Condensed Interim Financial Statements of mBank Hipoteczny S.A. for the 6 months ended 30 June 2015

Selected financial data

The following selected financial data constitute supplementary information to the condensed interim financial statements of mBank Hipoteczny S.A. for the 6 months ended 30 June 2015.

	`	in PLN '000		in EUR '000	
		1st half of 2015 the period from 01.01.2015 to 30.06.2015 unaudited	1st half of 2014 the period from 01.01.2014 to 30.06.2014 unaudited	1st half of 2015 the period from 01.01.2015 to 30.06.2015 unaudited	1st half of 2014 the period from 01.01.2014 to 30.06.2014 unaudited
I.	Interest income	120 387	104 113	29 120	24 917
II.	Fee and commission income	6 547	4 946	1 584	1 184
III.	Net trading income	(1 881)	7 797	(455)	1 866
IV.	Operating result	8 305	18 589	2 009	4 449
V.	Profit before income tax	8 305	18 589	2 009	4 449
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	4 956	13 816	1 199	3 307
VII.	Net cash flows from operating activities	(577 595)	(218 755)	(139 715)	(52 354)
VIII.	Net cash flows from investing activities	(2 860)	(1 223)	(692)	(293)
IX.	Net cash flows from financing activities	815 086	98 544	197 162	23 584
X.	Total net cash flows	234 631	(121 434)	56 755	(29 062)
XI.	Basic earnings per ordinary share / Earnings per ordinary share (in PLN/EUR)	1,74	5,02	0,42	1,20

	Selected financial data	in PLN '000			in EUR '000		
		As at 30.06.2015 unaudited	As at 31.12.2014	As at 30.06.2014 unaudited	As at 30.06.2015 unaudited	As at 31.12.2014	As at 30.06.2014 unaudited
I.	Total assets	7 231 359	6 176 326	4 706 601	1 724 051	1 449 059	1 131 150
II.	Amounts due to other banks	2 429 053	1 980 634	998 198	579 118	464 687	239 900
III.	Amounts due to customers	223 337	250 012	255 269	53 246	58 657	61 349
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	628 445	624 541	515 709	149 830	146 527	123 942
V.	Share capital	285 000	285 000	275 000	67 948	66 865	66 091
VI.	Number of shares	2 850 000	2 850 000	2 750 000	2 850 000	2 850 000	2 750 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	220,51	219,14	187,53	52,57	51,41	45,07
VIII.	Total capital ratio / capital adequacy ratio	12,56	13,31	14,98	12,56	13,31	14,98

The following exchange rates were applied to calculate the selected financial data in EUR:

- for the items of the financial position statement — the NBP exchange rate as at 30 June 2015: EUR 1 = PLN 4.1944, 31 December 2014: EUR 1 = PLN 4.2623 and 30 June 2014 — EUR 1 = PLN 4.1609.
- for the items of the income statement and the cash flow statement — the rate calculated as the average NBP exchange rate applicable as at the last day of each month in the first half of 2015 and 2014: EUR 1 = PLN 4.1341 and EUR 1 = PLN 4.1784, respectively.

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ended 30 June 2015 (PLN '000)

Income statement

Total profit of mBank Hipoteczny S.A. for the first half of 2015 and the first half of 2014 relates to the result of continued operations.

	Note	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Interest income		120 387	104 113
Interest expense		(69 183)	(62 402)
Net interest income	6	**51 204**	**41 711**
Fee and commission income		6 547	4 946
Fee and commission expense		(2 582)	(1 833)
Net fee and commission income	7	**3 965**	**3 113**
Net trading income, including:	8	(1 881)	7 797
Foreign exchange result		*707*	*1 797*
Other net trading income and result on hedge accounting		*(2 588)*	*6 000*
Other operating income	9	250	522
Net impairment write-downs on loans and advances	10	(13 608)	(9 099)
Overhead costs	11	(26 766)	(21 699)
Amortisation and depreciation		(2 276)	(2 330)
Other operating expenses	12	(2 583)	(1 426)
Operating result		**8 305**	**18 589**
Profit before income tax		**8 305**	**18 589**
Income tax	13	(3 349)	(4 773)
Net profit		**4 956**	**13 816**
Net profit attributable to shareholders of the Bank		**4 956**	**13 816**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	14	**2 850 000**	**2 750 000**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	14	**1,74**	**5,02**

Explanatory notes and selected explanatory data presented on pages 10 to 58 constitute an integral part of these condensed interim financial statements.

ended 30 June 2015 (PLN '000)

Statement of comprehensive income

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Net profit	**4 956**	**13 816**
Other comprehensive income net of tax, including:	**(1 052)**	**(70)**
Items that may be reclassified to the income statement		
Change in valuation of available-for-sale financial assets (gross)	(1 298)	(87)
Deferred tax on available-for-sale financial assets	246	17
Change in valuation of available-for-sale financial assets (net)	(1 052)	(70)
Items that will not be reclassified to the income statement		
Actuarial gains and losses on post-employment benefits (gross)	-	-
Deferred tax on actuarial gains and losses on post-employment benefits	-	-
Actuarial gains and losses on post-employment benefits (net)	-	-
Total comprehensive income net of tax	**3 904**	**13 746**

Net comprehensive income attributable to shareholders of the Bank	**3 904**	**13 746**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	**2 850 000**	**2 750 000**
Net comprehensive income per ordinary share / Diluted net comprehensive income per ordinary share (in PLN)	**1,37**	**5,00**

Explanatory notes and selected explanatory data presented on pages 10 to 58 constitute an integral part of these condensed interim financial statements.

ended 30 June 2015 (PLN '000)

Statement of financial position

ASSETS	Note	30.06.2015 unaudited	31.12.2014	30.06.2014 unaudited
Cash and balances with the central bank		6 872	7 669	5 369
Amounts due from other banks		61 429	30 972	3 465
Derivative financial instruments	15	24 332	37 291	19 610
Loans and advances to customers	16	6 229 866	5 325 741	4 119 202
Investment securities available for sale	17	870 046	735 220	523 140
Intangible assets		6 219	5 074	3 882
Tangible fixed assets		6 676	7 241	7 668
Deferred income tax assets		11 670	11 426	11 480
Current income tax assets		-	1 002	-
Other assets, including:	18	14 249	14 690	12 785
- inventories		8 115	8 192	8 192
Total assets		**7 231 359**	**6 176 326**	**4 706 601**

LIABILITIES AND EQUITY		30.06.2015 unaudited	31.12.2014	30.06.2014 unaudited
Liabilities				
Amounts due to other banks		2 429 053	1 980 634	998 198
Derivative financial instruments	15	21 981	9 442	959
Amounts due to customers	19	223 337	250 012	255 269
Hedge accounting adjustments related to fair value of hedged items		12 888	25 763	5 463
Debt securities in issue	20	3 792 086	3 171 588	2 817 776
Subordinated liabilities		100 227	100 257	100 252
Other liabilities and provisions		22 348	14 089	12 775
Current income tax liabilities		994	-	200
Total liabilities		**6 602 914**	**5 551 785**	**4 190 892**
Equity				
Share capital:		**374 938**	**374 938**	**275 000**
- Registered share capital		285 000	285 000	275 000
- Share premium		89 938	89 938	-
Retained earnings		**252 796**	**247 840**	**239 285**
- Profit from the previous years		247 840	225 469	225 469
- Profit for the current year		4 956	22 371	13 816
Other components of equity		**711**	**1 763**	**1 424**
Total equity		**628 445**	**624 541**	**515 709**
TOTAL LIABILITIES AND EQUITY		**7 231 359**	**6 176 326**	**4 706 601**
Capital adequacy ratio		**12,56**	**13,31**	**14,98**

Explanatory notes and selected explanatory data presented on pages 10 to 58 constitute an integral part of these condensed interim financial statements.

Condensed Interim Financial Statements for the 6 months ended 30 June 2015 (PLN '000)

Statement of changes in equity

Changes in the period from 1 January 2015 to 30 June 2015 (unaudited)

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of available-for-sale financial assets	Actuarial gains and losses on post-employment benefits	
As at 1 January 2015	**285 000**	**89 938**	**192 469**	**33 000**	**22 371**	**-**	**1 742**	**21**	**624 541**
Net profit	-	-	-	-	-	4 956	-	-	4 956
Other comprehensive income (gross)	-	-	-	-	-	-	(1 298)	-	(1 298)
Deferred tax on other comprehensive income	-	-	-	-	-	-	246	-	246
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**4 956**	**(1 052)**	**-**	**3 904**
Transfer to general banking risk reserve	-		-	3 500	(3 500)	-	-	-	-
Transfer to supplementary capital	-	-	18 871	-	(18 871)	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-	-
Transfer to registered share capital	-	-	-	-	-	-	-	-	-
As at 30 June 2015	**285 000**	**89 938**	**211 340**	**36 500**	**-**	**4 956**	**690**	**21**	**628 445**

Changes in the period from 1 January 2014 to 31 December 2014

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of available-for-sale financial assets	Actuarial gains and losses on post-employment benefits	
As at 1 January 2014	**275 000**	**-**	**192 315**	**31 000**	**2 154**	**-**	**1 459**	**35**	**501 963**
Net profit	-	-	-	-	-	22 371	-	-	22 371
Other comprehensive income (gross)	-	-	-	-	-	-	349	(17)	332
Deferred tax on other comprehensive income	-	-	-	-	-	-	(66)	3	(63)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**22 371**	**283**	**(14)**	**22 640**
Transfer to general banking risk reserve	-	-	-	2 000	(2 000)	-	-	-	-
Transfer to supplementary capital	-	-	154	-	(154)	-	-	-	-
Issue of shares	10 000	90 000	-	-	-	-	-	-	100 000
Share issue costs	-	(62)	-	-	-	-	-	-	(62)
Transfer to registered share capital	-	-	-	-	-	-	-	-	-
Equity as at 31 December 2014	**285 000**	**89 938**	**192 469**	**33 000**	**-**	**22 371**	**1 742**	**21**	**624 541**

