the value of the phantom share at the end of the annual period preceding the payment date and the value of the phantom share at the end of the first half of the year in which the payment is to take place in a given reporting period. This average value is multiplied by the number of phantom shares to be exercised in a given period, and the result of this action determines the amount of the cash payout resulting from the phantom shares held. 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 realization of each of the deferred tranches, is actuarial discounted. The discounted amount is reduced by the amounts of annual write-downs for the provision, discounted actuarially for the same day. The actuarial discount is the product of the financial discount and the probability that each participant will survive individually until the moment of full vesting of rights to each of the deferred tranches. The amounts of the annual write-offs are calculated according to the Projected Unit Credit Method. The above-mentioned probability was determined using the competitive risk method ("Multiple Decrement Model"), where the following three risks were taken into account: possibility of dismissal, risk of complete incapacity to work, risk of death.

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".
As at December 31, 2022, the provision recognized under provisions for future liabilities (Note 29) relating to costs for potential commission reimbursements due to early repayment of loans made before the date of the judgment by the CJEU amounted to TPLN 11 690 (as at December 31, 2021: TPLN 4 770).
The total negative impact of early repayments of retail loans on the Bank's gross profit or loss in 2022 amounted to TPLN 8 681, reducing interest income, in 2021 amounted to TPLN 2 896, reducing interest income.
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.

Demerger Plan
According to the demerger plan published on 31 May 2022, in 2023, part of Bank assets constituting the organised part of the company, including some of the loans serviced at Bank, will be taken over by mBank. The majority of these are mortgages for commercial real estate financing. The acquisition will take place through the demerger of Bank by spinning off part of its business and transferring it to mBank. The demerger is to take place by universal succession, which means that on the date of registration of the demerger in the KRS, mBank will acquire all the rights and obligations of Bank that arise from the acquired business, including the concluded loan agreements.

The transfer of an organised part of the business will be possible provided that it is obtained:

- approval of the Financial Supervision Authority for the demerger in accordance with Article 124c(2) of the Banking Law; and
- permission from the Financial Supervision Authority for amendments to Bank's Articles of Association related to the reduction of share capital in connection with the Demerger in accordance with Article 34(2) of the Banking Law.

As at the date of signing these financial statements, the Bank has not yet received information about the consent of the Polish Financial Supervision Authority to carry out the transaction or amend the articles of association.

Obtaining the consent of the Polish Financial Supervision Authority will also meet the conditions set out in IFRS 5 point 8, which will result in the classification of the Organized Part of the Business as assets for distribution to the shareholder and the separation and separate presentation of revenues and costs related to the Business Part as discontinued operations.

Pursuant to IFRS 5 point 15, fixed assets included in the Organized Part of the Business should then be valued at the lower of the two values: carrying amount or fair value less transfer costs. The Bank does not expect the fair value less transfer costs to differ significantly from the carrying amount of the transferred non-current assets.

The implementation of the Demerger will not affect the assumption of Bank as a going concern.

6. Operating segments

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

Bank is a specialised mortgage bank of which primary purpose is to issue mortgage bonds, which are intended to constitute the main source of long-term financing for loans secured with real estate property. There are two business lines in the Bank:

- retail line, focusing on the purchase of receivables from housing mortgage loans from mBank S.A.,
- commercial line, covering the financing of income-generating real property such as office buildings, shopping centres, hotels, warehouses and distribution premises, as well as financing of residential property (apartments and houses), carried out by housing developers.

From January 2019, the sale of commercial loans was transferred to mBank S.A.

The introduced method of data presentation is consistent with the Bank's business profile and facilitates the receipt of management information by report users. Moreover, the dynamic development of the retail mortgage loan portfolio, as the second significant area of the Bank's lending activity, resulted in the need to allocate internal interest costs, to set business goals and to account for segment results.

The Bank segmented the result into three business segments, which were distinguished from the point of view of specific customer groups and products according to the homogeneous characteristics of the transaction:

1. The Corporate Banking Segment – is a segment of the Bank's business that includes the following loans:
   - for refinancing — loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A.,
   - to housing developers — loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent),
   - loans to commercial developers — loans for the financing of commercial real estate projects that are consistent with the Bank's credit policy,
   - historically to local government units — loans to local government units (municipalities, districts, provinces) as well as loans secured by local government units (commercial companies established by local governments, public health care institutions).

for 2022 (in PLN thousand)

2. 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,
   - 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.
3. Treasury Segment – a segment of Bank's activities, comprising financing acquisition, in particular issuance of mortgage bonds, liquidity management, and Bank's interest rate and currency risk management. Revenues of the segment result from the maintenance of the liquidity portfolio and reclassification of internal interest costs from retail banking and corporate banking segments. Costs of the segment pertain to acquiring financing and, as of 2018, include a part of administrative expenses too.

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 positon 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 01.01.2022 to 31.12.2022	**Corporate Banking**	**Retail Banking**	**Treasure Segment**	**Total**
Net interest income	**42 473**	**93 707**	**(4 076)**	**132 104**
Interest income	95 767	624 081	59 405	779 253
Interest expenses	(53 294)	(530 374)	(63 481)	(647 149)
Net fee and commission income	**(4 583)**	**(2 093)**	**(1 839)**	**(8 515)**
Fee and commission income	161	188	-	349
Fee and commission expenses	(4 744)	(2 281)	(1 839)	(8 864)
Other operating income/expenses	(908)	(1 262)	(273)	(2 443)
Net trading income	-	-	18 534	18 534
Result from modification	1 615	(352 274)	-	(350 659)
Result on derecognition of financial instruments not measured at fair value through profit or loss	(1 384)	-	-	(1 384)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(4 890)	-	-	(4 890)
Impairment or reversal of impairment on financial assets not measured at fair value through financial result	(25 333)	(11 407)	(81)	(36 821)
Overhead costs	(21 041)	(34 864)	(9 076)	(64 981)
Depreciation	(3 011)	(10 061)	(1 333)	(14 406)

for 2022 (in PLN thousand)

Tax on the Bank's balance sheet items	(6 644)	(25 577)	-	(32 221)
Segment result (gross)	**(23 707)**	**(343 831)**	**1 856**	**(365 682)**
Income tax				**62 304**
Net loss				**(303 378)**

Period from 01.01.2021 to 31.12.2021	**Corporate Banking**	**Retail Banking**	**Treasure Segment**	**Total**
Net interest income	**49 723**	**104 017**	**(14 017)**	**139 723**
Interest income	69 719	176 554	30 729	277 001
Interest expenses	(19 996)	(72 537)	(44 745)	(137 278)
Net fee and commission income	**(5 165)**	**(1 076)**	**(1 549)**	**(7 790)**
Fee and commission income	745	345	-	1 090
Fee and commission expenses	(5 911)	(1 420)	(1 549)	(8 880)
Other operating income/expenses	(580)	(912)	(24)	(1 516)
Net trading income	-	-	(145)	(145)
Result from modification	(2 723)	(73)	-	(2 796)
Result on derecognition of financial instruments not measured at fair value through profit or loss	5	-	-	5
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	864	-	-	864
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(5 959)	3 657	(99)	(2 401)
Overhead costs	(22 506)	(22 104)	(6 835)	(51 445)
Depreciation	(2 636)	(9 696)	(932)	(13 264)
Tax on the Bank's balance sheet items	(7 877)	(23 186)	-	(31 063)
Segment result (gross)	**3 146**	**50 627**	**(23 601)**	**30 172**
Income tax				(11 370)
Net profit				**18 802**

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

31.12.2022	**Corporate Banking**	**Retail Banking**	**Treasure Segment**	**Other assets**	**Total**
Segment Assets	2 029 476	9 507 602	1 417 926	222 221	13 177 225
Segment Liabilities	3 887	24 645	12 265 006	-	12 293 538

31.12.2021	**Corporate Banking**	**Retail Banking**	**Treasure Segment**	**Other assets**	**Total**
Segment Assets	2 582 875	9 125 234	1 145 927	127 786	12 981 822
Segment Liabilities	6 160	19 409	11 691 963	-	11 717 532

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	
	2022	**2021**
Interest income		
Interest income calculated using the effective interest rate method	**747 579**	**248 272**
Interest income of financial assets at amortised cost, including:	**717 795**	**244 185**
- Loans and advances	713 294	243 335
- Cash and short-term placements	3 438	46
- Interest income on liabilities	1 063	804

for 2022 (in PLN thousand)

Interest income on financial assets at fair value through other comprehensive income	29 784	4 087
- Debt securities	29 784	4 087
Income similar to interest on financial assets at fair value through profit or loss, including:	**31 674**	**28 729**
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	6 554	2 938
- Loans and advances	6 554	2 938
Interest income on derivatives classified into banking book	7 759	36
Interest income on derivatives concluded under hedge accounting	17 361	25 755
Total interest income	**779 253**	**277 001**

	31.12.2022	**31.12.2021**
Interest expense		
Financial liabilities valued at amortized cost, including:	**(512 089)**	**(115 823)**
-Due to the issue of debt securities	(247 666)	(78 011)
-Loans received	(129 306)	(31 853)
-Due to subordinated loan	(7 745)	(2 987)
-Leasing contracts	(109)	(85)
-Other financial liabilities	(127 263)	(2 887)
Interest expenses on derivatives condluded under the cash flow hedge	**(58 766)**	**(9 359)**
Interest expense on leasing	**(76 294)**	**(12 096)**
Total interest expense	**(647 149)**	**(137 278)**

In 2022, interest income related to impaired financial assets measured at amortised cost, stood at TPLN 16 170 (for the period ended on 31 December 2021: TPLN 9 304).

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

	Year ended 31 December	
	2022	**2021**
Interest income		
From banking sector	32 245	9 121
From other entities including:	747 008	267 880
- From corporate customers	112 504	88 679
- From individual customers	630 887	178 135
- From public sector	3 617	1 066
Total interes income	**779 253**	**277 001**
Interest expense		
From banking sector	(255 744)	(34 685)
From other entities including:	(934)	(140)
- From corporate customers	(934)	(140)
Liabilities from the issue of debt securities	(247 666)	(78 011)
Subordinated capital	(7 745)	(2 987)
Interest expense on derivatives classified in the banking book	(58 766)	(9 359)
Interest expenses on derivatives conluded under the cash flow hedge	(76 294)	(12 096)
Total Interest expense	**(647 149)**	**(137 278)**

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".

for 2022 (in PLN thousand)

8. Net fee and commission income

	Year ended 31 December	
	2022	**2021**
Fee and commission income		
Credit-related fees and commissions	349	1 090
Total fee and commission income	**349**	**1 090**
Fee and commission expenses		
Fee and commission expenses	(4 270)	(4 581)
Commission expense from loan received and stand-by credit line	(364)	(325)
Costs related to the debt securities issue program (covered bonds and bonds)	(1 356)	(1 110)
Costs of real estate analyses and valuations related to the lending activity	(185)	(104)
Commission for transfers for billing	(2 689)	(2 760)
Total fee and commission expense	**(8 864)**	**(8 880)**
Total net fee and commission income	**(8 515)**	**(7 790)**

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

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 2 054 (as at December 2021 it was TPLN 3 150).

9. Net trading income

	31.12.2022	**31.12.2021**
Foreign exchange result	**(1 421)**	**(444)**
Net exchange differences on translation	(6 858)	27 656
Valuation of foreign currency derivatives	5 437	(28 100)
Other net trading income and result on hedge accounting	**19 955**	**299**
Interest rate risk instruments	2 034	1 216
Hedge accounting, including:	17 921	(917)
- the result of the hedged items	188 288	55 282
- the result on the valuation of hedging instruments	(172 014)	(55 117)
- the result on the valuation of hedging instruments CF	1 647	(1 082)
Total result on trading activity	**18 534**	**(145)**

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 21. 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.

for 2022 (in PLN thousand)

10. Net income on modification

In 2022 and 2021, the result on modifications was calculated only for assets measured at amortized cost, as the Bank did not have instruments measured at fair value through other comprehensive income. The result on the modification in 2022 concerned the financial effect of the so-called Credit holidays introduced by the Act of July 7, 2022 on crowdfunding for business ventures and assistance to borrowers (Journal of Laws, item 1488).
The matters related to recognition of the net income on insubstantial modification are described in note 2.6.

31.12.2022	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	7 603 981	231 537	251 959	8 087 477
Net income on modification	(339 424)	(9 247)	(1 988)	(350 659)

31.12.2021	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	327 336	254 001	310 217	891 554
Net income on modification	(137)	(59)	(2 600)	(2 796)

11. General administrative expenses

	Year ended 31 December	
	2022	2021
Staff-related costs	(25 140)	(22 810)
Material costs, including:	(18 150)	(16 622)
- costs of administration and real estate services	(4 662)	(4 961)
- IT cost	(10 360)	(9 426)
- marketing cost	(524)	(443)
- consulting services cost	(1 856)	(1 173)
- other overheads cost	(748)	(619)
Contributions and transfers to the Bank Guarantee Fund	(11 217)	(9 194)
Taxes and fees	(10 263)	(2 617)
Contributions to the Social Benefits Fund	(211)	(202)
Total overhead costs	**(64 981)**	**(51 445)**

The "logistics costs" item includes costs related to short-term lease contracts, costs related to low-value asset lease contracts and costs related to variable remuneration components (not included in the lease obligation).

The total cost of leasing recognized in general administrative expenses as at December 31, 2022 amounted to TPLN 210 (as at December 31, 2021 it was TPLN 240).

In accordance with the Resolution of the Bank Guarantee Fund Council of April 12, 2022 on determining the amount of contributions to the bank restructuring fund for 2021, in the current reporting period, the Bank recognized the contribution in the profit and loss account in the amount of TPLN 11 217 (for 2021 in the amount of TPLN 9 194).

Increase in taxes and fees by TPLN 7 646 resulted mainly from the payment to the Borrower Support Fund in the amount of MPLN 8.4.

for 2022 (in PLN thousand)

Staff-related expenses

	Year ended 31 December	
	2022	2021
Wages and salaries	(19 966)	(19 239)
Social security expenses	(3 292)	(3 057)
Costs of retirement benefits	(756)	(21)
Provision for unused holidays	(341)	(588)
Remuneration payment in the form of phantom shares settled in cash	(785)	95
Staff-related costs, total	**(25 140)**	**(22 810)**

12. Other operating expenses

	Year ended 31 December	
	2022	2021
Costs of enforcement proceedings	(509)	(383)
Litigation reserves	(345)	(333)
Writing down investments	-	(807)
Loss on sales or liquidation of tangible fixed assets and intangible assets	(1 932)	(306)
Other	(537)	(72)
Total other operating expenses	**(3 323)**	**(1 901)**

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

	Year ended 31 December	
	2022	2021
Financial assets at amortised cost, including:	**(36 749)**	**(2 516)**
Loans and advances	**(36 749)**	**(2 516)**
Individual clients	**(9 987)**	**3 659**
Stage 1	1 170	5 011
Stage 2	(3 518)	(154)
Stage 3	(7 675)	(1 172)
POCI	36	(26)
Corporate clients	**(26 762)**	**(6 175)**
Stage 1	5 086	5 148
Increase/Decrease in write-downs for receivables covered by the guarantee	(2 460)	36
Stage 2	3 507	(5 113)
Reduction of the write-down for receivables covered by the guarantee	(1 467)	4 937
Stage 3	(42 887)	(25 397)
Reduction of the write-down for receivables covered by the guarantee	11 330	13 642
POCI	129	572
Commitments and guarantees given	**9**	**214**
Stage 1	9	214
Financial assets measured at fair value through other comprehensive income, including:	**(81)**	**(99)**
Debt securities	**(81)**	**(99)**
Stage 1	(81)	(99)
Net impairment losses on financial assets not measured at fair value through profit or loss	**(36 821)**	**(2 401)**

for 2022 (in PLN thousand)

In 2022, the result of impairment losses was positively affected by the valuation of guarantees in the amount of TPLN 26 552 to cover the increase in credit risk (mainly in basket 2), which was included in part of the commercial portfolio at the end of 2020. Details on the guarantee are described in Note 27.
As part of the portfolio of restructured and recovered loans, the level of write-downs was updated, respectively, in connection with changes in the value of collateral and developments in enforcement/bankruptcy proceedings.