Explanatory notes and selected explanatory data presented on pages 10 to 58 constitute an integral part of these condensed interim financial statements.

ended 30 June 2015 (PLN '000)

Changes in the period from 1 January 2014 to 30 June 2014 (unaudited)

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of available-for-sale financial assets	Actuarial gains and losses on post-employment benefits	
As at 1 January 2014	**275 000**	**-**	**192 315**	**31 000**	**2 154**	**-**	**1 459**	**35**	**501 963**
Net profit	-	-	-	-	-	13 816	-	-	13 816
Other comprehensive income (gross)	-	-	-	-	-	-	(87)	-	(87)
Deferred tax on other comprehensive income	-	-	-	-	-	-	17	-	17
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**13 816**	**(70)**	**-**	**13 746**
Transfer to general banking risk reserve	-	-	-	2 000	(2 000)	-	-	-	-
Transfer to supplementary capital	-	-	154	-	(154)	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-	-
Transfer to registered share capital	-	-	-	-	-	-	-	-	-
As at 30 June 2014	**275 000**	**-**	**192 469**	**33 000**	**-**	**13 816**	**1 389**	**35**	**515 709**

Explanatory notes and selected explanatory data presented on pages 10 to 58 constitute an integral part of these condensed interim financial statements.

ended 30 June 2015 (PLN '000)

Statement of cash flows

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
A. Cash flows from operating activities	**(577 595)**	**(218 755)**
Profit before income tax	**8 305**	**18 589**
Adjustments:	***(585 900)***	***(237 344)***
Income tax paid	(1 351)	(2 359)
Amortisation	2 276	2 330
Interest income (income statement)	(120 387)	(104 113)
Interest expense (income statement)	69 183	62 402
Interest received	127 384	94 427
Interest paid	(7 806)	(5 972)
Change in amounts due from other banks	-	(1)
Change in assets and liabilities on derivative financial instruments	22 288	(746)
Change in loans and advances to customers	(908 771)	(67 788)
Change in investment securities	66 382	(19 912)
Change in other assets	441	49 830
Change in amounts due to other banks	206 047	(204 053)
Change in amounts due to customers	(26 715)	(39 881)
Change in debt securities in issue	(10 259)	125
Change in hedge accounting adjustments related to fair value of hedged items	(12 875)	5 463
Change in other liabilities and provisions	8 259	(7 097)
Result on disposal of intangible and tangible fixed assets	4	1
Net cash from operating activities	**(577 595)**	**(218 755)**
B. Cash flows from investing activities	**(2 860)**	**(1 223)**
Investing activity inflows	**17**	**24**
Disposal of intangible and tangible fixed assets	17	24
Investing activity outflows	**(2 877)**	**(1 247)**
Purchase of intangible fixed assets and tangible fixed assets	(2 877)	(1 247)
Net cash from investing activities	**(2 860)**	**(1 223)**
C. Cash flows from financing activities	**815 086**	**98 544**
Financing activity inflows	**1 375 550**	**360 652**
Loans and advances from banks	586 515	-
Due to the issue of debt securities	785 713	360 652
Interest received from hedging derivative financial instruments	3 322	-
Financing activity outflows	**(560 464)**	**(262 108)**
Repayment of loans from banks	(342 193)	-
Redemption of debt securities	(150 000)	(205 000)
Interest paid on loans received, debt securities in issue, subordinated loan	(68 271)	(57 108)
Net cash from financing activities	**815 086**	**98 544**
Net increase / decrease in cash and cash equivalents (A+B+C)	**234 631**	**(121 434)**
Cash and cash equivalents as at the beginning of the reporting period, including:	**518 614**	**545 183**
Cash and balances with the central bank	7 669	7 378
Amounts due from other banks	30 972	22 377
Investment securities with maturity of up to 3 months from the date of purchase	479 973	515 428
Cash and cash equivalents as at the end of the reporting period, including:	**753 245**	**423 749**
Cash and balances with the central bank	6 872	5 369
Amounts due from other banks	61 429	3 465
Investment securities with maturity of up to 3 months from the date of purchase	684 944	414 915

Explanatory notes and selected explanatory data presented on pages 10 to 58 constitute an integral part of these condensed interim financial statements.

Explanatory notes to the condensed interim financial statements

1. Information on mBank Hipoteczny S.A.

In accordance with the decision of the District Court for the capital city of Warsaw, 16th Commercial Division, dated 16 April 1999, mBank Hipoteczny S.A. (hereinafter referred to as the "Bank") was entered in the Commercial Register, with the reference number 56623.

On 27 March 2001, the District Court in Warsaw decided to enter the Bank in the National Court Register, with the reference number KRS 0000003753.

According to the Polish Classification of Business Activities, the Bank's business comes under No 64.19.Z "Other forms of monetary intermediation".

On 29 November 2013, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, registered an amendment to the Bank's Memorandum of Association under Resolution No 1 of the Extraordinary General Shareholders' Meeting of BRE Bank Hipoteczny S.A. of 30 October 2013. In parallel to the registration of the amendment to the Memorandum of Association, the Bank's name was changed from BRE Bank Hipoteczny Spółka Akcyjna to mBank Hipoteczny Spółka Akcyjna. The Bank may use its abbreviated name: mBank Hipoteczny S.A.

The Bank's name was changed as part of the re-branding of BRE Bank Group which covered all entities within the Group. BRE Bank S.A. changed its name to mBank Spółka Akcyjna (abbreviated form: mBank S.A.).

In accordance with the Bank's Memorandum of Association, the Bank is engaged in providing banking services to individual customers and legal entities, as well as organisational units without a legal personality, both in PLN and in foreign currencies.

The Bank operates within the territory of the Republic of Poland.

The Bank's registered office is located in Warsaw, at Al. Armii Ludowej 26.

The Bank's duration is not limited.

mBank Hipoteczny S.A. is a specialist mortgage bank and it plays a leading role in the market of commercial real estate financing and issuing covered bonds.

The Bank's offer is addressed to business entities and institutional clients investing in purchasing, constructing or renovating commercial properties, such as offices, shopping centres, hotels, warehouses, as well as apartments and houses, carried out by housing developers. Another important operating area of the Bank is the crediting of local government units through the financing of investments such as the construction of the municipal buildings, maintenance and construction of roads, sewage treatment plants, educational establishments or other objects, as well as the refinancing of local governments' real properties – the seats of local governments, utility and office premises. In 2013, the Bank extended the scope of its business to include retail loans. In 2014, the sale of retail loans was supplemented with a "pooling" model, under which the Bank acquires mortgage loans granted by mBank S.A. which may constitute a basis for the issue of covered bonds. The Bank is also a leader in the issue of covered bonds, debt securities which refinance its credit activity.

Activities of mBank Hipoteczny S.A. are carried out in the operating segments described in detail in Note 5.

On average, the Bank had 213 employees in the first half of 2015 and 171 employees in the first half of 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below. Those principles were applied in all of the presented periods in a continuous way, unless stated otherwise.

2.1. Basis of preparation

The condensed interim financial statements of mBank Hipoteczny S.A. have been prepared for the 6-month period ended 30 June 2015. These condensed interim financial statements are standalone financial statements.

Both as at 30 June 2015 and as at 30 June 2014, mBank Hipoteczny S.A. did not have any subsidiaries.

These condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ("IFRS"), in particular in accordance with the International Accounting Standard No 34.
IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").
The scope of information disclosed in interim financial statements is narrower than in the case of full financial statements, therefore they should be read in conjunction with the separate financial statements of mBank Hipoteczny S.A. for the financial year 2014.

The condensed interim financial statements were prepared under the going concern assumption. There are no circumstances indicating any risks associated with the going concern in the foreseeable future, i.e. in the period of at least 12 months following the balance sheet date.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires the Management Board to present its own judgement in the process of applying the Bank's accounting principles. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2. Interest income and expenses

Income statement recognises all the interest income and expenses regarding financial instruments measured at amortised cost using the effective interest rate method, as well as interest income from trading assets and available-for-sale assets.

The effective interest rate method is a method of calculating the amortised initial value of financial assets or liabilities and allocation of the interest income or expenses to the relevant period. The effective interest rate is a rate for which discounted future cash payments or inflows are equal to the current net carrying amount of the given financial asset or liability. In the calculation of effective interest rate, the Bank assesses cash flows taking into account all the contractual provisions of a given financial instrument; however, it does not take into account the potential future losses related to the uncollectibility of loans. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

Interest income comprises interest and commissions received or receivable on loans, interbank deposits placed, bank accounts balances and investment securities recognised in the calculation of the effective interest rate.

Revenues and costs related to the interest element of the result on interest rate derivatives, as well as those resulting from the current calculation of swap points of foreign currency derivatives classified in the Bank book are recognised in the net interest income under the Revenues/interest costs on derivatives classified in the Bank book. The Bank is not engaged in trading; all derivative transactions are included 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 are presented in the net interest income in the position interest income/expense on derivatives concluded under the hedge accounting.

Interest expense include interest paid and accrued, as well as commissions settled through the effective interest rate in respect of deposits accepted from customers, interbank deposits, received credits, other financial liabilities with deferred maturity, subordinated loans, the customers' bank account balances, as well as own issued debt securities.

Interest accrued on impaired receivables is recognised as interest income at the interest rate used for discounting future cash flows for the purpose of impairment charge calculation. Interest is recognised in the income statement in the recoverable amount, i.e. upon the recognition of adjustment to the impairment of exposure.

2.3. Fee and commission income and expense

Fee and commission income is generally recognised upon the service provision. Commission on granted loans is included in the effective interest rate calculations. Commissions on agreements regarding loans which have not been drawn down as at the date of collection or payment of the commissions adjust the effective interest rate as at the date of the funds being drawn down. Commission on credit agreements regarding loans which have not been drawn down is recognised in the income statement on a one-off basis, on the date of expiry of the said credit agreement. Commission on loan tranches placed at the customers' disposal (exposure commissions) is calculated by spreading it over the period of service provision. Commission is deferred, on a straight line basis, over the period of the transaction to which the commission relates. Fee and commission income and costs which are not accounted for using the effective interest rate method are, in principle, recognised on an accrual basis at the time a given service is provided.