In the case of the retail portfolio in 2022, the cyclical increase in provisions was related to the increase in the LGD parameter caused by increases in interest rates, recalibration of models and an increase in the balance of loans in stage 3, while in the same period of 2021 there was a decrease in the amount of provisions, mainly as a result of the implementation of the New Definition of Default.

The Bank applies an individual approach to all exposures under financing commercial real estate. Each renewal of PD is associated with a reassessment of the borrower's current situation, location and technical advantages of the financed property, the current lease status, etc. Updates of the PD parameter in 2022 and 2021 were made with the utmost care, and the release of provisions in individual cases was associated with a reduction in the risk of the assessed exposures, e.g. due to the increase in the level of rented space, renewal of lease agreements, extension of lease periods, improvement of financial data and the economic and financial situation of the Borrower and / or the project sponsor.

14. Income tax

	Year ended 31 December	
	2022	**2021**
Current income tax	18 515	(16 821)
Deferred income tax (note 29)	43 789	5 451
Total income tax	**62 304**	**(11 370)**
Profit/(loss) before tax	**(365 682)**	**30 172**
Income tax calculated at the rate applicable in a given fiscal year (19%)	69 480	(5 733)
- other non-taxtable income	(7 097)	(8 097)
- tax on the the Bank's balance sheet items	(6 122)	(5 902)
- value of write-down on receivables	(1)	(976)
- contribution and payments to the Bank Guarantee Fund	(3 729)	(1 747)
- receivables writen off against the write-offs	350	1 023
- NKUP on purchased receivables	(540)	(503)
- other	2 945	8
Adjustmenst in respect of current tax from prior years	(79)	2 460
Total income tax expense	**62 304**	**(11 370)**
Effective tax rate calculation		
Profit/(loss) before income tax	(365 682)	30 172
Income tax	62 304	(11 370)
Effective tax rate	**17,04%**	**37,68%**
Nominal tax rate	**19,00%**	**19,00%**

For 2022, the Bank achieved a tax loss, which was mainly influenced by external factors, i.e. interest rate increases (generating high costs on financial liabilities) and government credit holidays (reducing interest income on retail loans granted).

Starting from January 1, 2020, the Bank is a member of the mBank Tax Capital Group (PGK), whose parent company, representing the PGK to the extent provided for by the tax law, is mBank S.A. The PGK contract was concluded for 4 years.

for 2022 (in PLN thousand)

15. Profit per share

	Year ended 31 December	
	2022	2021
Basic:		
Net profit/ (loss) from activities attributable to shareholders of Bank	(303 378)	18 802
Weighted average number of ordinary shares	3 360 000	3 360 000
Basic net profit/ (loss) per share (in PLN per share)	**(90,29)**	**5,60**
Diluted:		
Net profit /(loss) attributable to shareholders of Bank, applied during the estimation of diluted earnings per share	(303 378)	18 802
Weighted average number of ordinary shares	3 360 000	3 360 000
Diluted net profit/(loss) per share (in PLN per share)	**(90,29)**	**5,60**

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.

16. Other comprehensive income

Disclosurre of tax effects relatin to each component of other comprehensive income	Year ended 31 December	
	2022	2021
Net profit/ (loss)	**(303 378)**	**18 802**
Other comprehensive income net of tax including:	**(77 225)**	**(44 752)**
Items that my be reclassifield to the income statement	**(77 193)**	**(44 762)**
Change in the valuation of debt financial instruments valued at fair value trough other comprehensive income (net)	(7 278)	(33 426)
Unrealized gains/losses on debt instruments	*(8 986)*	6 351
Deferred tax	*1 708*	(27 075)
Change in valuation due to cash flow hedge (net)	(69 915)	(21 836)
Deferred tax due to cash flow hedges	*(86 315)*	4 149
Net cash flow hedge (net)	*16 400*	(17 687)
Items that will not be reclassified to the income statement	**(32)**	**10**
Actuarial gains and losses on post-employement benefits (net)	(32)	10
Actuarial gains and losses	(39)	12
Deferred tax on actuarial gains and losses	7	(2)
Total gross income	**(398 718)**	**(36 448)**
Total deferred tax	**18 115**	**10 498**
Total comprehensive income net of tax	**(380 603)**	**(25 950)**

17. Cash and balances with the central bank

As at December 31, 2022, the Bank has a current account with the National Bank of Poland, the balance of which was TPLN 789 (as at December 31, 2021: TPLN 154). As at December 31, 2021, the Bank have ON deposits in the amount of TPLN 107 037 (as at December 31, 2021, it was TPLN 114 504).

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:

for 2022 (in PLN thousand)

- PLN 0 thousand for the period from 31 December 2022 to 30 January 2023,
- PLN 0 thousand in the period from 31 December 2021 to 30 January 2022.

The bank has the funds with limited possibilities to dispose. As at 31 December 2022, the interest rate on the cash maintained as a mandatory reserve was 3,5% (as at 31 December 2021 was 2%).

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

- FX SWAP contracts,

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.

	Nominal amount		Fair value	
	purchase	**disposal**	**assets**	**liabilities**
As at 31 December 2022				
Derivative financial instruments held for trading				
Foreign exchange derivatives				
- FX swap contracts	1 014 420	1 016 661	1 975	3 083
Total OTC derivatives	**1 014 420**	**1 016 661**	**1 975**	**3 083**
Total foreign exchange derivatives	**1 014 420**	**1 016 661**	**1 975**	**3 083**
Interest rate derivatives				
- IRS contracts	150 000	150 000	-	1 881
Total interest rate derivatives from over-the-counter transactions	**150 000**	**150 000**	**-**	**1 881**
Total interest rate derivatives	**150 000**	**150 000**	**-**	**1 881**
Total assets / liabilities held for trading	**1 164 420**	**1 166 661**	**1 975**	**4 964**
Interest rate derivatives				
Derivatives designated as fair value hedges				
- IRS contracts	2 252 118	2 252 118	10 064	109 576
Derivatives designated as cash flow hedges				
- CIRS	1 406 970	1 278 930	31 890	-
Total derivatives held for hedging	**3 659 088**	**3 531 048**	**41 954**	**109 576**
Total recognised derivative assets /liabilities	**4 823 508**	**4 697 709**	**43 929**	**114 540**
Net-off effect	**-**	**-**	**(9 916)**	**(98 384)**
Total recognised derivative assets /liabilities held for trading	**4 823 508**	**4 697 709**	**34 013**	**16 156**
Short-term (up to 1 year)	1 014 419	1 016 662	1 975	-
Long-term (over 1 year)	3 809 089	3 681 047	32 038	16 156

for 2022 (in PLN thousand)

As at December 31, 2022, the offsetting effect, apart from the valuation of derivative transactions, includes TPLN 9 916 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 2021				
Derivative financial instruments held for trading				
- Foreign exchange derivatives	2 067	2 070	-	3
- FX swap contracts	1 273 178	1 283 609	57	7 046
Total OTC derivatives	**1 275 245**	**1 285 679**	**57**	**7 049**
Total foreign exchange derivatives	**1 275 245**	**1 285 679**	**57**	**7 049**
Interest rate derivatives				
- IRS contracts	50 000	50 000	1 172	-
Total OTC interest rate derivatives	**50 000**	**50 000**	**1 172**	**-**
Total interest rate derivatives	**50 000**	**50 000**	**1 172**	**-**
Total assets / liabilities held for trading	**1 325 245**	**1 335 679**	**1 229**	**7 049**
Interest rate derivatives				
Derivatives designated as fair value hedges	2 515 412	2 515 412	82 797	-
- IRS contracts	2 515 412	2 515 412	82 797	-
Derivatives designated as cash flow hedges	1 379 820	1 278 930	92 243	-
- CIRS	1 379 820	1 278 930	92 243	-
Total derivatives held for hedging	**3 895 232**	**3 794 342**	**175 040**	**-**
Total recognised derivative assets /liabilities	**5 220 477**	**5 130 021**	**176 269**	**7 049**
Net-off effect	**-**	**-**	**(50 432)**	**4**
Total recognised derivative assets /liabilities held for trading	**5 220 477**	**5 130 021**	**125 837**	**7 053**
Short-term (up to 1 year)	1 827 173	1 837 607	3 834	7 053
Long-term (over 1 year)	3 393 304	3 292 414	122 003	-

As at December 31, 2021, the offsetting effect, apart from the valuation of derivative transactions, includes TPLN 50 432 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.

In accordance with the provisions of IFRS 9, only on the date of implementation of IFRS 9, the Bank had the opportunity to make a decision, which is an element of the accounting policy, to continue applying the hedge accounting requirements in accordance with IAS 39 instead of the requirements set out in IFRS 9. The Bank decided to continue applying hedge accounting requirements in accordance with IAS 39 from 1 January 2018. These principles were consistently applied until 30 June 2022. Starting from July 1, 2022, in the area of hedge accounting, the Bank applies accounting principles in accordance with IFRS 9.

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 2.10.

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

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 426 900.

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 recognised 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, 2022 and December 31, 2021.

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, 2022

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	117 731	3 434	114 297	5 251
Mortgage covered bonds (EUR)	300 000	1,07%	05.03.2025	1 418 078	77 883	1 340 194	111 838

Mortgage covered bonds (EUR)	11 000	1,29%	24.04.2025	51 946	3 227	48 718	4 200
Mortgage covered bonds (EUR)	13 000	1,18%	20.09.2026	61 072	6 329	54 742	6 788
Mortgage covered bonds (EUR)	35 000	1,18%	20.09.2026	164 450	16 237	148 213	18 470
Mortgage covered bonds (EUR)	8 000	3,50%	28.02.2029	38 276	2 057	36 219	7 144
Mortgage covered bonds (EUR)	15 000	3,50%	15.03.2029	71 741	3 857	67 883	13 451
Mortgage covered bonds (EUR)	20 000	3,20%	30.05.2029	94 742	5 201	89 541	18 081
Total hedged items				**2 018 036**	**118 134**	**1 899 807**	**185 223**

As at December 31, 2021

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)	20 000	1.14%	25.02.2022	92 853	(145)	92 998	937
Mortgage covered bonds (EUR)	100 000	0.61%	22.06.2022	461 316	(1 432)	462 748	2 949
Mortgage covered bonds (EUR)	24 900	0.94%	01.02.2024	115 412	(1 817)	117 229	1 667
Mortgage covered bonds (EUR)	300 000	1.07%	05.03.2025	1 390 190	(32 379)	1 422 569	30 770
Mortgage covered bonds (EUR)	11 000	1.29%	24.04.2025	50 899	(972)	51 871	1 105
Mortgage covered bonds (EUR)	13 000	1.18%	20.09.2026	59 867	(458)	60 325	1 573
Mortgage covered bonds (EUR)	35 000	1.18%	01.12.2026	161 211	(2 232)	163 443	4 442
Mortgage covered bonds (EUR)	8 000	3.5%	28.02.2029	37 478	(5 087)	42 565	2 192
Mortgage covered bonds (EUR)	15 000	3.5%	15.03.2029	70 265	(9 593)	79 858	4 127
Mortgage covered bonds (EUR)	20 000	3.2%	30.05.2029	-	(12 880)	105 657	5 520
Total hedged items				**2 439 491**	**(66 995)**	**2 599 263**	**55 282**

The following table presents hedged items as at 31 December 2022 and 31 December 2021. 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 31.12.2022

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	(2 950)	(5 075)
IRS (EUR)	300 000	05.03.2025	(71 193)	(111 389)
IRS (EUR)	11 000	24.04.2025	(3 143)	(4 114)
IRS (EUR)	13 000	20.09.2026	(6 418)	(6 844)
IRS (EUR)	35 000	20.09.2026	(16 546)	(18 664)
IRS (EUR)	8 000	28.02.2029	(1 214)	(7 353)
IRS (EUR)	15 000	15.03.2029	(2 600)	(13 853)
IRS (EUR)	20 000	30.05.2029	(5 514)	(18 569)
Total hedging items			**(109 578)**	**(185 861)**
As at 31.12.2021				

for 2022 (in PLN thousand)

Derivatives	Nominal value	End of transaction	Fair value of asset	Differences from hedge accounting on fair value gain/(loss
IRS (EUR)	20 000	25.02.2022	910	(755)
IRS (EUR)	100 000	22.06.2022	2 867	(2 778)
IRS (EUR)	24 900	01.02.2024	2 694	(1 617)
IRS (EUR)	300 000	05.03.2025	41 139	(30 436)
IRS (EUR)	11 000	24.04.2025	1 222	(1 072)
IRS (EUR)	13 000	20.09.2026	476	(1 578)
IRS (EUR)	35 000	01.12.2026	2 253	(4 470)
IRS (EUR)	8 000	28.02.2029	6 314	(2 342)
IRS (EUR)	15 000	15.03.2029	11 653	(4 387)
IRS (EUR)	20 000	30.05.2029	13 270	(5 681)
Total hedging items			**82 798**	**(55 116)**

Total result on fair value hedge accounting recognised in the income statement in 2022 and 2021

	Year ended 31 December	
	2022	**2021**
Interest income on derivatives as part of fair value hedge accounting	14 028	25 755
Result from the valuation of the hedged	185 224	55 282
Result on the valuation of hedging instruments	(185 861)	(55 117)
Total result on fair value hedge accounting	**13 391**	**25 920**

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.

<u>Hedged item</u>

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.

for 2022 (in PLN thousand)

Portfolios of secured loans as at 31 December, 2022

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	89 731	670	670
Credit portfolio HA_PKS_2	25 000	25 000	48 487	306	306
Credit portfolio HA_PKS_3	75 000	75 000	119 991	916	916
Credit portfolio HA_PKS_4	100 000	100 000	167 306	1 172	1 172
Total	**250 000**	**250 000**	**425 515**	**3 064**	**3 064**

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, 2022

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	5 514	(415)
IRS/22/0001	25 000	100%	28.01.2027	1 453	(172)
IRS/22/0002	75 000	100%	14.03.2027	1 624	(404)
IRS/22/0003	100 000	100%	01.04.2027	1 475	(445)
Total	**250 000**			**10 064**	**(1 436)**

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:

	31.12.2022	**31.12.2021**
Interest income on derivatives under fair value hedge accounting for a portfolio of fixed rate loans	3 333	-
Result on valuation of fair value hedges (Note 9)	3 064	-
Result on valuation of hedged items (Note 9)	(1 436)	-
Total result on fair value hedge accounting of the fixed rate loan portfolio	**4 961**	**-**

for 2022 (in PLN thousand)

c) Cash flow hegde 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.

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

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 derecognised 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	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Loans in PLN with variable interest	1 278 930	1 278 930	148 385	85 861
Covered bonds issued in a convertible currency with a fixed interest rate	1 406 970	1 379 820	(150 199)	(181 520)

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	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
CIRS floating leg PLN	1 278 930	1 278 930	(146 160)	(85 989)	(147 168)	(85 861)
CIRS fixed leg EUR	1 406 970	1 379 820	145 442	179 633	22 158	80 630

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.

As at December 31, 2022

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swap (IRS) transaktions 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%	-	**2,4299%**
CURRENCY RISK						
Foreign exchange swap transactions (CIRS) hedging cash flows resulting from the issued mortgage bonds						
Nominal value (in thousand PLN)	-	-	-	1 406 970		**1 406 970**
Average interest rate on a fixed leg	-	-	-	0,302%	-	**0,302%**

As at December 31, 2021

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swap (IRS) transaktions 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	-	-	-	2,4199%	-	**2,4199%**
CURRENCY RISK						
Foreign exchange swap transactions (CIRS) hedging cash flows resulting from the issued mortgage bonds						
Nominal value (in thousand PLN)	-	-	-	1 379 820	-	1 379 820
Average interest rate on a fixed leg	-	-	-	0,242%	-	**0,242%**

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 2022 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: $-1.25 \leq b \leq -0.80$, $0.8 \leq R2$, p-value≤ 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: -

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1.66≤b≤-0.60, 0.6≤R2, p-value≤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, 2022 and in the period from January 1 to December 31, 2021.