The commission costs relating to amounts paid on received loans and issued debt securities adjust the effective interest rate on the date of launching a loan or on the date of payment if it occurs later than the date of launching the loan, and are presented under interest expenses.

Commission costs relating to other transactions are charged to the income statement on a one-off basis.

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

The Bank treats offered insurance products as bundled with financial instruments, in particular when insurance product is offered to the customer only with a given financial instrument, 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 financial instrument.

The Bank does not offer any insurance products not bundled with financial instruments.

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

Due to the existence of marginal expenses directly related to the sales of the insurance product, they are recognised upfront by the Bank. In the event where the amount of the above expenses is material, the following approach is applied: expenses directly related to the sales of the insurance product bundled with a loan are settled in a similar manner as income, following the principle of matching income and expenses. 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.

In relation to insurance products treated as bundled with a loan, 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 the case of bundled products, where the premium is collected on a monthly basis and the customer may take out or give up the insurance on an on-going basis, the income is recognised monthly on a cash basis under commission income.

When recognising insurance income with respect to insurance bundled with a mortgage loan, in relation to premium collected on a one-off basis for the period of two years, the Bank, on a straight line basis and under interest income, aligns the level of income recognised in this period with the level of future remuneration to be received on a regular, monthly basis from premium collected after the second year of the insurance coverage.

Since 31 March 2015, in connection with the termination, as of that date, the cash bonus agreement concluded on 7 January 2014 by and between the Bank and BRE Ubezpieczenia Sp. z o.o, the Bank does not receive remuneration for the offered insurance products bundled with a loan product.

2.5. Segment reporting

An operating segment is a component of the entity:

a) 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);

b) 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

c) 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: "Loans for refinancing", "Loans to local government units", "Loans to housing developers" "Loans to commercial real estate developers", "Loans for land purchase", "Loans to individual customers", "Loans to individual customers — agency model, pooling".

2.6. Financial assets / Financial liabilities

2.6.1. Financial assets

The Bank classifies its financial assets into the following categories:

- loans and receivables,
- available-for-sale financial assets;
- financial assets at fair value through profit or loss,
- financial assets held to maturity.

The classification of financial assets is decided by the Bank's management upon initial recognition.

Standardised purchase and sales transactions regarding financial assets carried at fair value through profit or loss, held to maturity and available for sale, are recognised and derecognised from the statement of financial position as at the date of settlement of the transaction. Loans are recognised when cash is advanced to the borrower. Financial assets are initially recognised at fair value plus transaction costs, except for financial assets carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from these assets have expired or been transferred, and the Bank has transferred substantially all risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted on the active market. They arise when the Bank advances cash, goods or services directly to the debtor, without the intention to introduce its receivable to trading.

Loans and receivables are stated at the adjusted purchase price (amortised cost), using the effective interest rate.

Available-for-sale financial assets

Available-for-sale financial assets constitute investments which the Bank intends to hold for an indefinite period of time. They can be sold, for example, in order to improve the Bank's liquidity, in response to fluctuations of interest rates, exchange rates or equity prices.

Interest income/expenses on available-for-sale financial assets are recognised in net interest income.

Available-for-sale financial assets and financial assets measured at fair value through profit or loss are measured at fair value at the end of the reporting period. Loans and receivables and held-to-maturity investments are carried at purchase price (amortised cost) using the effective interest rate method.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the total gains and losses previously recognised as other total income are recognised in the income statement. However, interest calculated using the effective interest rate method is recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the write-down is reversed, with the amount of the reversal recognised in the income statement.

Dividends on available-for-sale equity instruments are recognised in the income statement, once the entity's right to receive payment is established. Fair values of investments quoted on the active market are based on their current market values.

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading.

The Bank classifies derivative instruments as financial assets valued at fair value through profit or loss.

The measurement and the earnings or losses on the sales of financial assets measured at fair value through profit or loss are recognised in net trading income, except for the net interest income on derivatives, which is presented in the net interest income in the position Interest income/expense on derivatives classified into banking book.

Upon initial recognition, financial assets classified into this category are measured at fair value.

As at the end of the reporting period, financial assets measured at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets measured at fair value through profit or loss are demonstrated in the income statement, in the period in which they arose as net trading income.

Financial assets held to maturity

Investments held to maturity ("UDTZ") constitute financial assets not included among derivative instruments, with determined or determinable payments and determined maturity, which the Bank of the entity intends to hold and is capable of holding to maturity.
In the case of sales by the Bank, prior to maturity, of assets held to maturity, which cannot be recognised as insignificant, the so called "UDTZ portfolio Infection" occurs and thus all assets in this category are reclassified as available for sale.
In the reporting periods presented in these financial statements, the Bank had no assets held to maturity.

2.6.2. Financial liabilities

The Bank classifies its financial liabilities into the following categories:

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

Financial liabilities measured at fair value through profit or loss shall be understood as:

- held-for-trading liabilities incurred to earn economic benefits resulting from short-term price fluctuations and fluctuations in other market factors,
- other financial liabilities irrespective of intentions of the contract, if they constitute a component of a portfolio of similar financial liabilities which are very likely to earn the planned economic benefits in the short term,
- derivative financial instruments,
- liabilities measured at fair value through profit or loss at the Bank's option.

Apart from derivative financial instruments, the Bank did not classify any other financial liability as carried at fair value through profit or loss.

Other financial liabilities comprise specifically:

- bank accounts balances,
- customer deposits,
- subordinated loans received,
- loans and advances received,
- other financial liabilities with deferred payment term,
- debt securities issued by the Bank (covered bonds and bonds),
- trade payables.

Other financial liabilities are stated at amortised cost using the effective interest rate method.

2.7. Offsetting financial instruments

Financial assets and liabilities are offset and reported in the statement of financial position as a net amount, when there is a legally enforceable right to offset the recognised amounts and the intention to settle them at the net amount, or realise a given asset and simultaneously settle the liability.

2.8. Impairment of financial assets

<u>Assets carried at amortised cost</u>
At the end of each reporting period, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets has been impaired. A financial asset or a group of financial assets has been impaired and impairment losses have been incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of a given asset (a 'loss event') and when that loss event (or events) has had an impact on the future cash flows relating to that financial asset or group of financial assets that can be reliably estimated.

<u>Portfolio of commercial loans, loans to local government units (JST) and retail loans granted up until 2004</u>

The Bank accepts the failure to meet the obligations (a default event) in respect of a given debtor if at least one of the following three events has occurred:

a) deterioration in the counterparty/transaction credit quality. The Bank assumes that the debtor is not likely to fully meet its credit obligations towards the Bank, the parent company of the Bank, without the Bank taking actions such as collateral realisation (if collateral exists);

b) delays in payments of more than 90 days. Any exposure representing a debt liability of a debtor to the Bank or its parent company shall be past due by over 90 days, provided that:
   - in the case of retail exposures, the amount past due exceeds PLN 500,
   - in the case of the remaining exposures, the amount past due exceeds PLN 3,000,

c) classification of the entity as "in default" by the Bank's parent company.

According to the Bank, the date of default is the date of taking the decision regarding the occurrence of default based on information about lenient and stringent premises, as well as the exposure assessment analysis.

The following elements constitute "stringent" premises of a default event, as they correspond to the deterioration of credit quality of a customer/transaction in accordance with the adopted definition:

a) recognition of an impairment charge due to a visible deterioration of creditworthiness of the debtor;
b) Bank's disposal of exposure at a significant economic loss associated with changes of its creditworthiness;
c) the Bank's consent to forced restructuring of a loan liability, provided that this may result in reducing financial liabilities as a result of redeeming a significant part of the liability or deferring repayment of the principal, interest or commission — if any;
d) the Bank's filing of a statement declaring the debtor bankrupt or of a similar motion in reference to debtor's loan liabilities to the Bank, Bank's parent entity;
e) the debtor being declared bankrupt or obtaining similar legal protection leading to avoidance or delay of loan liabilities repayment to the Bank, Bank's parent entity;
f) Customer's fraud (provision of false data at the time of granting a loan or its monitoring, loan swindling, etc.)
g) termination of the agreement (in whole or a part thereof) and/or initiation of restructuring/collection procedures.

Apart from the stringent premises determining the occurrence of a default event, the Bank also identifies lenient premises. Lenient premises do not have to trigger automatic classification of a given event as a default event. Such premises are of a supplementary nature. These are issues which the Bank should additionally consider while analysing the borrower's situation, and which can indicate the deterioration of such situation. If, in the Bank's opinion, the identified lenient premises are of high significance for a given case, the Bank should commence the assessment explaining whether there occurred a default event, independent of the lack of stringent premises.

The Bank calculates impairment charges based on a case-by-case analysis (commercial and public sector portfolio) and portfolio analysis (retail portfolio and those exposures from the commercial and public sector portfolio for which the case-by-case analysis did not reveal any impairment).

The process of calculation of impairment write-downs in the case-by-case analysis consists in:

a) determining the estimated future cash flows (repayments) both from the collateral and repayments made by borrowers, taking into account planned costs,
b) calculation of the difference between the carrying amount of a given asset and the current value of estimated recoveries and costs discounted using the effective interest rate,
c) impairment write-down of accounting records.

If there are impairment premises and the individual analysis of a given credit exposure does not show any impairment, the impairment write-down is calculated based on portfolio analysis parameters.

In the event of lack of premises of impairment in relation to credit exposure, based on default probability, the impairment write-down on the incurred, but not identified losses, is calculated in the portfolio analysis.