Accumulated other total revenue for protection of cash flows and impact on other total income	the period	
	from 01.01.2022 to 31.12.2022	from 01.01.2021 to 31.12.2021
Accumulated other comprehensive income from cash flow hedges at the beginning of the gross period	**(5 231)**	**16 605**
Profits / (losses) recognized in other comprehensive income in the period	**(134 911)**	**(38 552)**
The amount transferred during the period from other comprehensive income to the profit and loss account	**48 596**	**16 716**
- Net interest income	76 294	12 096
- Result on exchange position	(27 150)	4 620
- Currency basis spread	(548)	-
Accumulated other comprehensive income from cash flow hedges at the end of the gross period	**(91 546)**	**(5 231)**
Tax effect	17 394	994
Accumulated other comprehensive income from cash flow hedges at the end of the net period	**(74 152)**	**(4 237)**
Impact during the period on other gross comprehensive income	**(86 315)**	**(21 836)**
Deferred tax due to cash flow hedges	16 400	4 149
Impact during the period on other net comprehensive income	**(69 915)**	**(17 687)**

	the period	
	from 01.01.2022 to 31.12.2022	from 01.01.2021 to 31.12.2021
Unrealized gains/(losses) on cash flow hedges	**(86 315)**	**(21 836)**
Result on cash flow hedge accounting recognized in the profit and loss account	**(48 596)**	**(16 716)**
- The amount included in the period under interest expense in the income statement	(76 294)	(12 096)
- Amount included in the reporting period in exchange income	27 150	(4 620)
- Currency basis spread	548	-
Impact in the reporting period on gross comprehensive income	**(134 911)**	**(38 552)**

	the period	
	from 01.01.2022 to 31.12.2022	from 01.01.2021 to 31.12.2021
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	**(86 315)**	**(21 836)**
Results of cash flow hedge accounting recognised in the income statement	**(47 497)**	**(17 798)**

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- amount included as interest income in income statement during the reporting period	(76 294)	(12 096)
- foreign exchange result	27 150	(4 620)
- currency basis spread	548	-
- ineffective portion of hedge recognised included in other net trading income in income statement	1 099	(1 082)
Impact on other comprehensive income in the reporting period (gross)	**(133 812)**	**(39 634)**

BALANCE SHEET/ FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR PROTECTING CASH FLOWS	Assets
31.12.2022	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk – Relation A)	(147 503)
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk – Relation B)	145 382
Currency basis spread	34 011
Total	**31 890**
BALANCE SHEET/ FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR PROTECTING CASH FLOWS	**Assets**
31.12.2021	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk – Relation A)	(87 330)
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk – Relation B)	179 573
Total	**92 243**

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
31.12.2022					
CIRS					
PLN float sale	-	-	1 278 930	-	**1 278 930**
Fixed EUR purchase (original currency)	-	-	300 000	**-**	**300 000**

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
31.12.2021					
CIRS					
PLN float sale	-	-	1 278 930	-	**1 278 930**
Fixed EUR purchase (original currency)	-	-	300 000	**-**	**300 000**

Currency basis spread	
31.12.2022	
Currency basis spread recognized as hedging cost (separate component of equity)	33 463
Difference from currency basis spread (WBS) between the real WBS element and the matched WBS element	169
The amount of amortization from separate equity to profit or loss related to the currency basis spread at the time of designation	379
Total	**34 011**

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.

for 2022 (in PLN thousand)

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.
31.12.2022		
CIRS	(16 469)	16 474

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:

RANGE OF SPREAD CURVES USED FOR CVA AND DVA CALCULATIONS	Min	Max
31.12.2022		
Credit spread	0.0041%	2.3266%

- 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.
31.12.2022	
CIRS transaction CVA change	78
CIRS transaction DVA change	(737)
Total impact on the valuation of CIRS transactions	**(659)**

ESTIMATED VALUES OF THE VALUATION OF THE CVA AND DVA APPLYING DIFFERENT LAG LEVELS	40%	60%	80%	100%
31.12.2022				
CVA	(39)	(59)	(79)	(98)
DVA	533	799	1 066	1 332

19. Financial assets not held for trading mandatorily measured at fair value through net financial income

	31.12.2022	31.12.2021
Loans	**100 822**	**120 205**
- corporate customers	100 822	120 205
Financial assets not held for trading mandatorily measured at fair value through net financial income	**100 822**	**120 205**

for 2022 (in PLN thousand)

The credit quality non-trading financial assets mandatorily at fair value through profit or loss according to an internal rating as at December 31, 2022 and December 31, 2021.

	Score with model domestic		31.12.2022
	[SCORE min	SCORE max)	
Exposures subject to the IRB approach – specialised lending, including	-	-	100 822
-supervisory category 2	23	45	50 671
-supervisory category 3	11	23	15 726
-supervisory category 4	1	11	4 584
-supervisory category 5	default	default	29 841
Total	**-**	**-**	**100 822**
	Score with model domestic		**31.12.2021**
	[SCORE min	**SCORE max)**	
Exposures subject to the IRB approach – specialised lending, including	-	-	120 205
-supervisory category 2	23	45	71 682
-supervisory category 3	11	23	33 250
-supervisory category 4	1	11	-
-supervisory category 5	default	default	15 273
Total	**-**	**-**	**120 205**

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

31.12.2022	carrying amount
Debt securities	**1 171 608**
- Central banks	399 695
- General governments, including::	771 913
pledged securities	*257 585*
Total financial assets at fair value through comprehensive income	**1 171 608**
Short-term (up to 1 year)	399 695
Long-term (over 1 year)	771 913
Based on fixed interest rate	233 825
Based on floating interest rate	937 783

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 31.12.2022 and 31.12.2021, all debt securities were classified in stage 1.

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

	31.12.2022
As at the beginning of the period	**732 393**
Additions	4 484 465
Disposals (sale, redemption and forfeiture)	(4 036 264)
Gains / losses from changes in fair value	(8 986)
As at the end of the period	**1 171 608**

for 2022 (in PLN thousand)

31.12.2021	carrying amount
Debt securities	**732 393**
- General governments, including::	732 393
pledged securities	*165 189*
Total financial assets at fair value through comprehensive income	**732 393**
Short-term (up to 1 year)	-
Long-term (over 1 year)	732 393
Based on fixed interest rate	253 087
Based on floating interest rate	479 306

Change in financial assets at fair value through other comprehensive income

	31.12.2021
As at the beginning of the period	**791 045**
Additions	1 394 150
Disposals (sale, redemption and forfeiture)	(1 419 376)
Gains / losses from changes in fair value	(33 426)
As at the end of the period	**732 393**

Both as at 31 December 2022 and as at 31 December 2021, 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.

21. Financial assets measured at amortised cost

31.12.2022	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	69 530	69 530	-	-	-	-	-	-	-
Loans and advances to customers	**11 468 142**	**10 714 236**	**412 004**	**490 713**	**22 686**	**(7 728)**	**(9 854)**	**(153 806)**	**(109)**
Individual customers	9 515 623	9 235 471	230 049	77 363	1 382	(3 932)	(4 690)	(19 765)	(255)
Corporate customers	1 866 973	1 393 257	181 955	412 282	21 304	(3 780)	(5 164)	(133 027)	146
Public sector customers	53 660	53 622	-	1 068	-	(16)	-	(1 014)	-
Financial institutions	31 886	31 886	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 537 672**	**10 783 766**	**412 004**	**490 713**	**22 686**	**(7 728)**	**(9 854)**	**(153 806)**	**(109)**

Short-term (up to 1 year)	332 428
Long-term (over 1 year)	11 205 244

In 2022, the Bank will sell a part of credit receivables with the carrying amount of gross income of TPLN 27 188 qualified to the stage 3. Obtained prices included in the price TPLN 7 200 was credited to the investment fund and additional fund, in accordance with the provisions of the sales agreement. Not covered by the price of capital and language in the amount of TPLN 19 988 was written off in transport, from which the provisions for separate receivables come.

In 2021, the Bank sold loan receivables with a total gross carrying amount of PLN 4 541 thousand qualified to the basket 3. Principal and interest obtained prices in the amount PLN 1 270 thousand were credited towards the repayment of principal and interest, in accordance with the provisions of the sale agreements. Unpaid principal and interest in the amount of PLN 3 272 thousand was written off against previously created provisions for individual debts.

for 2022 (in PLN thousand)

Loan structure by past due days

Loan structure by past due days 31.12.2022	Loans and advances to banks	Financial institutions	Corporate customers	Individual customers	Public sector customers	Total
Not overdue or up to 30 days	69 530	31 886	1 817 425	9 468 782	53 606	11 441 229
31 to 60 days	-	-	7 689	13 726	-	21 415
61 to 90 days	-	-	-	9 386	-	9 386
Over 90 days	-	-	41 861	23 727	54	65 642
Total	**69 530**	**31 886**	**1 866 975**	**9 515 621**	**53 660**	**11 537 672**

31.12.2021	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	152 668	152 668	-	-	-	-	-	-	-
Loans and advances to customers	**11 608 275**	**10 635 876**	**581 723**	**501 352**	**2 322**	**(5 211)**	**(18 524)**	**(110 657)**	**21 394**
Individual customers	9 136 875	9 031 848	77 491	41 121	1 315	(1 664)	(2 165)	(11 024)	(47)
Corporate customers	2 379 628	1 512 748	504 232	459 163	1 007	(3 526)	(16 359)	(99 078)	21 441
Public sector customers	71 401	70 909	-	1 068	-	(21)	-	(555)	-
Financial institutions	20 371	20 371	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 760 943**	**10 788 544**	**581 723**	**501 352**	**2 322**	**(5 211)**	**(18 524)**	**(110 657)**	**21 394**

Short-term (up to 1 year)	352 751
Long-term (over 1 year)	11 408 192

Loan structure by past due days

Loan structure by past due days 31.12.2021	Loans and advances to banks	Financial istitutions	Corporate customers	Individual customers	Public sector customers	Total
Not overdue or up to 30 days	152 668	20 370	2 316 483	9 102 889	70 888	11 667 765
31 to 60 days	-	-	12 940	11 539	-	24 479
61 to 90 days	-	-	735	5 807	-	2 075
over 90 days	-	-	49 470	16 641	513	66 624
Total	**152 668**	**20 370**	**2 379 628**	**9 136 876**	**71 401**	**11 760 943**

As at 31 December 2022, in the Bank's credit portfolio measured at amortised cost, the gross value of loans to corporate customers, individual customers and the public sector in the Bank's loan portfolio, carrying floating interest rates, based on a variable interest rate was TPLN 11 607 753 (in 2021: TPLN 11 637 925) and based on a fixed interest rate there were no such loans (in 2021: TPLN 62 977).

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, 2021, it amounted to TPLN 8 960 909 (in 2021: TPLN 9 112 572), including agency sales of PLN 6 091 527 (in 2021: TPLN 5 646 476) and as part of retail pooling TPLN 2 869 382 (in 2021: PLN 3 466 096).

Gross carrying amount of the commercial portfolio transferred as part of commercial pooling from mBank S.A. as at December 31, 2021, it amounted to TPLN 29 687 (in 2021: TPLN 42 627).

for 2022 (in PLN thousand)

Credit quality of financial assets measured at amortized cost according to internal rating as at December 31, 2022 and December 31, 2021

31.12.2022	Score from internals models		Stage 1	Stage 2	Stage 3	POCI	Total
	[SCORE min	SCORE max)					
Exposures permanently exempted from the IRB approach	no rating	no rating	153 449	2 773	1 304	-	157 526
Exposures temporarily exempted from the IRB approach — retail portfolio acquired in cooperation with mBank S.A.	-	-	9 216 624	222 586	56 506	1 131	9 496 847
Exposures subject to the IRB approach — specialised lending, including	-	-	1 336 435	176 791	279 097	21 446	1 813 769
supervisory category 1	45	54	10 052		-	-	10 052
supervisory category 2	23	45	1 245 802	43 807	-	-	1 289 609
supervisory category 3	11	23	80 581	132 984	-	-	213 565
supervisory category 4	1	11	-	-	-	-	-
supervisory category 5	default	default	-	-	279 097	21 446	300 543
Total			**10 706 508**	**402 150**	**336 907**	**22 577**	**11 468 142**

31.12.2021	Score from internals models		Stage 1	Stage 2	Stage 3	POCI	Total
	[SCORE min	SCORE max)					
Exposures permanently exempted from the IRB approach	no rating	no rating	166 002	5 297	1 012	-	172 311
Exposures temporarily exempted from the IRB approach — retail portfolio acquired in cooperation with mBank S.A.	-	-	9 012 529	70 030	29 598	1 268	9 113 425
Exposures subject to the IRB approach — specialised lending, including	-	-	1 452 133	487 873	360 084	22 448	2 322 538
supervisory category 1	45	54	7 313	-	-	-	7 313
supervisory category 2	23	45	1 405 606	265 892	-	-	1 671 498
supervisory category 3	11	23	39 214	193 070	-	-	232 284
supervisory category 4	1	11	-	28 911	-	-	28 911
supervisory category 5	default	default	-	-	360 084	22 448	382 532
Total			**10 630 664**	**563 200**	**390 694**	**23 716**	**11 608 274**

To calculate the capital requirement for credit risk, the Bank uses the Internal Ratings-Based Approach (IRB) with the supervisory approach to assign risk categories to exposures under specialized lending. The assignment to the appropriate supervisory category takes place after the transaction risk is assessed with the use of internal rating models developed by the Bank and the transition function model, which transforms the score assigned to the given internal models into supervisory categories. The different supervisory categories listed in the table above determine the supervisory risk weights and expected losses.

Movements in the balance of loss allowances and provisions (31.12.2022)

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Changes due to modifications not resulting in derecognition (net)	Changes resulting from the update of the methodology for estimating write-offs (net)	Decreases due to amounts taken against allowances	Closing balance
Loans	**(112 998)**	**-**	**-**	**-**	**(1 636)**	**9 303**	**(46 068)**	**-**	**-**	**(20 098)**	**(171 497)**
Stage 1	(5 211)	(5 877)	576	189	(605)	283	2 917	-	-	-	(7 728)
Stage 2	(18 524)	5 518	(633)	3 182	(577)	4 355	(3 175)	-	-	-	(9 854)
Stage 3	(110 657)	359	57	(3 371)	(454)	4 684	(24 326)	-	-	(20 098)	(153 806)
POCI	21 394			-	-	(19)	(21 484)	-	-	-	(109)
Provision related to financial assets, total	**(112 998)**	**-**	**-**	**-**	**(1 636)**	**9 303**	**(46 068)**	**-**	**-**	**(20 098)**	**(171 497)**

Changes in the gross carrying amount of financial instruments as at December 31, 2022

for 2022 (in PLN thousand)

2022	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Decreases due to amounts taken against allowances	Other adjustments	Closing balance
Receivables from banks	**152 668**	-	-	-	-	-	-	-	**(83 138)**	**69 530**
Stage 1	152 668	-	-	-	-	-	-	-	(83 138)	**69 530**
Loans	**11 721 273**	-	-	-	**1 912 153**	**(1 062 026)**	-	**(20 098)**	**(911 663)**	**11 639 639**
Stage 1	10 635 876	282 803	(200 133)	(54 960)	1 840 089	(934 115)	-	-	(855 324)	10 714 236
Stage 2	581 723	(280 082)	200 712	(31 216)	49 157	(85 963)	-	-	(22 327)	412 004
Stage 3	501 352	(2 721)	(579)	86 176	2 215	(41 945)	-	(20 098)	(33 687)	490 713
POCI	2 322	-	-	-	20 692	(3)	-	-	(325)	22 686
Provision related to financial assets, total	**11 873 941**	-	-	-	**1 912 153**	**(1 062 026)**	-	**(20 098)**	**(994 801)**	**11 709 169**

Movements in the balance of loss allowances and provisions (31.12.2021)

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Changes due to modifications not resulting in derecognition (net)	Changes resulting from the update of the methodology for estimating write-offs (net)	Decreases due to amounts taken against allowances	Closing balance
Loans	**(107 928)**	-	-	-	**(326)**	**(17 435)**	**(12 983)**	-	**2 473**	**23 201**	**(112 998)**
Stage 1	(4 368)	(10 137)	444	20	(213)	267	8 259	-	517	-	(5 211)
Stage 2	(29 842)	9 238	(1 291)	8 401	(136)	459	(6 032)	-	679	-	(18 524)
Stage 3	(95 531)	899	847	(8 421)	(61)	(17 915)	(14 623)	-	1 209	22 939	(110 657)
POCI	21 813	-	-	-	84	(246)	(587)	-	68	262	21 394
Provision related to financial assets, total	**(107 928)**	-	-	-	**(326)**	**(17 435)**	**(12 983)**	-	**2 473**	**23 201**	**(112 998)**

The positive valuation of the accumulated impairment results from the presentation of the accrued interest in this item.

Changes in the gross carrying amount of financial instruments as at December 31, 2021

2021	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Decreases due to amounts taken against allowances	Other adjustments	Closing balance
Receivables from banks	**323 133**	-	-	-	-	-	-	-	**(170 465)**	**152 668**
Stage 1	323 133	-	-	-	-	-	-	-	(170 465)	152 668
Loans	**11 425 684**	-	-	-	**1 694 102**	**(678 038)**	-	**(23 201)**	**(697 274)**	**11 721 273**
Stage 1	9 480 090	880 219	(160 796)	(7 471)	1 687 674	(626 400)	-	-	(617 440)	10 635 876
Stage 2	1 627 931	(874 867)	166 287	(244 605)	5 424	(65 535)	-	-	(32 912)	581 723
Stage 3	314 440	(5 352)	(5 491)	252 076	302	14 041	-	(22 939)	(45 725)	501 352
POCI	3 223	-	-	-	702	(144)	-	(262)	(1 197)	2 322
Provision related to financial assets, total	**11 748 817**	-	-	-	**1 694 102**	**(678 038)**	-	**(23 201)**	**(867 739)**	**11 873 941**

for 2022 (in PLN thousand)

Financial effect of collaterals

As at 31 December 2022	Gross amount	Established impairment write downs	impairment write downs without the collateral cash flows	Financial effect of collaterals
Balance sheet data				
Amounts due from other banks	**69 530**	**-**	**-**	**-**
Loans and advances to customers, including:	**11 639 639**	**(171 497)**	**(206 246)**	**34 749**
Corporate customers	2 008 798	(141 825)	(166 825)	25 000
Individual customers	9 544 265	(28 642)	(38 391)	9 749
Public sector customers	54 690	(1 030)	(1 030)	-
Other receibles	31 886	-	-	-
Total balance sheet data	**11 709 169**	**(171 497)**	**(206 246)**	**34 749**
Off-balance sheet data				
Loan commitments	3 615	-	-	-
Total off-balance sheet data	**3 615**	**-**	**-**	**-**

As at 31 December 2021	Gross amount	Established impairment write downs	impairment write downs without the collateral cash flows	Financial effect of collaterals
Balance sheet data				
Amounts due from other banks	**152 668**	**-**	**-**	**-**
Loans and advances to customers, including:	**11 721 273**	**(112 998)**	**146 139**	**(259 137)**
Corporate customers	2 477 150	(97 522)	120 480	(218 002)
Individual customers	9 151 775	(14 900)	25 083	(39 983)
Public sector customers	71 977	(576)	576	(1 152)
Other receibles	20 371	-	-	-
Total balance sheet data	**11 873 941**	**(112 998)**	**146 139**	**(259 137)**
Off-balance sheet data				
Loan commitments	9 700	9	-	9
Total off-balance sheet data	**9 700**	**9**	**-**	**9**

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.

	31.12.2022	31.12.2021
Financial assets that were subject to modification in the period		
Gross carrying amount of financial assets at amortized cost vefore modification, for which the write-down for expected credit losses as calculated in the lifetime horizon	190 408	449 486
Net profit / loss due to modification	(11 235)	(2 677)
Financial assets modified from the moment of initial recognition		
Gross carrying amount of financial assets whose valuation horizon of the write-off for exected credit losses during the period changed from lifetime to 12-month	-	-

for 2022 (in PLN thousand)

22. Intangible assets

	31.12.2022	31.12.2021
Concessions, patents, licences and similar assets, including:	**45 385**	49 489
computer software	45 385	49 489
Intangible assets under development	**3 057**	2 999
Intangible assets, total	**48 442**	**52 488**

Movements in intangible assets

Movements in the period from 01.01.2022 to 31.12.2022	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2022	**77 907**	**2 999**	**80 906**
Increase (due to)	**6 285**	**5 851**	**12 136**
-purchase	1 688	5 142	6 830
-transfer from intangible assets under development	4 597	-	4 597
-other increase	-	709	709
Decrease (due to)	**(4 163)**	**(5 793)**	**(9 956)**
-transfer from intangible assets under development	-	(4 597)	(4 597)
-liquidation	(4 163)	-	(4 163)
-other decreases	-	(1 196)	(1 196)
Gross value of intangible assets as at the end of the period 31.12.2022	**80 029**	**3 057**	**83 086**
Accumulated amortisation as at the beginning of the period: 01.01.2022	**(28 418)**	**-**	**(28 418)**
Amortisation for the period (due to):	**(6 226)**	**-**	**(6 226)**
-amortisation	(8 690)	-	(8 690)
-liquidation	2 464	-	2 464
Accumulated amortisation as at the end of the period : 31.12.2022	**(34 644)**	**-**	**(34 644)**
Net value of intangible assets as at the end of the period: 31.12.2022	**45 385**	**3 057**	**48 442**

Movements in the period from 01.01.2021 to 31.12.2021	Acquired computer software	Intangible assets under development	Total
Gross value of intangible assets as at the beginning of the period: 01.01.2021	**66 450**	**8 505**	**74 955**
Increase (due to)	**11 457**	**8 264**	**19 721**
-purchase	1 088	5 859	6 947
-transfer from intangible assets under development	10 369	-	10 369
-other increase	-	2 405	2 405
Decrease (due to)	**-**	**(13 770)**	**(13 770)**
-transfer from intangible assets under development	-	(10 369)	(10 369)
-other decreases	-	(3 401)	(3 401)
Gross value of intangible assets as at the end of the period 31.12.2021	**77 907**	**2 999**	**80 906**
Accumulated amortisation as at the beginning of the period: 01.01.2021	**(21 019)**	**-**	**(21 019)**
Amortisation for the period (due to):	(7 399)	-	(7 399)
-amortisation	(7 399)	-	(7 399)
Accumulated amortisation as at the end of the period : 31.12.2021	**(28 418)**	**-**	**(28 418)**
Net value of intangible assets as at the end of the period: 31.12.2021	**49 489**	**2 999**	**52 488**

for 2022 (in PLN thousand)

23. Property, plant and equipment

	31.12.2022	31.12.2021
Technical equipment and machinery	**5 053**	**6 186**
Fixed assets under construction	**1 718**	**2 081**
The right to use under leasing contracts:	**21 073**	**21 167**
buildings	20 723	20 915
vehicals	350	252
Tangible fixed assets, total	**27 844**	**29 434**

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, 2022 it amounted to TPLN 17 194 (as at 31 December 2021 it was TPLN 16 934).

Movements in tangible fixed assets

Movements in the period from 01.01.2022 to 31.12.2022	Equipment	Other fixed assets	Fixed assets under construction	Right to use		Total
				Building	Vehicles	
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2022	**22 242**	**3 503**	**-**	**23 451**	**650**	**49 846**
Increase (due to)	**1 505**	**178**	**-**	**2 415**	**301**	**4 399**
-purchase	1 505	178	-	-	-	1 683
-transfer from fixed assets under construction	-	-	-	2 415	301	2 716
Decrease (due to)	**(2 708)**	**(200)**	**-**	**-**	**(106)**	**(3 014)**
-sale	(77)	(197)	-	-	-	(274)
-liquidation	(2 631)	(3)	-	-	(43)	(2 677)
-other decrease	-	-	-	-	(63)	(63)
Gross value of tangible fixed assets as at the end of the period: 31.12.2022	**21 039**	**3 481**	**-**	**25 866**	**845**	**51 231**
Accumulated amortisation as at the beginning of the period: 01.01.2022	**(16 056)**	**(1 422)**	**-**	**(2 536)**	**(398)**	**(20 412)**
Amortisation for the period (due to):	**70**	**(341)**	**-**	**(2 607)**	**(97)**	**(2 975)**
-amortization	(2 389)	(541)	-	(2 607)	(179)	(5 716)
-sale	72	155	-	-	-	227
-liquidation	2 387	45	-	-	28	2 460
-other changes	-	-	-	-	54	54
Accumulated amortisation as at the end of the period: 31.12.2022	**(15 986)**	**(1 763)**	**-**	**(5 143)**	**(495)**	**(23 387)**
Impairment charge as at the beginning of the period: 01.01.2022	**-**	**-**	**-**	**-**	**-**	**-**
- decrease	**-**	**-**	**-**	**-**	**-**	**-**
Impairment charge as at the end of the period: 31.12.2022	**-**	**-**	**-**	**-**	**-**	**-**
Net value of tangible fixed assets as at the end of the period: 31.12.2022	**5 053**	**1 718**	**-**	**20 723**	**350**	**27 844**

Movements in the period from 01.01.2021 to 31.12.2021	Equipment	Other fixed assets	Fixed assets under construction	Right to use		Total
				Building	Vehicles	
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2021	**24 663**	**6 549**	**1 403**	**9 664**	**865**	**43 144**
Increase (due to)	**2 678**	**1 929**	**400**	**18 654**	**22**	**23 683**
-purchase	2 678	126	202	-	-	3 006
-transfer from fixed assets under construction	-	1 803	-	-	-	1 803
-other increase	-	-	198	18 654	22	18 874
Decrease (due to)	**(5 099)**	**(4 975)**	**(1 803)**	**(4 867)**	**(237)**	**(16 981)**
-sale	(2 987)	(3 302)	-	-	(237)	(6 526)
-liquidation	(2 112)	(1 649)	-	-	-	(3 761)
-transfer from fixed assets under construction	-	-	(1 803)	-	-	(1 803)
-other decrease	-	(24)	-	(4 867)	-	(4 891)

for 2022 (in PLN thousand)

Gross value of tangible fixed assets as at the end of the period: 31.12.2021	**22 242**	**3 503**	**-**	**23 451**	**650**	**49 846**
Accumulated amortisation as at the beginning of the period: 01.01.2021	**(18 649)**	**(5 567)**	**-**	**(4 726)**	**(384)**	**(29 326)**
Amortisation for the period (due to):	**2 593**	**4 145**	**-**	**2 190**	**(14)**	**8 914**
-amortization	(2 479)	(527)	-	(2 677)	(182)	(5 865)
-sale	2 960	3 298	-	-	-	6 258
-liquidation	2 112	1 350	-	-	-	3 462
-other changes	-	24	-	4 867	168	5 059
Accumulated amortisation as at the end of the period: 31.12.2021	**(16 056)**	**(1 422)**	**-**	**(2 536)**	**(398)**	**(20 412)**
Impairment charge as at the beginning of the period: 01.01.2021	**-**	**-**	**-**	**-**	**-**	**-**
decrease	**-**	**-**	**-**	**-**	**-**	**-**
Impairment charge as at the end of the period: 31.12.2021	**-**	**-**	**-**	**-**	**-**	**-**
Net value of tangible fixed assets as at the end of the period: 31.12.2021	**6 186**	**2 081**	-	**20 915**	**252**	**29 434**

24. Other assets

	31.12.2022	**31.12.2021**
Other, including:	**33 790**	**25 904**
-other prepayments	2 159	1 238
-receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	4 577	5 504
-income receivable	157	201
-debtors	333	392
-asset for return	26 552	18 556
-other	12	13
Total other assetsTotal other assets	**33 790**	**25 904**
Short-term (up to 1 year)	7 238	7 348
Long-term (over 1 year)	26 552	18 557

The asset to be returned item relates to financial guarantees received by the Bank from mBank S.A. in accordance with the agreement of December 17, 2020. In 2021, the guarantee mechanism triggered the creation of an asset to be repaid as a result of offsetting an increase in write-offs for expected credit losses. The change in the value of the asset to be returned is reported in the income statement on the same line as expected credit loss costs (Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss in Note 24).

As at December 31, 2022 and December 31, 2021, the bank did not have any assets taken over for debts.

25. Financial liabilities measured at amortised cost

Amounts due to other banks and customers

31.12.2022	Liabilities to banks	Total amounts due to customers	Individual customers	Corporate customers	Public sector customers
Loans received	**2 584 369**	**-**	**-**	**-**	**-**
Other financial liabilities, including:	**2 982 127**	**948**	**2**	**946**	**-**
Liabilities with deferred payment term	2 459 733	-	-	-	-
Liabilities in respect of cash collateral	500 715	356	2	354	-
Leasing liabilities	21 679	352	-	352	-
Other liabilities	-	240	-	240	-
Total	**5 566 496**	**948**	**2**	**946**	**0**
Short-term (up to 1 year)	1 239 232	406			
Long-term (over 1 year)	4 327 264	542			

for 2022 (in PLN thousand)

The increase in liabilities due to cash collateral concerns the deposit, which is a security for the guarantee granted by mBank.

31.12.2021	Liabilities to banks	Total amounts due to customers	Individual customers	Corporate customers	Public sector customers
Loans received	**1 965 859**	**-**	**-**	**-**	**-**
Other financial liabilities, including:	**2 015 156**	**1 933**	**53**	**1 849**	**31**
Liabilities with deferred payment term	1 312 874	-	-	-	-
Liabilities in respect of cash collateral	680 713	1 273	11	1 262	-
Leasing liabilities	21 569	257	-	257	-
Other liabilities	-	403	42	330	31
Total	**3 981 015**	**1 933**	**53**	**1 849**	**31**
Short-term (up to 1 year)	1 086 729	627			
Long-term (over 1 year)	2 894 286	1 306			

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 2022, the Bank took over 7 tranches of pooling, which resulted in a deferred liability for the total amount of TPLN 2 059 827. At the same time, the Bank repaid tranches of liabilities for the total amount TPLN 946 425 from excess liquidity.

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 42.

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

All loans received were based on a variable interest rate.

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.

9 October 2016 was the effective date of the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution, amending the Act on Covered Bonds and Mortgage Banks resulting in there no longer being a possibility for mortgage banks to offer bank accounts intended to support investment projects carried out using loans granted by mortgage banks, and to accept term deposits. Consequently, on 12 July 2016, the Bank's Management Board in its Resolution
No. 85/2016 adopted a decision to transfer the Bank's existing customer service in the area of escrow accounts and closed trust accounts to mBank by jointly offering to customers mBank S.A. products meeting the defined functionality requirements. In December 2016, pursuant to the decision of the President of the Bank's Management Board, the remaining escrow accounts, which had not been transferred, were closed.

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.