The portfolio analysis covers all retail and commercial loans which are not subject to the case-by-case analysis. For the purposes of impairment measurement in the portfolio analysis the Bank does not use the rating model. It, however, uses parameters, estimated for the purpose of this analysis, specifying the cure ratio (ZLGD), faulty collateral ratio (BD), and the recovery to collateral ratio (CRR), as well as the debt to collateral ratio (LTV), used to calculate LGD in the portfolio analysis and, additionally, PD and LIP parameters. The Bank assumes that current LIP is 8 months for the commercial loan portfolio and 12 months for retail loans granted up until 2004. The PD parameter is currently determined using 3-year time series. The LGD parameter is estimated on the basis of data for the period from 2009, the scope of data is selected with a view to ensuring the adequacy of estimates of impairment charges to the current economic conditions. Each separate portfolio has its own set of ZLGD, BD, CRR and PD parameters.

In the case of assets for which permanent impairment has been identified, the Bank imposes stricter monitoring, e.g. it reassesses the mortgage lending value which constitutes collateral for the loan.

<u>Retail loan portfolio acquired in cooperation with mBank S.A.</u>

For the retail loan portfolio acquired in cooperation with mBank S.A., it is assumed that there is evidence of impairment of a retail exposure if a natural person who has obligations due to a given product is in the state of default, i.e.:

a) overdue status of at least one credit facility of the debtor continues for a period exceeding 90 days and the total amount of past due credit exposures of the debtor (overdue status exceeding 31 days) exceeds PLN 500,
b) one of the customer's transactions is subject to restructuring,
c) a loan receivable is sold at a substantial economic credit loss,
d) the Bank files a request to initiate enforcement proceedings, bankruptcy or reorganisation proceedings (resulting in a possible omission of or delay in repayment) by the debtor,
e) impairment charge has been created as a result of significant deterioration in the customer's creditworthiness.

The gross carrying amount of the portfolio of retail loans acquired as part of cooperation with mBank S.A., as at 30 June 2015, was PLN 1,591,227 thousand.
Starting from September 2014, the calculation of impairment write-downs for balance sheet credit exposures and provisions for off-balance sheet credit exposures is based on risk parameters determined using the methodology applied for the purpose of the advanced internal rating-based approach (AIRB), after necessary elimination of differences between the approach resulting from AIRB and IAS 39.

The main change was the method of recognising the impairment which, in the new method of estimation, is based on all available credit data of the customer and not on data available with respect to a single product, as it was before.

Uncollectible loans are written off against the related provisions for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

Subsequent recoveries of amounts previously written off decrease the amount of impairment write-downs of loans in the income statement accordingly (in accordance with IAS 39). If, in a subsequent period, the amount of the impairment loss should decrease as a result of an event which occurred after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment write-down is reversed by adjusting the impairment write-down account accordingly. The amount of reversal is disclosed in the income statement.

Receivables written-off but not remitted are recorded on off-balance sheet accounts. In the case of receivables written off without remitting, the Department responsible for such a receivable takes debt collection measures until the moment of full recovery or remission of the account receivable. Such activities may be discontinued if they are ineffective or not viable economically or if all the possibilities for recovery have been exhausted. Receivables written off are subject to derecognition from off-balance sheet accounts when:

- the account receivable has been recovered,
- the account receivable has been remitted.

<u>Available-for-sale financial assets</u>

At the end of each reporting period, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets has been impaired. In the case of instruments classified as available for sale, when assessing whether impairment took place, a significant or long-term decline in the fair value of the security below its purchase price is taken into account. If there is evidence of this type regarding financial assets that are available for sale, the total loss determined as the difference between the acquisition cost and the present fair value, less impairment of the given asset that was previously stated in the income statement is derecognised from equity and recognised in the income statement. Impairment of the equity instruments recognised in the profit and loss is not reversed through profit or loss, but through equity. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and this increase can be objectively related to an event occurring after the impairment recognition in the income statement, the impairment write-downs reversed in the income statement.

<u>Renegotiated agreements</u>

The Bank considers renegotiating the contractual terms and conditions for loans and advances as a premise of impairment, unless the renegotiation of the contractual terms was not enforced by the debtor's position, but was performed on normal business terms. Subsequently, the Bank assesses whether the impairment of such loans and advances should be recognised on an individual or group basis.

The general principle of the restructuring policy pursued by the Bank is to diagnose, as early as possible, the causes that give rise to the risk of default on the contractual terms of repayment of a loan and to determine whether such risks are attributable to the market or a given entrepreneur.

In the case of risks arising from market conditions, the Bank's policy provides for restructuring the loan towards the implementation of a "stay" strategy, which involves maintaining the relationship with the borrower and amending the terms of the loan in such a way, as to enable the entrepreneur to continue to operate and develop its business in the event of a favourable change in market conditions.

In the case of risks attributable to the entrepreneur, the Bank's policy is to restructure the loan towards the implementation of an "exit" strategy, in order to terminate the relationship with the borrower as soon as possible and, to the extent possible, without losses.

The most important factor taken into account in the restructuring of loans is the assumed period of repayment of the loan, but the Bank prefers restructuring to debt collection, unless restructuring fails to generate tangible results.

In the event of restructuring, the repayment terms of a loan, the Bank is flexible with regard to applicable margins, commissions and fees, provided that the repayment of the entire current value of the loan is guaranteed.

Due to the nature of the loan product offered by the Bank (mortgage loan), in the case of impairment calculation, the Bank prefers to operate on the assumption of future cash inflows from the sale of assets on which the Bank has established mortgages within standard periods resulting from the liquidation of such assets, rather than to rely on proceeds from the borrower's own contributions or the realisation of other forms of collateral, unless such proceeds are almost certain.

2.9. Cash and cash equivalents

Cash and cash equivalents comprise items which mature within three months of the date of purchase, including: unrestricted cash and balances in the Central Bank, Treasury bills and other eligible bills, loans and advances granted to other banks, amounts due from other banks and short-term State Treasury securities.

2.10. Derivative financial instruments and hedge accounting

Derivative financial instruments are stated at fair value starting from the transaction date. Fair value is determined on the basis of the instruments' quotations on active markets, including on the basis of prices applied in recent transactions, or on the basis of valuation techniques, including models based on discounted cash flows and option valuation models, depending on which of the methods is appropriate in given circumstances. All derivative instruments with positive fair value are shown as assets in the statement of financial position, and those with a negative fair value are shown as liabilities.

The transaction price (i.e. the fair value of consideration paid or received) is the best indicator of a derivative's fair value on initial recognition, unless the instrument's fair value can be determined by comparison with other current market transactions relating to the same instrument (not modified) or on the basis of valuation techniques based solely on observable market data. If such a price is known, the Bank shows gains or losses on the first day.

The method of recognising the resulting fair value gain or loss depends on whether the given derivative instrument is designated as a hedging instrument, and if it is, it also depends on the nature of the hedged item. The Bank designates some derivative instruments as fair value hedges against a recognised liability (issued mortgage covered bonds at a fixed rate).

Derivative instruments designated as hedges against positions maintained by the Bank are recorded by means of hedge accounting, subject to the fulfilment of the criteria specified in IAS 39, i.e.:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value,
- The hedge is expected to be highly effective in offsetting changes in fair value attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that is 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 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 recognised in the income statement together with any changes in the fair value of the hedged liability that is attributable to the risk hedged by the Bank.

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 rate method is used is amortised to the income statement over the period to maturity.

Derivative instruments not fulfilling the criteria of hedge accounting

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

The Bank has the following derivative instruments in its portfolio:

Interest rate risk instruments:

- IRS (Interest Rate Swap) contracts

Currency risk instruments (which constitute future commitments to purchase foreign or domestic currencies):

- FX SWAP contracts.

2.11. Intangible assets

Intangible assets are stated according to purchase prices adjusted for the costs of improvements (rebuilding, extension, reconstruction, adaptation or modernisation) and accumulated amortisation and impairment write-downs. Accumulated amortisation is calculated using the straight-line method, taking account of the economic lives of the intangible assets. If the expected economic useful life of a given intangible asset is different from that specified below, the period of accumulated amortisation of a given asset may be determined taking that difference into account. Expenditures on intangible assets are recognised as costs upon being incurred unless they form part of the purchase price or manufacturing cost of an intangible asset which meets the recognition criteria.

Computer software

Purchased licenses for computer software are capitalised in the amount of costs incurred for purchasing and preparing specific software for use. The capitalised costs are written down over the expected economic useful life of the software (2–10 years). Expenditures related to developing or maintaining computer software are recognised as costs upon being incurred. Costs directly associated with the manufacture of identifiable and unique computer software by the Bank, which will probably generate economic benefits exceeding these costs and that will be earned for more than one year, are recognised as intangible assets.

Capitalised software development costs are amortised over the expected economic useful lives.

Costs of completed development projects

The Bank identifies the costs of development projects as intangible assets in connection with obtaining future economic benefits and meeting the conditions specified in IAS 38, i.e. the Bank is able to and intends to complete and use the asset being generated, it has appropriate technical and financial resources for completing the project and using the asset being generated, and it may reliably determine the amount of the expenditure incurred during the development projects which may be attributed to the intangible asset generated.

The economic useful life of "Costs of completed development projects" is determined and does not exceed 5 years. Amortisation rates are tailored to the economic lives.

Expenditure on development projects comprises all expenditure which may be directly attributed to development activities.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be irrecoverable as well as at the end of each reporting period.

Significant intangible assets as at 30 June 2015:

- Software of the agency model with a net value of PLN 1,213 thousand;
- Pooling software — PLN 901 thousand.

2.12. Tangible fixed assets

The carrying amount is the purchase price or manufacturing cost of a given asset, net of accumulated depreciation and accumulated impairment write-downs.

The purchase price or manufacturing cost of tangible fixed assets is the amount of cash or cash equivalents paid or the fair value of other goods transferred upon the purchase of an asset at the time of purchase or manufacture. The purchase price or manufacturing cost also includes all directly attributable costs incurred in order to adapt an asset to the location and conditions necessary for its operation, including the disassembly, scrapping and renovation costs which the Bank is obliged to incur. The purchase price or manufacturing cost also includes the expenditure incurred at a later date in order to make the asset more useful, replace its parts or renovate it.

The depreciable value is the purchase price or manufacturing cost of a given asset or its fair value determined otherwise, net of its residual value.