<u>Leasing liabilities</u>

Below are the liabilities due to leasing by maturity dates

	31.12.2022	31.12.2021
Leasing liabilities by maturity day (undiscointed)		
Up to 3 months	766	678
3-12 months	2 259	2 016
1-5 years	11 334	10 282
Over 5 years	7 672	9 287
Total	**22 031**	**22 263**

for 2022 (in PLN thousand)

Liabilities from debt securities in issue

Receivables secured with mortgage entered as the first position in the land and mortgage register were the basis for the issue of mortgage covered bonds.

The issue of covered bonds may also be based on the Bank's funds placed in Treasury Securities, in the National Bank of Poland or in cash, hereinafter referred to as "Substitute Collateral".

Rules of admissible amount of the Substitute Collateral

The Bank is obliged to keep, for mortgage covered bonds, a surplus created from the funds representing Substitute Collateral, of no less than the total amount of the nominal value of interest on mortgage covered bonds in trading, to be paid out within the next 6 months (hereinafter referred to as the "Surplus"). The funds representing the Surplus cannot represent the basis for issuing covered bonds.

Rules of statutory overcollateralisation for covered bonds

The sum of nominal amounts of the Bank's receivables from mortgage-backed loans and Substitute Collateral, entered in the register of collaterals of covered bonds, constituting the basis for issuing mortgage covered bonds, cannot be lower than 110% of the total amount of nominal values of the mortgage covered bonds currently traded on, and the sum of nominal amounts of the Bank's mortgage-backed receivables constituting the basis for issuing mortgage covered bonds cannot be lower than 85% of the total amount of nominal values of the mortgage covered bonds currently traded on.

Rules of loan refinancing from funds obtained from the issue of covered bonds

In accordance with the Act on Covered Bonds and Mortgage Banks, the Bank may use funds obtained from the issue of covered bonds to refinance mortgage-backed loans and other banks' receivables from mortgage-backed loans granted by them and acquired by the Bank; refinancing of an individual loan or individual amount receivable may not, however, exceed an amount representing 60% of the mortgage lending value of the real estate, and for residential real estates, 80% of the mortgage lending value of the real estate.

The tables below present data related to the issue of covered bonds as at 31 December 2022 and as at 31 December 2021.

Mortgage covered bonds	31.12.2022	31.12.2021
1. Nominal value of covered bonds listed on the market	6 569 088	7 355 232
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	8 130 326	9 737 408
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	270 000	98 732
4. Financial hedging instruments	128 040	100 890
5. Level of collateral the covered bonds by receivables (2/1)	123,77%	132,39%
6. Total covered bonds collateral level (2+3+4) / 1	129,83%	135,10%
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	-	1 507 424
8. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	7 828 498	7 719 429

Permissible value of Substitute collateral as at 31.12.2018	31.12.2022	31.12.2021
1. Cash invested in treasury bonds	270 000	170 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	-	71 268
3. Permissible value of Substitute collateral (1-2)	270 000	98 732

The total nominal value of covered bonds currently traded on, both as at 31 December 2022 and as at 31 December 2021 was listed on two markets as part of CATALYST: regulated market operated by BondSpot S.A. and regulated parallel market operated by Warsaw Stock Exchange, except for mortgage covered 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).

for 2022 (in PLN thousand)

Debt financial instruments by type as at 31.12.2022	Nominal value	Interest rate as at 31.12.2022	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 (PLN)	200 000	8,23%	Mortgage register of covered bonds	20.02.2023	205 902	-	205 902
Mortgage covered bonds (PLN)	1 000 000	7,92%	Mortgage register of covered bonds	15.09.2023	1 003 213	-	1 003 213
Mortgage covered bonds (PLN)	250 000	8,30%	Mortgage register of covered bonds	16.10.2023	254 141	-	254 141
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage register of covered bonds	01.02.2024	117 731	(3 434)	114 297
Mortgage covered bonds (PLN)	208 000	7,76%	Mortgage register of covered bonds	10.06.2024	208 776	-	208 776
Mortgage covered bonds (PLN)	51 100	7,76%	Mortgage register of covered bonds	10.06.2024	51 252	-	51 252
Mortgage covered bonds (PLN)	40 000	7,76%	Mortgage register of covered bonds	10.06.2024	40 149	-	40 149
Mortgage covered bonds (PLN)	900	7,76%	Mortgage register of covered bonds	10.06.2024	903	-	903
Mortgage covered bonds (PLN)	10 000	7,76%	Mortgage register of covered bonds	10.06.2024	10 026	-	10 026
Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage register of covered bonds	05.03.2025	1 418 078	(77 884)	1 340 194
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage register of covered bonds	24.04.2025	51 946	(3 228)	48 718
Mortgage covered bonds (EUR)	300 000	0,24%	Mortgage register of covered bonds	15.09.2025	1 406 389	-	1 406 389
Mortgage covered bonds (PLN)	95 000	7,79%	Mortgage register of covered bonds	03.09.2026	95 436	-	95 436
Mortgage covered bonds (PLN)	5 000	7,79%	Mortgage register of covered bonds	03.09.2026	5 023	-	5 023
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage register of covered bonds	20.09.2026	164 450	(16 238)	148 213
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage register of covered bonds	20.09.2026	61 072	(6 329)	54 742
Mortgage covered bonds (PLN)	500 000	7,72%	Mortgage register of covered bonds	10.12.2026	502 061	-	502 061
Mortgage covered bonds (PLN)	200 000	7,60%	Mortgage register of covered bonds	22.06.2027	200 395	-	200 395
Mortgage covered bonds (PLN)	500 000	7,72%	Mortgage register of covered bonds	10.09.2027	502 056	-	502 056
Mortgage covered bonds (PLN)	100 000	7,86%	Mortgage register of covered bonds	20.12.2028	100 065	-	100 065
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage register of covered bonds	28.02.2029	38 276	(2 057)	36 219
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage register of covered bonds	15.03.2029	71 741	(3 858)	67 883
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage register of covered bonds	30.05.2029	94 742	(5 201)	89 541
Bonds (PLN)	60 000	7,78%	Unsecured	03.01.2023	61 151	-	61 151
Bonds (PLN)	35 000	7,65%	Unsecured	04.12.2023	35 170	-	35 170
Debt securities in issue (carrying value)					**6 700 144**	**(118 229)**	**6 581 915**

Debt financial instruments by type as at 31.12.2021	Nominal value	Interest rate as at 31.12. 2021	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)	20 000	1,14%	Mortgage covered bonds register	25.02.2022	92 853	145	92 998
Mortgage covered bonds (PLN)	200 000	1,71%	Mortgage covered bonds register	28.04.2022	200 567		200 567

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Mortgage covered bonds (EUR)	100 000	0,61%	Mortgage covered bonds register	22.06.2022	461 316	1 432	462 748
Mortgage covered bonds (PLN)	300 000	1,18%	Mortgage covered bonds register	28.07.2022	301 413		301 413
Mortgage covered bonds (PLN)	500 000	3,02%	Mortgage covered bonds register	10.09.2022	500 694		500 694
Mortgage covered bonds (PLN)	200 000	1,18%	Mortgage covered bonds register	20.02.2023	200 721		200 721
Mortgage covered bonds (PLN)	1 000 000	3,13%	Mortgage covered bonds register	15.09.2023	1 000 407		1 000 407
Mortgage covered bonds (PLN)	250 000	1,69%	Mortgage covered bonds register	16.10.2023	250 619		250 619
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	115 412	1 817	117 229
Mortgage covered bonds (PLN)	40 000	2,85%	Mortgage covered bonds register	10.06.2024	40 036		40 036
Mortgage covered bonds (PLN)	900	2,85%	Mortgage covered bonds register	10.06.2024	901		901
Mortgage covered bonds (PLN)	208 000	2,85%	Mortgage covered bonds register	10.06.2024	208 188		208 188
Mortgage covered bonds (PLN)	51 100	2,85%	Mortgage covered bonds register	10.06.2024	51 083		51 083
Mortgage covered bonds (PLN)	10 000	2,85%	Mortgage covered bonds register	10.06.2024	9 991		9 991
Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 390 191	32 379	1 422 569
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	50 899	972	51 871
Mortgage covered bonds (PLN)	300 000	0,24%	Mortgage covered bonds register	15.09.2025	1 378 639		1 378 639
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	59 867	458	60 325
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage covered bonds register	20.09.2026	161 211	2 232	163 443
Mortgage covered bonds (PLN)	100 000	3,15%	Mortgage covered bonds register	20.12.2028	99 887		99 887
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	37 478	5 087	42 565
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	70 265	9 593	79 858
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	92 777	12 880	105 657
Mortgage covered bonds (PLN)	5 000	2,65%	Mortgage covered bonds register	03.09.2026	5 003		5 003
Mortgage covered bonds (PLN)	95 000	2,65%	Mortgage covered bonds register	03.09.2026	95 066		95 066
Mortgage covered bonds (PLN)	500 000	2,81%	Mortgage covered bonds register	10.12.2026	500 797		500 797
Bonds (PLN)	35 000	0,69%	Unsecured	03.01.2022	35 061		35 061
Bonds (PLN)	65 000	0,85%	Unsecured	21.01.2022	65 246		65 246
Bonds (PLN)	60 000	0,84%	Unsecured	03.01.2023	60 094		60 094
Debt securities in issue (carrying value)					**7 536 682**	**66 995**	**7 603 677**

Movements in the balance of debt securities issued

	Year ended 31 December	
	2022	**2021**
As at the beginning of the period	**7 603 677**	**7 950 930**
Increase (due to)	1 056 007	676 103
-issue	735 000	600 000
-accured interest, interest non-linearity adjustments, EIR commission	248 035	76 103
-exchange differences	72 972	-
Decrease (due to)	(2 077 769)	(1 023 356)
-redemption	(1 659 116)	(882 210)
-interest repayment, interest non-linearity adjustments, EIR commission,	(233 428)	(69 292)
-exchange differences	-	(16 572)
-hedge accounting adjustments related to fair value of hedged items	(185 225)	(55 282)
As at the end of the period	**6 581 915**	**7 603 677**

Short-term (up to 1 year)	1 559 578	1 740 373
Long-term (over 1 year)	5 022 337	5 863 304

Fixed interest rate debt securities issued	3 306 195	3 977 902
Floating interest rate debt securities issued	3 275 720	3 625 775

Subordinated financial liabilities

Subordinated liabilities	Nominal value	Currency	Interest rate as 31.12	Maturity / redemption date	Balance of liability (PLN '000)
As at 31 December 2022					
mBank S.A.	100 000	PLN	9,50%	15.12.2028	**100 438**

Subordinated liabilities	Nominal value	Currency	Interest rate as 31.12	Maturity / redemption date	Balance of liability (PLN '000)
As at 31 December 2021					
mBank S.A.	100 000	PLN	4.71%	15.12.2028	**100 218**

Both as at 31 December 2022 and as at 31 December 2021, subordinated liabilities were variable interest rate liabilities.

Movements in the balance of subordinated liabilities

Change of status in the period from 1 January to 31 December	2022	2021
As at the beginning of the period	**100 218**	**100 149**
Increase (due to)	**220**	**69**
-interest on a loan	220	69
Reductions (due to)	-	**-**
-repayment of interest on the loan	-	**-**
-repayment on a loan	-	**-**
Subordinated liabilities as at the end of the period	**100 438**	**100 218**
Short-term (up to 1 yeat)	220	218
Long-term (over 1 year)	100 000	100 000

26. Provisions

Mortgage covered bonds	31.12.2022	31.12.2021
Provision (due to)	**12 487**	**5 382**
off-balance sheet contingent liabilities granted	-	9
provisions for future liabilities	11 690	4 770
provisions for retirement and disability benefits	119	160
provisions for legal proceedings	678	443
Provision, in total	**12 487**	**5 382**
Short-term (up to 1 year)	11 507	367
Long-term (over 1 year)	980	5 015

In the judgment of 11 September 2019 in the case of a consumer loan fully repaid early C / 383/18, the CJEU ruled that "the consumer's right to a reduction in the total cost of the loan in the event of early repayment of the loan covers all costs that have been imposed on the consumer".

for 2022 (in PLN thousand)

In connection with the judgment, the Bank created a provision for the reimbursement of commission in the case of early loan repayments, which as at 31 December 2022 has been estimated in the amount TPLN 11 690 (as at December 31, 2021: TPLN 4 770). The increase in the provision resulted from the update of the prepayment model. The above provision is presented in the item "provision for future liabilities".

Change of status in the period from 1 January to 31 December	2022			
	Off-balance sheet contingent liabilities granted	Chaneges 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	**9**	**4 770**	**443**	**160**
increase on provisions	-	5 785	345	39
release of provisions	(9)	-	(110)	(96)
other changes	-	1 135	-	16
Provisions as at the end of the period	**-**	**11 690**	**678**	**119**
Expected settlement period of provisions:				
Short-term (up to 1 year)	-	11 507	345	25
Long-term (over 1 year)	-	183	333	94

Change of status in the period from 1 January to 31 December	2021			
	Off-balance sheet contingent liabilities granted	Chaneges 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	**224**	**2 900**	**110**	**158**
increase on provisions	-	1 870	333	13
release of provisions	(215)	-	-	-
other changes	-	-	-	(11)
Provisions as at the end of the period	**9**	**4 770**	**443**	**160**
Expected settlement period of provisions:				
Short-term (up to 1 year)	9	183	110	65
Long-term (over 1 year)	-	4 587	333	95

27. Other liabilities

	31.12.2022	31.12.2021
Other liabilities (due to)	**15 097**	**15 703**
-accrued expenses	9 520	10 220
-settlements due to tax from Bank balance sheet items	2 792	2 626
-provision for holiday equivalents	964	940
-settlements with insurers	750	916
-liabilities due to income tax on salaries, Social Security contributions and VAT	443	391
-other	628	610
Other liabilities, in total	**15 097**	**15 703**
Short-term (up to 1 year)	15 097	15 703

for 2022 (in PLN thousand)

28. 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, 2022 to December 31, 2022 are presented below.

Deferred income tax assets	As at 01.01.2022	Through the profit and loss account	Recognised in the income statement	As at 31.12.2022
Interest accrued	20 627	3 801	-	24 428
Valuation of derivative financial instruments	16 789	23 271	11 648	51 708
Valuation of debt financial instruments measured at fair value through other comprehensive income	5 524	-	1 685	7 209
Value of impairment losses on receivables and adjustment to fair values *	30 031	3 240	-	33 271
Provisions and other liabilities related to employment benefits	1 346	10	-	1 356
Accruals of costs	1 656	1 310	-	2 966
The difference between the depreciation of the right to use and the cost of financing the lease (IFRS 16)	4 147	39	-	4 186
Revenues to be settled (commissions settled using the effective interest rate method)	3 065	5 460	-	8 525
Total deferred income tax assets	**83 185**	**37 131**	**13 333**	**133 649**

Settled within 12 months	96 192
To be settled after more than 12 months	37 457

* 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 01.01.2022	Through the profit and loss account	Recognised in the income statement	As at 31.12.2022
Interest accrued	(11 472)	(8 904)	-	(20 376)
Valuation of derivative financial instruments	(30 817)	(15 158)	4 752	(41 223)
Valuation of debt financial instruments measured at fair value through other comprehensive income	(211)	-	23	(188)
Provisions and other liabilities related to employment benefits	(8)	-	7	(1)
Costs paid in advance	(15 175)	31 087	-	15 912
Difference between tax and balance sheet depreciation/amortisation	(5 542)	(367)	-	(5 915)
Total deferred income tax liabilities	**(63 225)**	**6 658**	**4 782**	**(51 785)**

Settled within 12 months	(45 876)
To be settled after more than 12 months	(5 909)

Deferred income tax assets (net)	As at 01.01.2022	Through the profit and loss account	Recognised in the income statement	As at 31.12.2022
Total deferred income tax assets (net)	**19 960**	**43 789**	**18 115**	**81 864**

Settled within 12 months	50 316
To be settled after more than 12 months	31 548

for 2022 (in PLN thousand)

Changes in deferred tax assets and liabilities in the period from January 1, 2021 to December 31, 2021 are presented below.

Deferred income tax assets	As at 01.01.2021	Through the profit and loss account	Recognised in the income statement	As at 31.12.2021
Interest accrued	29 680	(9 053)	-	20 627
Valuation of derivative financial instruments	10 071	207	6 511	16 789
Valuation of debt financial instruments measured at fair value through other comprehensive income	6	-	5 518	5 524
Value of impairment losses on receivables and adjustment to fair values *	24 205	5 826	-	30 031
Provisions and other liabilities related to employment benefits	1 213	133	-	1 346
Accruals of costs	1 278	378	-	1 656
The difference between the depreciation of the right to use and the cost of financing the lease (IFRS 16)	1 117	3 030	-	4 147
Revenues to be settled (commissions settled using the effective interest rate method)	3 455	(390)	-	3 065
Total deferred income tax assets	**71 025**	**131**	**12 029**	**83 185**

Settled within 12 months	49 007
To be settled after more than 12 months	34 178

* 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 01.01.2021	Through the profit and loss account	Recognised in the income statement	As at 31.12.2021
Interest accrued	(10 440)	(1 032)	-	(11 472)
Valuation of derivative financial instruments	(35 159)	6 704	(2 362)	(30 817)
Valuation of debt financial instruments measured at fair value through other comprehensive income	(1 044)	-	833	(211)
Provisions and other liabilities related to employment benefits	(6)	-	(2)	(8)
Costs paid in advance	(18 542)	3 367	-	(15 175)
Difference between tax and balance sheet depreciation/amortisation	(1 823)	(3 719)	-	(5 542)
Total deferred income tax liabilities	**(67 014)**	**5 320**	**(1 531)**	**(63 225)**

Settled within 12 months	(57 683)
To be settled after more than 12 months	(5 542)

Deferred income tax assets (net)	As at 01.01.2021	Through the profit and loss account	Recognised in the income statement	As at 31.12.2021
Total deferred income tax assets (net)	**4 011**	**5 451**	**10 498**	**19 960**

Settled within 12 months	(8 676)
To be settled after more than 12 months	28 636

for 2022 (in PLN thousand)

Deferred tax recognized in the income statement	Year ended 31 December	
	2022	2021
Interest accured	(5 103)	(10 085)
Valuation of derivative financial instruments	8 113	6 911
Amount of imprairment write-downa on receivables and adjustment to fair value*	3 240	5 826
Provisions and other liabilities related to employment benefits	10	133
Accurals	1 310	378
Revenue to be settled (commissions settled using the effective interest rate method)	5 460	(390)
Prepaid costs	31 087	3 367
Difference between tax sheet depreciation/amortization	(328)	(689)
Total, deferred tax recognized in the income statement	**43 789**	**5 451**

* 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.

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

In 2022, 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.

30. 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 2022.

31.12.2022	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Off-balance sheet liabilities granted and received	**733 017**	**-**	**471 745**	**1 204 762**
Liabilities granted	**-**	**-**	**3 615**	**3 615**
Financial liabilities:	-	-	3 615	3 615
a) Lending commitments	-	-	3 615	3 615
Liabilities received:	**733 017**	**-**	**468 130**	**1 201 147**
a) Financial liabilities received	733 017	-	-	733 017
b) guarantee	-	-	468 130	468 130
Derivative financial instruments (nominal value of contracts)	**2 031 081**	**7 086 805**	**403 331**	**9 521 217**
1. Interest rate derivatives	-	4 400 905	403 331	4 804 236
2. Foreign exchange derivatives	2 031 081	2 685 900	-	4 716 981
Total off-balance sheet items	**2 764 098**	**7 086 805**	**875 076**	**10 725 979**

On December 17, 2020, the Bank concluded with mBank S.A. a bank guarantee agreement for selected commercial credit exposures of the Bank with a total amount of over PLN 590 million. The purpose of entering into the guarantee is to improve the risk profile of exposures with the highest risk of deteriorating the economic situation of debtors.

for 2022 (in PLN thousand)

31.12.2022	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	2 758	857	-	-	-	-	-	-

Off-balance sheet exposures: credit commitments. Change in reserves										
31.12.2022	Opening balance	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to the grant and takeover	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes resulting from the update of the methodology for estimating write-offs (net)	Decreases in write-offs	Closing balance
Lending commitments	**9**	**-**	**-**	**-**	**-**	**(9)**	**-**	**-**	**-**	**-**
Stage 1	9	-	-	-	-	(9)	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-
POCI	-	-	-	-	-	-	-	-	-	-
Total	**9**	**-**	**-**	**-**	**-**	**(9)**	**-**	**-**	**-**	**-**

The tables 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, 2022.

Nominal amount of off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	335	-	-	-	335
2	2 283	-	-	-	2 283
3	129	794	-	-	923
4	11	-	-	-	11
5	-	-	-	-	-
6	-	-	-	-	-
7	-	63	-	-	63
8			-	-	-
default			-	-	-
Total	**2 758**	**857**	**-**	**-**	**3 615**

Provisions for off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	-	-	-	-	-
2	-	-	-	-	-
3	-	-	-	-	-
4	-	-	-	-	-
5	-	-	-	-	-
6	-	-	-	-	-
7	-	-	-	-	-
8	-	-	-	-	-
default	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

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, 2021.

31.12.2021	Up to 1 year	From 1 to 5 years	Over 5 years	Total
1. Off-balance sheet liabilities granted and received	**787 360**	**48**	**569 691**	**1 357 099**
Liabilities granted	**5 172**	**48**	**4 480**	**9 700**
1. Financial liabilities:	5 172	48	4 480	9 700
a) Lending commitments	5 172	48	4 480	9 700

for 2022 (in PLN thousand)

Liabilities received:	**782 188**	**-**	**565 211**	**1 347 399**
a) Financial liabilities received	782 188	-	-	782 188
b) guarantee	-	-	565 211	565 211
2. Derivative financial instruments (nominal value of contracts)	**3 664 780**	**6 290 169**	**395 549**	**10 350 498**
1. Interest rate derivatives	1 103 856	3 631 419	395 549	5 130 824
2. Foreign exchange derivatives	2 560 924	2 658 750	-	5 219 674
Total off-balance sheet items	**4 452 140**	**6 290 217**	**965 240**	**11 707 597**

31.12.2021	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	9 382	101	217	-	9	-	-	-

Off-balance sheet exposures: credit commitments. Change in reserves

31.12.2021	Opening balance	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Increases due to the grant and takeover	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes resulting from the update of the methodology for estimating write-offs (net)	Decreases in write-offs	Closing balance
Lending commitments	**223**	**-**	**-**	**-**	**-**	**(167)**	**(47)**	**-**	**-**	**9**
Stage 1	223	-	-	-	-	(167)	(47)	-	-	9
Stage 2	-	-	-	-	-	-	-	-	-	
Stage 3	-	-	-	-	-	-	-	-	-	
POCI	-	-	-	-	-	-	-	-	-	
Total	**223**	**-**	**-**	**-**	**-**	**(167)**	**(47)**	**-**	**-**	**9**

The tables 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, 2021.

Nominal amount of off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	2 463	-	-	-	2 463
2	1 593	-	-	-	1 593
3	74	-	-	-	74
4	5 172	-	-	-	5 172
5	80	-	-	-	80
6	-	-	-	-	-
7	-	101	-	-	101
8	-	-	-	-	-
default	-	-	217	-	217
Total	**9 382**	**101**	**217**	**-**	**9 700**

Provisions for off-balance sheet loan commitments	Stage 1	Stage 2	Stage 3	POCI	Total
1	-	-	-	-	-
2	-	-	-	-	-
3	-	-	-	-	-
4	9	-	-	-	9
5	-	-	-	-	-
6	-	-	-	-	-
7	-	-	-	-	-
8	-	-	-	-	-
default	-	-	-	-	-
Total	**9**	**-**	**-**	**-**	**9**

for 2022 (in PLN thousand)

31. Pledged assets

The Bank secured the issued mortgage bonds with receivables from credits and loans granted, which are described in note 25. Moreover, the Bank entered the CIRS hedging transaction in the covered bond collateral register.

The mortgage bank is obliged to keep in the collateral register created with the funds referred to in Art. 18 (3) of the Act, a surplus in the amount not lower than the total amount of the nominal value of interest on traded mortgage covered bonds to be paid within the next 6 months. The funds allocated to the surplus may not constitute the basis for the issue of mortgage bonds.

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 in accordance with Art. 18 sec. 3a of the Act, until all mortgage bonds are purchased.

The Bank secured the issued mortgage covered bonds with Treasury bonds with a carrying amount as at December 31, 2022, TPLN 257 585 (as at December 31, 2021: TPLN 165 189).

32. Registered share capital

As at 31 December 2022 and at 31 December 2021 the total number of ordinary shares was 3 360 000 shares with the nominal value of PLN 100 per share. All shares in issue are fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 31 DECEMBER 2021							
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	-	-	1 000 000	100 000 000	cash	08.01.2013	01.01.2013
registered	-	-	100 000	10 000 000	cash	30.12.2014	01.01.2015
registered	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
registered	-	-	100 000	10 000 000	cash	01.08.2016	01.01.2017
registered	-	-	120 000	12 000 000	cash	03.04.2017	01.01.2017
registered	-	-	150 000	15 000 000	cash	09.05.2019	01.01.2019
Total number of shares			**3 360 000**	-		-	
Total registered share capital				**336 000 000**		-	

The shareholders of Bank as at December 31,2022 and Decenmer 31,2021 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.	336 000 000	3 360 000	100,00	3 360 000	100,00
Total	**336 000 000**	**3 360 000**	**100,00**	**3 360 000**	**100,00**

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

Supplementary capital from the sale of shares above their nominal value in 2022 and 2021 was TPLN 548 631, it is created from the surplus achieved by issuing shares above their nominal value, remaining after covering the issue costs,
intended to cover balance sheet losses that may arise in connection with the activities of the Bank.

for 2022 (in PLN thousand)

34. Retained earnings

	31.12.2022	31.12.2021
Other supplementary capital	361 712	**342 910**
General banking risk reserve	44 800	44 800
Profit for the current year	(303 378)	18 802
Total retained earnings	**103 134**	**406 512**

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.

- Distribution of profit for 2021

On April 29, 2022, the Ordinary General Meeting of Bank adopted a resolution on the distribution of the net profit for 2021. The Bank's net profit for 2021 in the amount of TPLN 18 802 was allocated entirely to the supplementary capital of the Bank.

35. Other components of equity

	31.12.2022	31.12.2021
Financial assets at fair value through other comprehensive income	**(29 930)**	**(22 652)**
Unrealized gains on debt instruments	991	1 108
Unrealized losses on debt instruments	(37 941)	(29 072)
Deferred tax	7 021	5 312
Actuarial gains and losses on post-employment benefits	**4**	**36**
Actuarial gains of the defined benefit pension plan	5	43
Deferred tax	(1)	(7)
Cash flow hedging	**(74 152)**	**(4 237)**
Unrealized profits	22 158	80 630
Unrealized losses	(147 168)	(85 861)
Hedge accounting costs	33 463	-
Deferred tax	17 395	994
Other components of equity, total	**(104 078)**	**(26 853)**

36. Dividend per share

Bank does not plan to pay a dividend for 2022, nor did it pay any for 2021.

37. 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.

	31.12.2022	31.12.2021
Cash and balances with the central bank (note 20)	107 826	114 658
Amount due from the banks (note 24)	69 530	152 668
Money bills	399 695	-
Total cash and cash equivalents	**577 051**	**267 326**

for 2022 (in PLN thousand)

Supplementary information to the statement of cash flows

Change 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 recognised under operating activities in the statement of cash flows.

	Year ended 31 December 2022	Year ended 31 December 2021
Financial assets and liabilities held for trading and derivative hedging instruments – change in balance due to balance sheet balances	**100 927**	**73 414**
The difference between the interest accrued and paid in cash in the period	(36 513)	17 691
Valuation recognised in other comprehensive income	(86 315)	(21 836)
Financial assets and liabilities held for trading and derivative hedging instruments, total	**(21 901)**	**69 269**
Loans and advances to clients, change resulting from balance-sheet values	**159 516**	**(276 886)**
The difference between the interest accrued and paid in cash in the period	166 964	(25 108)
Changes in the fair value of hedged items in portfolio hedging against interest rate risk	(3 064)	-
Change in loans and advances to clients, total	**323 416**	**(301 994)**
Financial assets at fair value through other comprehensive income - change resulting from balance-sheet values	**(439 215)**	**58 652**
Exclusion of change in cash and cash equivalents	399 695	(34 999)
Valuation recognised in other comprehensive income	(8 986)	(33 426)
Result on disposal	1 241	-
The difference between the interest accrued and paid in cash in the period	12 770	(376)
Change in respect Financial assets at fair value through other comprehensive income, total	**(34 495)**	**(10 149)**
Debt securities issued at amortised cost - change resulting from balance-sheet values	**(1 021 762)**	**(347 253)**
The difference between the interest accrued and paid in cash in the period	(14 730)	(36 820)
Exclusion of change in cash from financing activities	924 116	282 210
Foreign exchange (gains) losses	(65 784)	13 042
Change in debt securities in issue at amortised cost, total	**(178 160)**	**(88 821)**
Amounts due to other banks, change resulting from balance-sheet values	**1 585 371**	**480 342**
The difference between the interest accrued and paid in cash in the period	(55 578)	(5 366)
Exclusion of change in cash from financing activities	(1 612 098)	140 942
Change in amounts due to banks, in total	**(82 305)**	**615 918**
Debt securities in issue - change resulting from balance-sheet values	**(1 080)**	**(1 544)**
The difference between the interest accrued and paid in cash in the period	96	(6)
Transfer to cash flows from financing activities - leasing	211	1 412
Change in amounts due to clients, in total	**(773)**	**(138)**

Interest received and paid with respect to the operational activity

	Year ended 31 December	
	2022	2021
Interest received from:		
Cash and balances with the Central Bank	2 854	41
Loans and advances to banks	547	2
Loans and advances to customers	552 299	268 878
Financial assets at fair value through other comprehensive income	17 014	4 464
Derivative instruments classified to the banking book	12 679	(6 488)
Income from interest received, total	**585 393**	**266 897**

	Year ended 31 December	
	2022	2021
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	190 660	18 432
Total costs of interest received	**190 660**	**18 432**

Cash flows from financing activities

for 2022 (in PLN thousand)

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

	OB. 01.01.2022	Cash flow	Other changes	CB. 31.12.2022
Debt securities in issue (long-term)	5 863 304	(924 116)	179 900	5 119 088
Amounts due to banks (long-term) (Note 28)	2 875 163	1 614 958	453 730	4 943 851
Leasing liabilities (Note 28)	19 233	(3 071)	5 869	22 031
Subordinate liabilities(Note 28)	100 000	-	251	100 251

	OB. 01.01.2021	Cash flow	Other changes	CB. 31.12.2021
Debt securities in issue (long-term)	7 950 930	(282 210)	(1 805 416)	5 863 304
Amounts due to banks (long-term) (Note 28)	2 731 024	(139 136)	283 275	2 875 163
Leasing liabilities (Note 28)	5 879	(3 219)	16 573	19 233
Subordinate liabilities(Note 28)	100 149	-	(149)	100 000

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.

38. 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.

2018 and 2019 incentive program for members of the Bank's Management Board and employees who have a significant impact on the Bank's risk profile

On November 23, 2018, the Supervisory Board, by Resolution No. 37/2018, approved the amended Remuneration Policy for people who have a significant impact on the Bank's risk profile at mBank Hipoteczny S.A. and repealed the Policy of March 2017. The provisions of the adopted Policy apply from the bonus for 2018. The changes concerned, among others:

- Extension of the retention period from 6 to 12 months, phantom shares awarded to both as part of the non-deferred and deferred part, they can be paid at the earliest 12 months after the month of granting phantom shares,
- changes in the rules for calculating the equivalent for phantom shares - to calculate the average value of phantom shares, the sum of the value of the phantom shares at the end of the last two annual periods preceding the payment date is taken into account,
- detailing the provisions regarding the conditions for receiving a bonus in the so-called scorecard,
- introducing clawback, on the basis of which the Supervisory Board in relation to members of the Management Board, the Management Board in relation to employees who have a significant impact on the Bank's risk profile may request the return of the bonus granted and paid for a given calendar year (i.e. deferred).