Depreciation is a systematic subtraction of the depreciable amount over the period of economic useful life of an asset. An impairment write-down is the excess of the carrying amount of a given asset over its recoverable amount.

The recoverable amount is the higher of the net selling price of the asset and its value in use.

The residual value of an asset is the amount which the entity might expect to obtain for the asset at present, taking into account its age and condition as at the end of its economic useful life, net of estimated disposal costs.

While determining the depreciation period and an annual depreciation rate, the economic life of a given fixed asset is taken into account. The depreciation periods and rates are reviewed periodically — no later than as at the beginning of each financial year.

The Bank depreciates its fixed assets using a straight-line method, by systematically subtracting the initial value or the revalued amount net of the residual value over the estimated useful life of the asset. The residual value and the useful life of an asset are reviewed as at the end of each financial year, and if the expectations differ from the earlier estimates, the difference is recognised as a change in estimates.

Useful life of an asset is the period in which it is expected to be used.

<u>Useful lives of the individual groups of fixed assets are as follows:</u>

- Technical equipment and machinery	5–10 years,
- IT equipment	4–5 years,
- Equipment and vehicles	5–10 years,
- Leasehold improvements	in the expected lease/rent period
- Office equipment and furniture	5–12 years

If the expected economic useful life of tangible fixed assets is different from that specified above, the depreciation period for a given asset may be determined taking that difference into account.

Depreciable fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be irrecoverable and at the end of each reporting period.

The carrying amount of a fixed asset is reduced to the level of its recoverable value if the carrying amount exceeds the estimated recoverable value. The recoverable amount is the higher of the two amounts: fair value of a fixed asset reduced by costs of its sales and the utility value.

The carrying amount of a component of tangible fixed assets is derecognised when the said asset is sold or if no further economic benefits are expected from the use or disposal of the asset.

The Bank does not increase the carrying amount of its tangible fixed assets by the costs of their current maintenance. Repair and maintenance costs are recognised in the income statement upon being incurred.

If a component part of tangible fixed assets is replaced, the Bank includes the cost of replacing the said part in the carrying amount of the asset upon the cost being incurred. The carrying amount of the replaced components is written down in accordance with the derecognition policies.

Gains and losses on the derecognition of tangible fixed assets are the difference between net proceeds from disposal and the carrying amount of a given asset and are recognised in the income statement in the period in which the item was derecognised.

2.13. Deferred income tax

The deferred income tax provision and assets are calculated using the tax rates and regulations in force as at the end of the reporting period, which are expected to apply when the deferred tax assets are realised or the tax liability is paid. Temporary differences are differences between the carrying value of a given asset or liability and its tax base.

Deferred tax provision or assets 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.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that a sufficient taxable income will be generated to realise the deferred tax asset in part or in full. An unrecognised deferred income tax asset is reassessed at each balance sheet date and is recognised to the extent of the likelihood of achieving future taxable income that will allow the asset to be recovered.

Deferred tax assets and provisions are presented on a net basis in the Bank's statement of financial position, if the Bank has a legally enforceable right to account for them simultaneously when calculating the tax liability.

Deferred income tax relating to the fair value measurement of available-for-sale financial assets and of revaluation of actuarial gains or losses from the measurement of retirement and disability benefits are recognised in the same way as the effect of fair value measurement, directly in other comprehensive income.

To determine foreign exchange rate differences, as of 1 January 2015, the Bank applies the accounting method.

2.14. Inventories

The Bank classifies non-financial assets taken over for debts as inventories. Assets taken over for debts are measured at the moment of initial recognition at the amount corresponding to their fair value, and then they are measured at the lower one of the two values: purchase price and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business activity, less the applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded in other operating income.

2.15. Prepayments, accruals and deferred income

The Bank recognises prepayments if the expenses relate to future reporting periods. Prepayments are recognised in "Other assets" in the statement of financial position.

Accruals constitute liabilities payable for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Deferred income comprises, amongst other things, income received but not yet earned. Accruals and deferred income are presented in "Other liabilities and provisions" in the statement of financial position.

2.16. Provisions

Pursuant to IAS 37, provisions are created when the Bank has an existing liability (legal or customarily expected) arising from past events, and when it is probable that the fulfilment of this liability will result in the necessity of an outflow of cash, and when the amount of the liability may be reliably estimated.

2.17. Retirement benefits and other employee benefits

Retirement and disability benefits

The Bank creates provisions for future liabilities in respect of retirement and disability benefits, determined on the basis of estimations of such liabilities, using an actuarial model. Current service cost and net interest on the net defined pension benefit liability are recognised in profit and loss. The actuarial gains and losses are recognised in other comprehensive income which will not be reclassified to the income statement.

Phantom share-based benefits

The Bank runs a remuneration program for the Management Board and employees having a significant impact on the risk profile of the Bank based on phantom shares settled in cash. These benefits are accounted for in accordance with IAS 19 "Employee Benefits". Measurement value of phantom shares increases costs incurred in a given period in correspondence with the commitments. Phantom shares are granted in quantity based on the valuation of these shares for the appraisal period. The phantom share valuation is calculated each time at the end of the reporting period as the Bank carrying value divided by the number of ordinary shares. The payout under phantom shares depends on the valuation of these shares in a given reporting period in which they are redeemed, adjusted with the capital increase above the par value during the entire appraisal period.

For employees of the Bank having a material impact on the risk profile:

1) 50% of the bonus for a given period shall be granted in the non-cash form in phantom shares;
2) 20% of the portion referred to in item 1) is granted in a year following the appraisal period for which the bonus is granted, within 30 calendar days of approval by the General Meeting of Shareholders of the financial statements of mBank Hipoteczny S.A.,
3) and 80% of the portion referred to in item 1) is realised in three equal annual tranches ("Deferred tranches");

Eligible employees of the Bank are entitled to deferred tranches, provided that:
1) they received a positive assessment of their work from the Supervisory Board;
2) they fulfilled the conditions of employment at mBank Hipoteczny S.A.; and
3) the Bank's performance as at the end of the first, second and third calendar year after the end of the appraisal period is not lower than the result adopted for a given year in the financial plan lessen by 10%.

Each of the deferred tranches shall be granted within 30 calendar days upon the approval by the General Meeting of Shareholders of the financial statements for a given year.
The Supervisory Board may modify the level of the planned Bank performance in respect of the market situation.

For the Management Board of the Bank:

1) 60% of the discretionary bonus shall be paid in the year in which the discretionary bonus is granted, of which 50% in the form of cash payment and 50% in phantom shares;
2) 40% of the discretionary bonus shall be paid in three equal tranches in three consecutive years after the year in which the bonus is discretionary granted, of which 50% in the form of cash payment and 50% in phantom shares.

The Supervisory Board may decide to suspend as a whole or reduce the deferred tranche amount:

1) in view of the subsequent assessment of the Manager's work in a longer period than 1 financial year,
2) when at least one of the elements included in the Scorecard has not been met.

Moreover, the Supervisory Board may decide to suspend as a whole or reduce the discretionary bonus amount for a given financial year, and with regard to a deferred tranche, in a situation of balance-sheet loss or the threat of the same or of the Bank's insolvency. The suspension as a whole or reduction of the discretionary bonus and deferred tranche may also apply to the Discretionary bonus and deferred tranche paid to the Manager when the agreement has expired or has been terminated.

On 26 June 2015, the Supervisory Board of mBank Hipoteczny S.A. adopted a new policy on remuneration for persons having a material impact on the risk profile of the Bank at mBank Hipoteczny S.A. The new policy comes into force on 1 July 2015.

2.18. Issuance of securities

The Bank's liabilities arising from the issue of securities (covered bonds and bonds) upon initial recognition are measured at fair value, taking into account transaction costs that are directly attributable to the issue, and subsequently, throughout the duration of a given transaction, they are measured at the amortised cost using the effective interest rate.

2.19. Loans and advances received and deposits accepted

Loans and advances received and deposits accepted are initially recognised at fair value, less the incurred transaction costs. Upon initial recognition, loans and advances received and deposits accepted are stated at adjusted purchase price, using the effective interest rate. All differences between the amount received (less transaction costs) and the redemption value are recognized in the income statement over the period of validity of the relevant agreements, using the effective interest rate method.

2.20. Equity

The Bank's equity comprises capitals and funds created by the Bank in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Memorandum of Association.

Registered share capital

Share capital is recognised at the nominal value in accordance with the Memorandum of Association and the entry in the National Court Register.

Share premium

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

- Share issue costs

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

Retained earnings

Retained earnings include:

- other supplementary capital created from profit appropriation;
- General Risk Fund created through the profit appropriation and intended for the purposes specified in the Bank's Memorandum of Association or in other legal regulations;
- retained earnings from the previous year;
- net profit/loss for the current period.

Other components of equity

Other components of equity comprise the result of the revaluation of financial instruments classified as "available for sale" and the actuarial valuation of post-employment benefits.

2.21. Leases

The Bank acts as a lessee. Lease agreements concluded by the Bank constitute operating lease agreements. All the lease payments made under operating lease agreements are charged to costs using a straight-line method over the lease period. The Bank has no finance leases.

2.22. Measurement of foreign currency items

Functional currency and presentational currency

The financial statements are presented in thousands of PLN, which is the Bank's functional and presentational currency.

Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the average NBP exchange rate in force as at the end of reporting period. Foreign exchange gains and losses on the settlement of these transactions and the valuation of monetary assets and liabilities denominated in foreign currencies as at the end of reporting period are recognised in the income statement.

2.23. New standards, interpretations and amendments to the published standards

These condensed interim financial statements include all the requirements of the European Union, approved by the International Accounting Standards, International Financial Reporting Standards and the related interpretations, except for the following standards and interpretations, which are awaiting approval by the European Union or have been approved by the European Union and will take effect only after the balance sheet date.

Published standards and interpretations that have been issued and are applicable in the Bank for the annual periods beginning on 1 January 2015:

Standards and interpretations approved by the European Union:

- IFRIC 21, Levies, published by International Financial Reporting Standard Interpretations Committee on 20 May 2013, binding for annual periods starting on or after 1 January 2014. In the European Union interpretation is applicable for annual periods beginning on or after 17 June 2014.

  The Bank is of the opinion that the application of IFRIC 21 has no impact on the total level of recognised fees of the financial year treated as a whole year, but it may have an impact on the level of such costs recognised in each quarter of the financial year.

  The Bank applied IFRIC 21 in compliance with the policy of mBank S.A. and in accordance with recommendation of the Bank's Supervisory Board in a way that the costs of fees payable to the Bank Guarantee Fund (BFG) and income related to these costs will be settled on an accrual basis throughout 2015, the same way as in 2014.

Had the Bank applied IFRIC 21 in a way that the costs of fees payable to BFG and income related to these costs were included in full in the costs and income of the first quarter of 2015, the Bank's net profit for the first half of 2015 and the Bank's equity as at 30 June 2015 presented in these financial statements would have been higher by PLN 1,471 thousand.

- Improvements to IFRSs 2011–2013 were published by the International Accounting Standards Board on 12 December 2013 and are mostly binding for annual periods beginning on or after 1 July 2014.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

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

Standards and interpretations approved by the European Union:

- IAS 19 (Amended), Defined Benefit Plans: Employee Contributions, published by the International Accounting Standards Board on 21 November 2013, approved by European Union on 17 December 2014 and binding for annual periods starting on or after 1 July 2014, in EU effective at the latest for financial years beginning on or after 1 February 2015.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Improvements to IFRSs 2010–2012 Cycle were published by the International Accounting Standards Board on 12 December 2013, and were approved by European Union on 17 December 2014. Some of the amendments are binding for annual periods starting on or after 1 July 2014, and some effective prospectively for transactions occurring on or after 1 July 2014, in EU effective at latest for financial years beginning on or after 1 February 2015.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of its initial application.

Standards and interpretations not yet approved by the European Union:

- IFRS 9, Financial Instruments, published by the International Accounting Standards Board on 24 July 2014, represents the final version of the standard, replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39 Financial Instrument: Recognition and Measurement. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. IFRS 9 does not include hedge accounting concerning the portfolio of financial assets or liabilities, which constitutes a separate project of the International Accounting Standards Board. In relation to portfolio hedging of financial assets or liabilities, the Bank is still required to follow the provisions of IAS 39 in this respect. The new standard is binding for annual periods beginning on or after 1 January 2018.

  The Bank is of the opinion that the application of the standard will have an impact on the presentation of these instruments in the financial statements.

- IFRS 11 (Amended), Accounting for acquisitions of interests in joint operations, published by the International Accounting Standards Board on 6 May 2014, binding for annual periods beginning on or after 1 January 2016.
  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- IFRS 14, Regulatory Deferral Accounts, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016.

  The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- IFRS 15, Revenue from Contracts with Customers, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2018.

The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortization, published by the International Accounting Standards Board on 12 May 2014, binding for annual periods beginning on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standards will have no impact on the financial statements in the period of their initial application.

- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants published by the International Accounting Standards Board on 30 June 2014, binding for annual periods beginning on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 27, Equity method in separate financial statements, were published by the International Accounting Standards Board on 12 August 2014, and are binding for annual periods beginning on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture, published by the International Accounting Standards Board on 11 September 2014, binding for annual periods beginning on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Annual Improvements to IFRSs 2012-2014, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, binding for annual periods beginning on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- Amendments to IAS 1, Disclosure Initiative, published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 10, IFRS 12 and IAS 28, Investment entities: applying the consolidation exception, published by the International Accounting Standards Board on 18 December 2014, binding for annual periods starting on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

3. Fair value of financial assets and liabilities

Fair value is the price that would be received for the sale of an asset or paid for the transfer of 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:

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

The main and the most advantageous markets must be both available to the Bank.

In accordance with market practice, the Bank measures financial instruments in respect of which it maintains open positions, using market prices (mark-to-market valuation) or valuation models recognised in practice (model valuation) which rely on market parameters and, in a limited number of cases, on parameters estimated internally by the Bank. All significant open positions in derivative instruments (foreign exchange and interest rate-based) are measured using the relevant market models that rely on prices or parameters observable in the market.

The key assumptions and methods used by the Bank for estimating the fair values of financial instruments are presented below:

<u>Amounts due from other banks</u>

The Bank has assumed that the fair value of floating interest rate deposits and fixed interest rate deposits maturing within less than 1 year is equal to their carrying amount. The Bank does not have any deposits placed for more than 1 year.

Amounts due from other banks are presented at level 3 in the fair value hierarchy.

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

The fair value of receivables from loans and advances to customers was calculated as the current value of future cash flows, using current interest rates, taking into account the credit risk margin and realistic dates of repayment under loan agreements. The levels of credit margins have been determined on the basis of market quotations of median credit margins for Moody's rating system. Credit margins were assigned to individual credit exposures by mapping Moody's rating system with the Bank's internal rating system. In order to reflect the fact that most of the Bank's exposures are secured, while the median of market quotations is largely based on unsecured issues, the Bank has made adjustments in this respect.

Receivables from loans and advances to customers are presented at level 3 in the fair value hierarchy.

<u>Investment securities available for sale</u>

On initial recognition, they are stated at fair value of the consideration paid. Transaction costs are included in the initial cost using the effective interest rate method.
Debt securities quoted on the stock exchange or for which there is an active market are measured by the Bank at the balance sheet date at fair value (the current market price); the valuation is based on quotations at the close of business.

Any increases in value or impairment are booked as at the valuation date, i.e. as at the end of the month, separately for each type of securities.
The Bank sells the securities of the same issuer and the same series contained in the Bank's portfolio but purchased in various periods and at various prices, using the FIFO method, according to which securities are released in the order in which they were purchased.

<u>Financial instruments on the liabilities side are:</u>

- bank accounts balances,
- loans and advances received,
- other financial liabilities with deferred payment term,
- subordinated loans received,
- deposits,
- liabilities in respect of covered bonds and bonds issued by the Bank.

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The Bank does not have any financial instruments on the liabilities side with fixed interest rates maturing in over 1 year, except for liabilities in respect of covered bonds issued by the Bank.

The Bank has assumed that the fair value of liabilities in current accounts, loans received, other financial liabilities with deferred maturity, subordinated loans received and deposits with floating or fixed interest rates below 1 year is equal to their carrying amount.
Such liabilities are presented at level 3 in the fair value hierarchy.

Debt securities in issue (covered bonds and bonds)

The Bank has estimated the fair value of issued covered bonds and unsecured corporate bonds with a high rating using the credit spread. In the case of issued tranches subject to secondary trading, it was assumed that the value of the credit spread is the same as the value of the issue on the primary market with the same period to maturity. The clean price of individual tranches of floating covered bonds was estimated taking into account the period to redemption, the expected value of the credit spread for the issue on the secondary market and quotations from the swap curve.

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

The table below summarises carrying amounts and fair values for each group of financial assets and liabilities which are not presented at their fair value in the Bank's statement of financial position.

Financial assets and liabilities	30.06.2015 unaudited		31.12.2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with the central bank	**6 872**	**6 872**	**7 669**	**7 669**
Amounts due from other banks	**61 429**	**61 429**	**30 972**	**30 972**
Loans and advances to customers, including:	**6 229 866**	**6 311 254**	**5 325 741**	**5 384 068**
Corporate customers	4 405 704	4 465 831	4 290 209	4 339 196
Individual customers	1 664 785	1 684 447	860 660	868 451
Public sector customers	159 377	160 976	174 872	176 421
Total financial assets	**6 298 167**	**6 379 555**	**5 364 382**	**5 422 709**
Financial liabilities				
Amounts due to other banks	**2 429 053**	**2 429 053**	**1 980 634**	**1 980 634**
Amounts due to customers, including:	**223 337**	**223 337**	**250 012**	**250 012**
Corporate customers	223 198	223 198	249 831	249 831
Individual customers	139	139	161	161
Public sector customers	-	-	20	20
Debt securities in issue	**3 792 086**	**3 751 592**	**3 171 588**	**3 108 731**
Subordinated liabilities	**100 227**	**100 227**	**100 257**	**100 257**
Total financial liabilities	**6 544 703**	**6 504 209**	**5 502 491**	**5 439 634**

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The table below presents the fair value hierarchy of financial assets and liabilities measured at fair value in accordance with the assumptions described above, exclusively for disclosure as at 30 June 2015 and 31 December 2014.

30.06.2015	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
Financial assets				
Cash and balances with the central bank	6 872	-	-	6 872
Amounts due from other banks	61 429	-	-	61 429
Loans and advances to customers	6 311 254	-	-	6 311 254
Financial liabilities				
Amounts due to other banks	2 429 053	-	-	2 429 053
Amounts due to customers	223 337	-	-	223 337
Debt securities in issue	3 751 592	-	-	3 751 592
Subordinated liabilities	100 227	-	-	100 227
Total financial assets	**6 379 555**	**-**	**-**	**6 379 555**
Total financial liabilities	**6 504 209**	**-**	**-**	**6 504 209**

31.12.2014	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
VALUATION ONLY FOR PURPOSES OF DISCLOSURE				
Financial assets				
Cash and balances with the central bank	7 669	-	-	7 669
Amounts due from other banks	30 972	-	-	30 972
Loans and advances to customers	5 384 068	-	-	5 384 068
Financial liabilities				
Amounts due to other banks	1 980 634	-	-	1 980 634
Amounts due to customers	250 012	-	-	250 012
Debt securities in issue	3 108 731	-	-	3 108 731
Subordinated liabilities	100 257	-	-	100 257
Total financial assets	**5 422 709**	**-**	**-**	**5 422 709**
Total financial liabilities	**5 439 634**	**-**	**-**	**5 439 634**

The table below presents the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values.