On December 14, 2018, the Supervisory Board adopted Resolution No. 39/2018 introducing order corrections to the content of the Policy adopted with Resolution No. 37/2018.

The amount of the bonus for a given calendar year is determined based on the assessment of the achievement of the set MBO goals for the last three calendar years, the Supervisory Board for members of the Management Board, the Bank's Management Board for employees who have a significant impact on the Bank's risk profile, the so-called Risk Taker.

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

The deferred and non-deferred part is divided into the cash part (50%) and the non-cash part allocated in phantom shares (50%). The non-deferred cash portion is payable in the year of granting the bonus. The other half of the non-deferred portion (50%) is paid in the form of an equivalent for phantom shares not earlier than 12 months after the date of the Ordinary General Meeting of Shareholders.

The deferred part, both in cash and in the form of phantom shares, is paid after approval of the Bank's financial statements for the previous calendar year, and the part is paid in the form of phantom shares not earlier than 12 months after the approval of the Bank's financial statements.

If the amount of the bonus for a given calendar year, determined for an employee having a significant impact on the risk profile of the Bank who is not a member of the Management Board, does not exceed PLN 200 thousand. on the basis of a decision made by the Bank's Management Board, the bonus may be paid in full in cash in a non-deferred form.

The deferred part of the bonus of both the Management Board members and other Risk Takers in terms of determination and payment is subject to assessment. Accordingly, the Supervisory Board in relation to members of the Management Board, the Management Board of the Bank in relation to employees identified as Risk Takers, may decide to suspend in whole or reduce the amount of the deferred tranche if it finds that in a longer time horizon than 1 financial / financial year, i.e. for a period of at least 3 years, Risk Taker had a direct and negative impact on the financial result or market position of the Bank, violated the rules and standards adopted in mBank Group, directly led to significant financial losses, when at least one of the elements included in the scorecard failed has been met or any of the conditions referred to in art. 142 sec. 2 of the Banking Law.

In case of the occurrence of the events referred to above at the stage of determining the amount of bonus for Risk Takers, the Bank's Supervisory Board/Board of Executives may decide not to grant in full or to reduce the bonus for a given calendar year.
Moreover, the Risk Taker may be obliged, on terms and within the time limit determined in a decision of the Bank's Supervisory Board/Board of Executives, to return the bonus granted and paid for a given calendar year (i.e.: non deferred part and all deferred parts), if he/she violated rules and standards adopted in mBank Group, committed a material breach of generally applicable laws or directly led to significant financial losses resulting from deliberate negative actions to the detriment of mBank Group, or led to financial sanctions imposed on the Bank by supervisory authorities on the basis of a valid decision.
The decision on the occurrence of the events described above may be made until the end of the calendar year in which the last tranche of the part of the bonus granted for the year in which the event occurred is paid.

2020 incentive program for members of the Bank's Management Board and employees having a significant impact on the Bank's risk profile

On February 3, 2020, the Supervisory Board, by Resolution No. 5/2020, approved the amended Remuneration Policy for people with a significant impact on the Bank's risk profile at Bank and repealed the Policy of December 2018. The most important changes in the Policy result from the recommendations of the Polish Financial Supervision Authority:

- the previous limit of 200,000 PLN. has been replaced with a relative value for Risk Takers (not applicable to Management Board Members), for whom their annual variable remuneration does not exceed one third of the annual total remuneration. As a result, such employees may receive variable remuneration for a given calendar year, based on a decision made by the Management Board, in full in cash and in a non-deferred form. The provision is directly and explicitly confirmed in the content of the relevant provisions of Directive 2019/878 / EU (CRD V Directive).

2021 and 2022 incentive program for members of the Bank's Management Board and employees having a significant impact on the Bank's risk profile

By Resolution 6/2021 of the Bank's Supervisory Board of March 2, 2021, the Bank introduced a change to the Remuneration Policy for persons having a significant impact on the Bank's risk profile in force in 2020. The change is related to the Recommendation of the Polish Financial Supervision Authority on the expected actions of banks regarding the payment of variable remuneration components in order to effectively respond to the economic effects of the COVID-19 pandemic.
The Policy introduces provisions that will enable the Supervisory Board to decide on granting the Management Board Members the entire bonus for 2020 only in the form of phantom shares. This change is aimed at minimizing the risk associated with maintaining a solid capital base of the Bank in order to be able to effectively respond to the economic situation of the country related to the COVID-19 pandemic.

for 2022 (in PLN thousand)

Bonus for 2020 Members of the Management Board were awarded in full in phantom shares. The implementation of the first tranche is scheduled for 2021.
Starting with the bonus that will be granted for 2021, the deferral period for the cash part and the part paid in the form of phantom shares for members of the Management Board of companies is extended from three to five years for the remaining Risk Takers from three to four years.

On May 5, 2022, the Supervisory Board, by Resolution No. 32/2022, approved the amended Remuneration Policy for persons having a significant impact on the Bank's risk profile at mBank Hipoteczny S.A. and repealed the March 2021 Policy.
The provisions of the adopted Policy apply starting from the bonus for 2022. The changes concerned, among others:

- adapting the regulatory basis to the amended legal acts, i.e. the Banking Law Act and the Regulation of the Minister of Finance, Funds and Regional Policy of June 8, 2021 on the risk management system and internal control system and remuneration policy in banks,
- Employees of the Bank due to early termination of the contract (regardless of the severance pay paid under the provisions of the labor law). The rules for the payment of severance pay are set out in the EBA guidelines on the correct remuneration policy (EBA/GL/2015/22). The Bank applied these provisions, but they were not included in the Policy. Due to emerging doubts in this regard, as well as the comprehensive nature of the policy and its transparency, the Bank decided to add these provisions to the Policy.

Accounting for incentive programs

The benefits of the remuneration program for members of the Management Board and employees who have a significant impact on the Bank's risk profile are accounted for in accordance with IAS 19 Employee Benefits. Both the cash part of the program and the part in phantom shares settled in cash increase the cost of a given period in correspondence with liabilities. Costs are recognized over time throughout the vesting period and are recorded under 'General administrative expenses'. Liabilities due to incentive programs are presented in the statement of financial position under "Other liabilities".

39. 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.

31.12.2022	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 year	Over 5 years	Total
Loans received	100 251	-	-	413 997	2 070 125	**2 584 373**
Covered bonds and bonds in issue	56 055	4 117	400 540	1 270 455	39 826	**1 770 993**
Subordinated liabilities	-	-	-	-	100 438	**100 438**
Liabilities in respect of cash collateral	469 155	-	-	-	-	**469 155**
Other financial liabilities with deferred payment date	-	-	-	2 457 730	-	**2 457 730**
Derivative financial instument	3 012	72	-	102 129	9 328	**114 541**

31.12.2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 year	Over 5 years	Total
Loans received	-	-	-	-	1 965 859	**1 965 859**
Covered bonds and bonds in issue	3 011	-	214 147	860 797	25 072	**1 103 027**
Subordinated liabilities	-	-	-	-	100 218	**100 218**
Liabilities in respect of cash collateral	591 892	-	-	-	-	**591 892**
Other financial liabilities with deferred payment date	-	-	-	1 312 875	-	**1 312 875**
Derivative financial instument	2 114	4 932	-	-	-	**7 046**

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.

for 2022 (in PLN thousand)

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 2022 and 31 December 2021, and related costs and income for 2022 and 2021.

	Supervisory and managmend board members of mBank S.A., management personel of mBank Hipoteczny		Other persons and entitis related*		mBankGroup companies***		mBank S.A.		Commerzbank Group companies***	
As at the end of the period	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Statement of financial positions										
Total assets	**233**	**234**	**-**	**169**	**350**	**252**	**102 341**	**207 270**	**-**	**-**
Receivables from Banks	-	-	-	-	-	-	69 530	152 880	-	-
Derivative financial instruments held for trading	-	-	-	-	-	-	1 975	57	-	-
Receivables from credits	233	234	-	169	-	-	-	-	-	-
Derivative hedging instruments	-	-	-	-	-	-	10 064	33 369	-	-
Intangible assets	-	-	-	-	-	-	49	49	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Fixed assets	-	-	-	-	350	252	20 723	20 915	-	-
Total liabilities	**-**	**-**	**-**	**-**	**353**	**257**	**7 407 432**	**5 102 487**	**68 675**	**301 999**
Derivative financial instruments held for trading	-	-	-	-	-	-	3 083	7 046	-	-
Liabilities due to loans received from the financial sector	-	-	-	-	-	-	2 584 354	1 965 859	-	-
Cash collateral liabilities	-	-	-	-	-	-	469 155	591 892	-	-
Liabilities due to deferred payment (retail pooling)	-	-	-	-	-	-	2 457 730	1 312 875	-	-
Subordinated loan	-	-	-	-	-	-	100 438	100 218	-	-
Covered bonds and bonds	-	-	-	-	-	-	1 770 993	1 103 027	68 675	301 999
Liabilities for the right of use - buildings	-	-	-	-	-	-	21 679	21 570	-	-
Liabilities due to the right to use - means of transport	-	-	-	-	353	257	-	**207 270**	-	-
Contingent liabilities										
Liabilities received	-	-	-	-	-	-	3 615	782 188	-	-
Guarantee received	-	-	-	-	-	-	468 130	565 211	-	-
Derivatives (purchase, sales)										
IRS contracts	-	-	-	-	-	-	506 509	680 711	-	-
FX SWAP contracts	-	-	-	-	-	-	1 843 403	2 556 787	-	-

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.

The item "Off-balance sheet liabilities granted and received - Guarantee received" relates to a bank guarantee agreement concluded on December 17, 2020 with mBank S.A. on selected commercial credit exposures. Detailed information on the guarantee is described in Note 5.

for 2022 (in PLN thousand)

	Supervisory and managmend board members of mBank S.A., management personel of mBank Hipoteczny		Other persons and entitis related*		mBankGroup companies**		mBank S.A.		Commerzbank Group companies***	
Year ended	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Income statement										
Interest income	1 343	583	-	-	266	291	6 057	6 149	-	-
Interest expense	-	-	-	-	(5)	(6)	(421 737)	(52 622)	(3 082)	(2 345)
Fee and commission income	-	-	-	-	-	-	(10 184)	-	-	-
Fee and commission expenses	-	-	-	-	(2)	-	(38 575)	(7 665)	-	-
Net trading income	-	-	-	-	-	-	1	(42 366)	-	-
Other operating income	-	-	-	-	-	-	(270)	29	-	-
Overhead costs, amortisation and depreciation	-	-	-	-	-	(370)	(4 308)	(3 317)	-	-

* 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.

for 2022 (in PLN thousand)

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

As at 31 December 2022, the composition of the Management Board was as follows:

Krzysztof Dubejko — President of the Management Board
Katarzyna Dubaniewicz — Member of the Management Board
Andrzej Kulik — Member of the Management Board
Jolanta Pankiewicz — Member of the Management Board

On April 29, 2022 the term of office of the previous Management Board in the composition of:
Piotr Cyburt – President of the Management Board,
Krzysztof Dubejko - Member of the Management Board
Andrzej Kulik - Member of the Management Board

and the term of office of the new Management Board began:

Krzysztof Dubejko — President of the Management Board
Katarzyna Dubaniewicz — Member of the Management Board
Andrzej Kulik — Member of the Management Board

On June 29, 2022, the Supervisory Board of Bank appointed Ms. Jolanta Pankiewicz as Member of the Management Board of Bank as of July 1, 2022.

Information on the value of remuneration and bonuses paid to the Management Board Members who held their positions at the end of 2022 as at December 31, 2021 is presented below and December 31, 2021.

Remuneration paid in PLN	31.12.2022	31.12.2021
Management Board		
Gross base salary	1 822 300	1 674 000
Other benefits *	127 875	102 259
Settlement of the incentive program	554 249	391 171
Remuneration of former Members of the Management Board		
Settlement of the incentive program	200 812	248 966

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

As at 31 December 2022, the amount of the provision for bonuses / bonuses for employees and the Bank's Management Board was TPLN 6 053, including the amount of the provision for variable remuneration for Members of the Bank's Management Board and employees who have a significant impact on the Bank's risk profile was TPLN 4 016 (as at December 31, 2021, TPLN 5 985; TPLN 3 985, 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 41.

for 2022 (in PLN thousand)

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

Changes in the composition of the Bank's Supervisory Board

The composition of the Supervisory Board of Bank as at 31 December 2022:

1.	Andreas Boeger	-	Chairman of the Supervisory Boar
2.	Marek Lusztyn	-	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

As of December 2, 2022, Aleksandra Buczkowska resigned from the position of Member of the Supervisory Board.
In 2022, the Supervisory Board worked without remuneration, except for Mr. Paweł Graniewski and Mr. Mariusz Tokarski, who, as Supervisory Board Members, received remuneration for 2021 in the amount of TPLN 120 (respectively TPLN 60).

The composition of the Supervisory Board of Bank as at 31 December 2021:

1.	Andreas Boeger	-	Chairman of the Supervisory Boar
2.	Marek Lusztyn	-	Vice-chairman of the Supervisory Board
3.	Frank Bock	-	Member of the Supervisory Board
4.	Aleksandra Buczkowska	-	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 May 26, 2021, the Ordinary General Meeting of Shareholders elected the Supervisory Board of Bank new term.
Resolution No. 2 of the Extraordinary General Meeting of Shareholders of August 31, 2021 for a member of the Supervisory Board of Bank Grzegorz Ostrowski was appointed.
In 2021, the Supervisory Board worked without remuneration, except for Mr. Paweł Graniewski and Mr. Mariusz Tokarski, who, as Supervisory Board Members, received remuneration for 2020 in the amount of TPLN 120 (respectively TPLN 60).

40. Information on the registered audit company

On October 28, 2021, an agreement was concluded between Ernst & Young Audyt Polska Sp. z o.o. Sp.k. and Bank on the termination of the agreement with EY in the part covering the audit of the Bank's financial statements for 2022, the review of the Bank's condensed financial statements for 2022 and the verification of the Bank's consolidation packages for 2022. Termination of the Agreement on October 28, 2021, it took place by agreement of the parties. Details related to the agreement concluded by the companies are described in note 45.

On March 7, 2022, 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 2022 and 2023.

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 98 in 2022 gross (compared to TPLN 550 gross (including: TPLN 214 in the annual audit) of remuneration paid to Ernst & Young Audyt Polska Sp. z o.o. Sp.k in 2021). As at December 31, 2022, the provision for remuneration for the annual audit in 2022 amounted to TPLN 254.

41. 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.

for 2022 (in PLN thousand)

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 2022 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 2022 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 2022 is 0% of the total risk exposure amount.

Ultimately, the combined buffer requirement for Bank at the end of 2022 it was 2.5%

Capital ratios both as at the end of 2022 and at the end of 2021 were above the minimum required values, which was presented in the table below. In 2022 and 2021, the Bank met external capital requirements.

Capital ratio	31.12.2022	
	Minimum ratio	Presented ratio
Total capital ratio	10,50%	15,71%
Equiety Tier 1 capital ratio	8,50%	14,05%
Equiety Tier 1 core capital ratio	7,00%	14,05%

Capital ratio	31.12.2021*)	
	Minimum ratio	Presented ratio
Total capital ratio	10,50%	19,08%
Equiety Tier 1 capital ratio	8,50%	17,52%
Equiety Tier 1 core capital ratio	7,00%	17,52%

*) data include profits included in own funds, taking into account the decisions of the Polish Financial Supervision Authority and the applicable EBA guidelines

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).

for 2022 (in PLN thousand)

Tier II capital of Bank encompasses subordinated liabilities.