30.06.2015	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Available-for-sale investment securities, including:	**870 046**	**185 103**	**684 943**	**-**
- treasury bonds	185 103	185 103	-	-
- money bills	684 943	-	684 943	-
Derivative financial instruments, including:	**24 332**	**-**	**24 332**	**-**
- Interest-bearing instruments	23 661	-	23 661	-
- Foreign exchange instruments	671	-	671	-
TOTAL FINANCIAL ASSETS	**894 378**	**185 103**	**709 275**	**-**

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30.06.2015	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**21 981**	**-**	**21 981**	**-**
Interest-bearing instruments	5 968	-	5 968	-
Foreign exchange instruments	16 013	-	16 013	-
TOTAL FINANCIAL LIABILITIES	**21 981**	**-**	**21 981**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**894 378**	**185 103**	**709 275**	-
TOTAL FINANCIAL LIABILITIES	**21 981**	**-**	**21 981**	-

31.12.2014	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Available-for-sale investment securities, including:	**735 220**	**255 246**	**479 974**	**-**
- treasury bonds	255 246	255 246	-	-
- money bills	479 974	-	479 974	-
Derivative financial instruments	**37 291**	**-**	**37 291**	**-**
Interest-bearing instruments	37 125	-	37 125	-
Foreign exchange instruments	166	-	166	-
TOTAL FINANCIAL ASSETS	**772 511**	**255 246**	**517 265**	**-**

31.12.2014	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**9 442**	**-**	**9 442**	**-**
Interest-bearing instruments	77	-	77	-
Foreign exchange instruments	9 365	-	9 365	-
Total financial liabilities	**9 442**	**-**	**9 442**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**772 511**	**255 246**	**517 265**	-
TOTAL FINANCIAL LIABILITIES	**9 442**	**-**	**9 442**	-

In case of financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by relevant departments of the Bank on the basis of internal guidelines.

In the reporting period, there were no changes in the classification of components of the statement of financial position with respect to fair value hierarchy.

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

The Bank makes estimates and assumptions that affect the amounts of assets and liabilities reported in the next financial period. The estimates and assumptions, which are subject to continuous assessment, are based on historical experience and other factors, including the expectations as to future events which seem justified in a given situation.

Impairment of loans and advances

The Bank reviews its loan portfolio for impairment at least on a quarterly basis. In order to determine whether impairment should be recognised in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from any loans. If there is objective evidence of impairment of a loan, the amount of the loss is measured as the difference between the carrying amount of a loan and the current value of estimated future cash flows (excluding future losses on non-repaid loans that have not yet been incurred) discounted at the original effective interest rate of a financial asset.

Impairment of non-financial assets — inventories

Impairment write-downs on repossessed real properties are calculated on a semi-annual and annual basis. The calculation of impairment involves comparing the selling prices of real properties (apartments) on a comparable market in the last six months/year with the prices of such properties (apartments) as at the date of purchase. Loss on sale is a prerequisite for estimating the impairment of real property values for the entire population.

Deferred income tax assets

The Bank capitalises in the deferred tax the value of impairment write-downs on loans in case of the occurrence of events allowing to consider the uncollectibility of loans as probable, in accordance with applicable tax regulations, including as a result of conducted debt collection activities.

Liabilities in respect of post-employment benefits

The expenses relating to post-employment benefits are determined using the actuarial valuation method. Actuarial valuation requires making assumptions about discount rates, future salary increases, mortality rates and other factors. Due to the long-term nature of these liabilities, such estimates are burdened with a high degree of uncertainty.

Phantom share-based benefits

The Bank runs a remuneration program for the Management Board and employees having a significant impact on the risk profile of the Bank based on phantom shares settled in cash.

In accordance with IAS 19, the present value of liabilities under other long-term employee benefits has been determined using the projected unit credit method.

The basis for the calculation of the provision for the deferred portion of variable remuneration for eligible employees of the Bank, is the amount of the premium that the Bank is obligated to pay pursuant to the Regulations on the variable remuneration of the Management Board Members of mBank Hipoteczny S.A. and the Regulations on the variable remuneration of the employees with a material impact on the risk profile of the Bank, for the First, Second, Third, Fourth and Fifth Assessment Period corresponding to 2012, 2012–2013, 2012–2014, 2013–2015 and 2014–2016, respectively.

The final value of the premium, which is a product of the number of shares and their estimated value as at the balance sheet date preceding the realisation of each of the deferred tranches is subject to actuarial discounting at the reporting date. The discounted amount is reduced by amounts of allocations to the relevant provision, which are subject to annual actuarial discounting at the same date. The actuarial discount is the product of the financial discount and the probability of each of the participants individually reaching the moment of obtaining full entitlement to each of the deferred tranches.

Annual allocations are calculated according to the projected unit credit method. The aforementioned probability was determined using the Multiple Decrement Model, where the following three risks were taken into account: the possibility of dismissal, the risk of total incapacity for work, the risk of death.

The value of the provision for the deferred portion of variable remuneration as at 30 June 2015 amounted to PLN 825.7 thousand, whereas as at 31 December 2014 it amounted to PLN 899.7 thousand.

The fair value of financial instruments

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. All the models are approved prior to application and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models.

5. Operating segments

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

mBank Hipoteczny S.A. is a specialist mortgage bank and it plays a leading role in the market of commercial real estate financing and issuing covered bonds. The Bank's offer is addressed to business entities and institutional clients investing in purchasing, constructing or renovating commercial properties, such as offices, shopping centres, hotels, warehouses, as well as apartments and houses, carried out by housing developers. Another operating area of the Bank is lending money to local government units in the form of financing of investments such as the municipal housing, road construction and repairs, construction of sewage treatment plants, educational facilities and other facilities, as well as the refinancing of municipal real estate — seats of local governments, utility premises, office buildings. In 2013, the Bank extended the scope of its business to include retail loans (loans to individual customers — agency model). In 2014, the sale of retail loans was supplemented with a "pooling" model, under which the Bank acquires mortgage loans granted by mBank S.A. which may constitute a basis for the issue of covered bonds. The Bank is also a leader in the issue of covered bonds, debt securities which refinance its credit activity.

Taking into consideration the specialist business profile of the Bank, the following operating segments were separated:

- loans for refinancing,
- loans to local government units (JST),
- loans to housing developers,
- loans to commercial real estate developers,
- loans for land purchase,
- Loans to individual customers,
- Loans to individual customers — agency model, pooling.

The segments were identified taking into account specific customer and product groups on the basis of homogeneous transaction characteristics. The classification is consistent with sales management.

Loans for refinancing — this is a major segment of the Bank's activities, which comprises loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.).

Loans to local government units (JST) — this segment comprises 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).

Loans to housing developers — this segment comprises loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent).

Loans to commercial real estate developers – this segment comprises loans for the financing of commercial real estate projects that are consistent with the Bank's crediting policy.

Loans for land purchase — this segment comprises loans for financing and refinancing the purchase of land for housing real estate development projects.

Loans to individual customers — this segment comprises loans granted to individuals, mainly for housing purposes. The segment is in decline due to the discontinuation of sales in the segment since 2004.

Loans to individual customers — agency model, pooling — this segment comprises loans granted to individuals for housing purposes. Loans are offered in PLN and secured by a mortgage. Loans are sold under an agency agreement through the network of mBank S.A. branches. Loans are recognised in the books of mBank Hipoteczny S.A. This segment also includes pooling loans — housing receivables acquired from the parent entity — loans in PLN granted to individuals for housing purposes, secured by a mortgage.

Non–allocated items — this position comprises all assets other than credits and loans.

On the basis of the above product segmentation, the profit before tax, including all profit and loss positions, is determined for each individual operating segment separately.

The main purpose of profit and loss segmentation is to present the profitability of each individual segment of Bank's operations as closely as possible. In order to achieve this, the Bank assigns all direct income such as interest income, fee and commission income as well as impairment write-downs at the loan agreement level. Due to the fact that the Bank cannot assign its liabilities to appropriate operating segments at the transaction level, the interest costs as well as fee and commission costs are attributed using a scheme described below.

The Bank's refinancing costs are divided into three categories: costs of public sector covered bonds, costs of mortgage covered bonds and average cost of other refinancing sources (mostly loans and deposits obtained from mBank S.A.). For each category, an average refinancing cost is calculated on basis of margin of each liability in a given category.

The interest and fee and commission costs for loans to local government units segment is calculated on the basis of actual refinancing costs of public sector covered bonds and part of average cost of other refinancing sources that is attributable to this segment (proportionally to the liabilities refinancing the surplus of loans for local government units over the value of the covered bonds issued).

The interest and fee and commission expense for other segments is calculated on the basis of actual refinancing costs of mortgage covered bonds and average cost of other refinancing sources that are attributable to the segment, proportionally to the share of segment loans in all loans portfolio (excluding loans for local government units).

Remaining income statement items are divided either by the share of average credit exposure in the year, or share of risk-weighted assets in the case of depreciation and administrative expenses. The Bank does not allocate the income tax charge to individual segments, accordingly the operating segments profit/loss data is presented on profit before income tax level. Data concerning operating segments is measured according to the same principles as those disclosed in the accounting policy.

In 2014, the Bank changed the key for dividing individual items of the income statement to individual segments. The main change included the application of average balance sheet values from the last 12 months instead of values as at the end of the period. In connection with this change, the comparative data were restated accordingly.

The division into operating segments described above is the main and only segmentation of Bank's operations. Taking into consideration the fact that the Bank operates only within the territory of the Republic of Poland, the Bank does not use geographic segmentation.

There are no operations between the operating segments within the Bank.

The segmentation of assets and profit and loss has been made using the information that Bank uses for controlling and management purposes. Assets and income and costs attributable to these assets have been assigned to individual segments. The segment results include all profit and loss positions. Liabilities have not been allocated to individual segments, as it is not presented to the Bank's Management Board on a regular basis.

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Business segment reporting on the activities of mBank Hipoteczny S.A.