The Bank's own funds as at December 31, 2022 amounted to TPLN 945 654 (as at December 31, 2021, they amounted to TPLN 1 222 047). At the same time, the Common Equity Tier I capital amounted to TPLN 845 654 (as at December 31, 2021 it was TPLN 1 122 047).

Leverage ratio

The regulatory leverage ratio as at 31 December 2022 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 2022 was 6.46%, at the end of 2021 it was 8.75%.

Total risk exposure amount (TREA)

The total amount of risk exposure of the Bank consists of:

- risk-weighted exposure amount for credit risk, counterparty credit risk, calculated using the IRB slotting approach and a standardised approach for exposures permanently excluded from the IRB approach as well as exposures subject to temporary exclusion,
- operational risk exposure amount.

There is no trading portfolio in the Bank, therefore, the Bank does not calculate risk-weighted exposure amounts in relation to other types of risks.

In calculation of the Bank's capital ratios, the total risk exposure amount is determined taking into account the credit risk exposure amount, applying the internal ratings based approach, with the use of the supervisory approach, in regard to assigning specialised lending exposures to risk categories (IRB slotting approach).

As at 31 December 2022, the Bank's total risk exposure amount was TPLN 6 019 634, including the credit risk exposure amount at TPLN 5 643 316 (including other noncredit obligations assets – TPLN 79 265).

The table below presents credit exposures for which the requirement was calculated using the IRB slotting approach broken down into supervisory categories of risk and standardised approach as at 31 December 2022.

IRB slotting approach

31.12.2022						
Regulatory categories	Remaining maturity	On-Balance - shet amount	Off-Balance - shet amount	Risk weight	Exposure amount	RWAs
Category 1	Less than 2,5 years	-	-	50%	-	-
	Equal to or more than 2.5 years	10 052	-	70%	10 057	7 040
Category 2	Less than 2,5 years	258 697	-	70%	260 108	182 075
	Equal to or more than 2.5 years	1 081 582	-	90%	1 085 283	976 755
Category 3	Less than 2,5 years	50 867	-	115%	51 683	59 435
	Equal to or more than 2.5 years	178 424	-	115%	181 860	209 139
Category 4	Less than 2,5 years	-	-	250%	-	-
	Equal to or more than 2.5 years	4 585	-	250%	4 632	11 580

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Category 5	Less than 2,5 years	76 554	-	-	144 875	-
	Equal to or more than 2.5 years	253 992	-	-	340 169	-
Total	**Less than 2,5 years**	**386 118**	-		**456 666**	**241 510**
	Equal to or more than 2.5 years	**1 528 635**	-		**1 622 001**	**1 204 514**

Standardised approach

31.12.2022	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs
Regulatory categories	On-Balance -shet amount	Off-Balance - shet amount	On-Balance - shet amount	Off-Balance -shet amount	
Central governments or central banks	1 393 174	-	1 393 174	-	200 496
Regional goverrment or local authorities	28 590	-	106 343	-	21 269
Public sector entities	25 015	-	-	-	-
Institutions	267 350	-	267 350	-	73 431
Corporates	52 737	-	-	-	-
Retail	1 094 309	224	1 094 309	112	820 816
Secured by mortgages on immovable property	8 364 461	3 391	8 364 462	1 695	2 942 799
Exposures in default	58 326	-	58 326	-	59 206
Equity	9	-	9	-	9
Total	**11 283 971**	**3 615**	**11 283 973**	**1 807**	**4 118 026**

The total amount of exposure to the Bank's risk as at December 31, 2021 was TPLN 6 404 577, of which the amount of exposure to risk due to credit risk was TPLN 5 901 513 (including other assets that do not generate a credit obligation TPLN 86 430).

The tables below present the credit exposures for which the requirement was calculated using the standard method and the IRB slotting approach, broken down by supervisory risk categories as at December 31, 2021.

IRB slotting approach

31.12.2021						
Regulatory categories	Remaining maturity	On-Balance -shet amount	Off-Balance -shet amount	Risk weight	Exposure amount	RWAs
Category 1	Equal to or more than 2.5 years	7 313	-	70%	7 314	5 120
Category 2	Less than 2,5 years	216 056	5 162	70%	216 964	151 875
	Equal to or more than 2.5 years	1 527 123	-	90%	1 534 200	1 380 780
Category 3	Less than 2,5 years	95 765	-	115%	98 914	113 751
	Equal to or more than 2.5 years	169 769	-	115%	173 646	199 693
Category 4	Equal to or more than 2.5 years	28 911	-	250%	34 313	85 781
Category 5	Less than 2,5 years	141 176	-	-	178 783	-
	Equal to or more than 2.5 years	256 630	-	-	335 440	-
Total	**Less than 2,5 years**	**452 997**	**5 162**		**494 661**	**265 626**
	Equal to or more than 2.5 years	**1 989 746**	**-**		**2 084 913**	**1 671 374**

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Standardised approach

31.12.2021	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs
Categories exposure	On-Balance -shet amount	Off-Balance - shet amount	On-Balance - shet amount	Off-Balance - shet amount	
Central governments or central banks	863 723	-	863 723	-	41 679
Regional goverrment or local authorities	36 068	-	127 618	-	25 524
Public sector entities	34 820	-	-	-	-
Institutions	516 231	-	516 231	-	121 859
Corporates	56 730	-	-	-	-
Retail	1 129 201	490	1 129 201	245	847 084
Secured by mortgages on immovable property	7 979 715	4 039	7 979 715	2 020	2 811 989
Exposures in default	29 515	-	29 515	-	29 938
Equity	9	-	9	-	9
Total	**10 646 012**	**4 529**	**10 646 012**	**2 265**	**3 878 082**

Internal capital

The purpose of the ICAAP process (Internal Capital Adequacy Assessment Process), implemented in the Bank, is to keep own funds at the level adequate to the risk profile and the risk level stemming from the Bank's operations.

Due to the fact that the total capital requirement of Bank calculated according to the CRR Regulation and internal capital assessed for the Bank according to the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimation of internal capital in banks, are lower than the value of the Bank's own funds, as at 31 December 2022 the Bank maintained own funds at a level consistent with the CRR.

The internal capital of the Bank as at 31 December 2022 amounted to TPLN 353 810 (per day On December 31, 2021, it amounted to TPLN 370 333).

Bank introduced a temporary treatment for unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, which is enabled by Art. 1 of the Regulation of the European Parliament and of the Council (EU) 2020/873 of June 24, 2020. Temporary mitigation of the negative impact of unrealized losses caused by debt instruments government sector during a pandemic the Covid-19 has been implemented in Art. 468 of Regulation 575/2013 (COVID Quick-Fix).

The decision to apply the modified Art. 468 means that the Bank during the "temporary treatment period" will be able to limit the impact of a significant portion of the market valuation volatility of the portfolio of government bonds classified as at fair value through equity (FVOCI).

The table below presents the values of Own Funds with and without the use of COVID Quick-Fix.

Capital adequacy	31.12.2022 with the use of Covid Quick-Fix	31.12.2022 without the use of Covid Quick-Fix	31.12.2021*) without the use of Covid Quick-Fix	31.12.2021*) without the use of Covid Quick-Fix
Common Equity Tier 1 Capital	**845 654**	**831 751**	**1 122 047**	**1 102 812**
Own funds	**945 654**	**931 751**	**1 222 047**	**1 202 812**
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and deliveries with deferred settlement date:	5 643 316	5 651 469	5 901 513	5 912 793
-using internal rating method	1 525 290	1 525 290	2 023 431	2 023 431
-using standard method	4 118 026	4 126 179	3 878 082	3 889 362
Total operational risk exposure amount	296 349	296 349	324 456	324 456
Total CVA exposure amount	79 969	79 969	178 608	178 608

*) data include profits included in own funds taking into account the FSC decision and the applicable EBA guidelines

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The total amount of risk exposure	**6 019 634**	**6 027 787**	**6 404 577**	**6 415 857**
Common Equity Tier 1 capital ratio	**14,05%**	**3,80%**	**17,52%**	**17,19%**
Total capital ratio	**15,71%**	**15,46%**	**19,08%**	**18,75%**
Leverage ratio	**6,46%**	**6,35%**	**8,75%**	**8,60%**
Internal capital	**353 810**	**348 416**	**370 333**	**371 235**

Own funds	**31.12.2022 with the use of Covid Quick-Fix**	**31.12.2022 without the use of Covid Quick-Fix**	**31.12.2021*) with the use of Covid Quick-Fix**	**31.12.2021*) without the use of Covid Quick-Fix**
Own funds	**945 654**	**931 751**	**1 222 047**	**1 202 812**
TIER I CAPITAL	**845 654**	**831 751**	**1 122 047**	**1 102 812**
Common Equity Tier I Capital	**845 654**	**831 751**	**1 122 047**	**1 102 812**
Capital instruments eligible as CET1 Capital	884 630	884 630	884 630	884 631
Paid up capital instruments	336 000	336 000	336 000	336 000
Share premium	548 630	548 630	548 630	548 630
Retained earnings	(303 378)	(303 378)	-	-
Retained earnings from previous years	-	-	-	-
Profit or loss eligible	(303 378)	(303 378)	-	-
Other accumulated comprehensive income	(104 079)	(104 079)	(26 853)	(26 853)
Other reserves	361 713	361 713	361 713	361 713
General banking risks founds	44 800	44 800	44 800	44 800
(-) Value adjustments due to the requirements for prudent valuatio	(1 431)	(1 431)	(1 036)	(1 036)
(-) Intangible assets	(29 374)	(29 374)	(20 860)	(20 860)
(-) Other intangible assets gross amount	(30 970)	(30 970)	(22 084)	(22 084)
Deferred tax liabilities related to other intangible assets	1 596	1 596	1 224	1 224
(-) IRB shortfall of credit risk adjustments to expected losses	(95 282)	(95 282)	(143 819)	(143 820)
Cash flow hedging instruments adjustments	74 152	74 152	4 237	4 237
Other transitional adjustments to CET1 Capital	13 903	-	19 235	-
CET1 capital elements or deductions - other	-	-	-	-
Additional Tier 1 capital				
TIER II CAPITAL	**100 000**	**100 000**	**100 000**	**100 000**
Capital instruments and subordinated loans eligible as Tier II capital	100 000	100 000	100 000	100 000

*) data include profits included in own funds taking into account the FSC decision and the applicable EBA guidelines

42. Other information

1. On October 28, 2021, an agreement was concluded between Ernst & Young Audyt Polska Sp. z o.o. Sp.k. (EY) and Bank
   a) On June 29, 2020, the parties concluded an agreement covering the audit of the Bank's financial statements, review of the Bank's condensed financial statements and verification of the Bank's consolidation packages for the years 2020-2022. Due to the decision of mBank S.A. on the re-selection of the auditing company by the General Meeting of mBank to audit the financial statements of the parent company and the consolidated financial statements of mBank Group companies for 2022 and subsequent years, resulting in the termination of the

existing agreement with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. in order to enable re-election by the Supervisory Board of Bank an audit firm to audit the Bank's financial statements for 2022 and subsequent years, ensuring the best level of coordination of the audit of the Bank's financial statements with the audit of the financial statements of the Bank's parent entity (bearing in mind that this circumstance was taken into account when selecting the audit firm that audited the financial statements of the Bank and mBank Group), it became necessary to terminate the contract with EY.
The parties decided to terminate the Agreement in the part covering the audit of the Bank's financial statements for 2022, the review of the Bank's condensed financial statements for 2022 and the verification of the Bank's consolidation packages for 2022. Termination of the Agreement on October 28, 2021, it took place by agreement of the parties.

b) During the term of the Agreement, there were no cases of resignation from expressing opinions / motions, issuing negative opinions / motions or opinions / motions with reservations about the correctness and reliability of the Bank's financial statements.

c) During the term of the Agreement, there were no discrepancies in the interpretation and application of the provisions of law or the provisions of the Articles of Association regarding the subject and scope of the audit, review or other services between the persons managing the Bank and EY Audyt Polska.

2. Russia's aggression against Ukraine

On February 24, 2022 Russia invaded Ukraine, therewith starting large scale war activities in Ukraine. The mBankHipoteczny S.A. does not have direct operations in Ukraine nor in Russia. The credit exposure of Bank to Ukrainian and Russian institutions, companies and natural persons on December 31, 2022 is represented 1.582% of the Bank's total credit exposure (loans to Ukrainian individuals with Polish tax residency).

3. IBOR

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 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 mBH 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 mBH is observed in the area of financial instruments, in particular loans and securities whose interest rates are based on WIBOR, EURIBOR and LIBOR USD reference indices.

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

The USD LIBOR risk is limited due to the small value of loans bearing interest based on this index (approx. USD 3.1 million, which is approx. 0.1% of the entire portfolio). In 2021, Bank intensified activities related to the annexation of agreements concluded with retail and corporate clients based on USD LIBOR. As a result, Bank sent proposals for annexes to all clients with contracts based on this indicator. mBH has no issued securities bearing interest based on the USD LIBOR index.

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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.

The WIRON (Warsaw Interest Rate Overnight) index selected by the Steering Committee is to become the key interest rate reference index within the meaning of the BMR Regulation. It will be used in financial contracts (e.g. loan agreements), financial instruments (e.g. debt securities or derivatives). The road map indicates that the reform of benchmarks will be completed by the end of 2024, with the simultaneous implementation of a new offer of financial products based on WIRON in 2023-2024 and full readiness to stop developing and publishing WIBOR benchmarks from the beginning of 2025.

At the end of 2022, Bank holds 82.6% of the WIBOR-based loan portfolio. It also has 10 issues of securities bearing interest based on the WIBOR index, the longest of which expires in 2028.

Additionally, the bank has 4 IRS transactions securing loans with a fixed interest rate securing financing of loans in PLN with covered bonds in EUR.

In the case of instruments based on EURIBOR, the risk related to the reform as a result of the actions of European regulators, in the opinion of Bank, has been significantly reduced.

Bank holds 12.6% of the EURIBOR-based loan portfolio. mBH has no issued securities bearing interest based on the EURIBOR index. However, it has 8 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.

	31.12.2022	
	Nominal value (TPLN)	**Weighted average maturity (in years)**
Interest rate swaps (IRS)		
Euribor 3M	1 632 085	2.4
Euribor 6M	370 033	4.1
Wibor 3M	400 000	4.2
Total interest rate swaps (IRS)	**2 402 118**	
Foreign Currency Interest Rate Swaps (CIRS)		
Wibor 3M	1 278 930	2.7
Foreign currency interest rate swaps (CIRS), total	**1 278 930**	
Total	**3 681 048**	

for 2022 (in PLN thousand)

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
	31.12.2022	31.12.2022	31.12.2022
PLN WIBOR	10 128 027	8 309 705	1 678 930
EUR EURIBOR	1 525 244	401 989	2 002 118
USD LIBOR	13 519		
GBP LIBOR	-	-	-
JPY LIBOR	-	-	-
Other	-	-	-

For the rate:

- Euribor - there was no event on the indicator, therefore the date of switching to the alternative indicator is not fixed
- Wibor - Bank plans to switch to an alternative indicator in accordance with the NGR road map
- Libor USD (1M, 3M, 6M) - the planned date of transition to the alternative indicator will most likely be postponed to 09/30/2024.

43. Post balance-sheet date events

1. On 15 February 2023, Bank entered into a loan agreement with mBank for MPLN 900. The loan is intended to finance day-to-day operations and will be made available to Bank in three tranches.
2. In accordance with the terms of the securities issue, the Bank has redeemed:
   - 1 series of unsecured bonds with a total value of TPLN 60,000 (03.01.2023)
   - 1 series of mortgage bonds with a total value of TPLN 200,000 (20.02.2023).