Period from 01.01.2015 to 30.06.2015 unaudited	Loans for refinancing	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to individual customers	Loans to individual customers — agency model, pooling	Total	Income statement
Interest income	63 743	7 675	15 230	10 572	770	545	21 852	120 387	120 387
Interest expense	(29 096)	(8 466)	(6 915)	(4 521)	(310)	(605)	(19 270)	(69 183)	(69 183)
Net interest income	**34 647**	**(791)**	**8 315**	**6 051**	**460**	**(60)**	**2 582**	**51 204**	**51 204**
Fee and commission income	3 160	286	732	656	15	25	1 673	6 547	6 547
Fee and commission expense	(475)	(60)	(68)	(59)	(3)	(5)	(1 912)	(2 582)	(2 582)
Net impairment write-downs on loans and advances	(8 837)	7	(4 073)	(310)	(21)	142	(516)	(13 608)	(13 608)
Amortisation/depreciation and overhead costs	(19 517)	(517)	(2 148)	(1 394)	(155)	(193)	(5 118)	(29 042)	(29 042)
Other income statement items	(2 832)	(75)	(312)	(202)	(23)	(28)	(742)	(4 214)	(4 214)
Segment result (before tax)	**6 146**	**(1 150)**	**2 446**	**4 742**	**273**	**(119)**	**(4 033)**	**8 305**	**8 305**

30.06.2015 unaudited	Loans for refinancing	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to individual customers	Loans to individual customers — agency model, pooling	Non-allocated assets item	Total	Statement of financial position
Loans and advances to customers	**3 357 270**	**397 048**	**519 912**	**309 468**	**21 209**	**34 478**	**1 590 481**	**-**	**6 229 866**	**6 229 866**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 001 493**	**1 001 493**	**1 001 493**
Segment assets	**3 357 270**	**397 048**	**519 912**	**309 468**	**21 209**	**34 478**	**1 590 481**	**1 001 493**	**7 231 359**	**7 231 359**

Profit before tax for the Bank's operating segments has been presented in line with the income statement, prepared for the purpose of the condensed interim financial statements.

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Period from 01.01.2014 to 30.06.2014 unaudited	Loans for refinancing	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to individual customers	Loans to individual customers — agency model, pooling	Total	Income statement
Interest income	62 981	10 901	18 548	8 151	1 725	739	1 068	104 113	104 113
Interest expense	(33 363)	(10 997)	(10 489)	(4 598)	(955)	(915)	(1 085)	(62 402)	(62 402)
Net interest income	**29 618**	**(96)**	**8 059**	**3 553**	**770**	**(176)**	**(17)**	**41 711**	**41 711**
Fee and commission income	2 303	289	416	462	27	27	1 422	4 946	4 946
Fee and commission expense	(402)	(65)	(68)	(50)	(6)	(6)	(1 236)	(1 833)	(1 833)
Net impairment write-downs on loans and advances	(9 006)	12	(1 981)	(285)	2 166	(1)	(4)	(9 099)	(9 099)
Amortisation/depreciation and overhead costs	(17 863)	(669)	(1 942)	(2 577)	(261)	(243)	(474)	(24 029)	(24 029)
Other income statement items	5 124	192	557	739	75	70	136	6 893	6 893
Segment result (before tax)	**9 774**	**(337)**	**5 041**	**1 842**	**2 771**	**(329)**	**(173)**	**18 589**	**18 589**

Profit before tax for the Bank's operating segments has been presented in line with the income statement, prepared for the purpose of the condensed interim financial statements.

30.06.2014 unaudited	Loans for refinancing	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to individual customers	Loans to individual customers — agency model, pooling	Non-allocated assets item	Total	Statement of financial position
Loans and advances to customers	**2 699 644**	**440 467**	**444 462**	**350 867**	**32 450**	**38 583**	**110 520**	**2 209**	**4 119 202**	**4 119 202**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**587 399**	**587 399**	**587 399**
Segment assets	**2 699 644**	**440 467**	**444 462**	**350 867**	**32 450**	**38 583**	**110 520**	**589 608**	**4 706 601**	**4 706 601**

31.12.2014	Loans for refinancing	Loans to local government units	Loans to housing developers	Loans to commercial real estate developers	Loans for land purchase	Loans to individual customers	Loans to individual customers — agency model, pooling	Non-allocated assets item	Total	Statement of financial position
Loans and advances to customers	**3 187 138**	**420 561**	**446 454**	**430 921**	**21 856**	**36 459**	**782 352**	**-**	**5 325 741**	**5 325 741**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**850 585**	**850 585**	**850 585**
Segment assets	**3 187 138**	**420 561**	**446 454**	**430 921**	**21 856**	**36 459**	**782 352**	**850 585**	**6 176 326**	**6 176 326**

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6. Net interest income

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Interest income		
Loans and advances, including the unwind of discount relating to impairment write-down, of which:	105 030	86 915
- interest income on impaired loans and advances	2 292	4 562
Cash and short-term deposits	203	233
Investment securities	7 774	8 113
Interest income on derivative instruments classified into banking book	4 855	8 419
Interest income on derivative instruments concluded under hedge accounting	2 525	433
Total interest income	**120 387**	**104 113**
Interest expense		
Due to settlements with banks	(18 138)	(7 457)
Due to settlements with customers	(459)	(962)
Due to the issue of debt securities	(47 946)	(50 917)
Due to subordinated loan	(2 640)	(3 066)
Total interest expense	**(69 183)**	**(62 402)**
Total net interest income	**51 204**	**41 711**

7. Net fee and commission income

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Fee and commission income		
Credit-related fees and commissions	6 317	4 746
Commissions from bank accounts	211	172
Commissions from money transfers	19	28
Total fee and commission income	**6 547**	**4 946**
Fee and commission expenses		
Costs of real estate analyses and valuations related to the lending activity	(1 483)	(1 091)
Costs related to the debt securities issue program (covered bonds and bonds)	(520)	(323)
Commission expense from the stand-by credit line	(281)	(244)
Cost of servicing loan products	(183)	(129)
Other	(115)	(46)
Total fee and commission expense	**(2 582)**	**(1 833)**
Total net fee and commission income	**3 965**	**3 113**

8. Net trading income

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Foreign exchange result	**707**	**1 797**
Exchange differences on translation	6 223	8 958
Valuation of foreign currency derivative instruments	(5 516)	(7 161)
Other net trading income and result on hedge accounting	**(2 588)**	**6 000**
Interest rate risk instruments	(230)	7 040
Hedge accounting, including:	(2 358)	(1 040)
- net profit on hedged items	12 875	(5 463)
- net profit on hedging instruments	(15 233)	4 423
Total net trading income	**(1 881)**	**7 797**

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 in relation to issued fixed-interest rate covered bonds issued. Interest Rate Swap is the hedging instrument swapping the fixed interest rate for a variable interest rate. As at 30 June 2015, there were seven hedging relations concluded, presented in the tables below.

The following tables present hedged items. The nominal value was presented in EUR thousands, while the carrying amount and hedge accounting differences concerning the fair value in PLN thousands.

30.06.2015

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2015	Redemption date	Carrying amount of liability	Hedge accounting adjustments related to fair value
Covered bonds (EUR)	30 000	2,75%	2020-07-28	127 169	3 165
Covered bonds (EUR)	8 000	3,50%	2029-02-28	33 266	2 609
Covered bonds (EUR)	15 000	3,50%	2029-03-15	62 443	4 910
Covered bonds (EUR)	20 000	3,20%	2029-05-30	82 524	6 314
Covered bonds (EUR)	20 000	1,115%	2018-10-22	84 156	313
Covered bonds (EUR)	11 000	1,285%	2025-04-24	83 343	(1 513)
Covered bonds (EUR)	20 000	1,135%	2022-02-25	45 855	(2 910)
Total hedged items				**518 756**	**12 888**

31.12.2014

Debt financial instruments by type	Nominal value	Interest rate as at 31 December 2014	Redemption date	Carrying amount of liability	Hedge accounting adjustments related to fair value
Covered bonds (EUR)	30 000	2,75%	2020-07-28	127 338	4 275
Covered bonds (EUR)	8 000	3,50%	2029-02-28	34 407	3 976
Covered bonds (EUR)	15 000	3,50%	2029-03-15	64 564	7 477
Covered bonds (EUR)	20 000	3,20%	2029-05-30	85 223	9 709
Covered bonds (EUR)	20 000	1,115%	2018-10-22	85 000	326
Total hedged items				**396 532**	**25 763**

30.06.2014

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2014	Redemption date	Carrying amount of liability	Hedge accounting adjustments related to fair value
Covered bonds (EUR)	30 000	2,75%	2020-07-28	125 823	1 563
Covered bonds (EUR)	8 000	3,50%	2029-02-28	32 964	803
Covered bonds (EUR)	15 000	3,50%	2029-03-15	61 868	1 508
Covered bonds (EUR)	20 000	3,20%	2029-05-30	81 779	1 589
Total hedged items				**302 434**	**5 463**

The following tables present hedging items. The nominal value was presented in EUR thousands, while the fair value and changes in the fair value due to hedge accounting in PLN thousands.

30.06.2015

Derivative instruments	Nominal value	Transaction end date	Fair value of asset	Fair value of liability	Change in the fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	8 007	-	(1 555)
IRS (EUR)	8 000	2029-02-28	3 242	-	(1 725)
IRS (EUR)	15 000	2029-03-15	5 773	-	(3 232)
IRS (EUR)	20 000	2029-05-30	4 273	-	(4 147)
IRS (EUR)	20 000	2018-10-22	474	-	34
IRS (EUR)	11 000	2025-04-24	-	3 456	(3 087)
IRS (EUR)	20 000	2022-02-25	-	2 513	(1 521)
Total hedging items			**21 769**	**5 969**	**(15 233)**

ended 30 June 2015 (PLN '000)

31.12.2014

Derivative instruments	Nominal value	Transaction end date	Fair value of asset	Fair value of liability	Change in the fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	8 527	-	4 062
IRS (EUR)	8 000	2029-02-28	5 553	-	4 287
IRS (EUR)	15 000	2029-03-15	10 114	-	8 062
IRS (EUR)	20 000	2029-05-30	9 789	-	10 531
IRS (EUR)	20 000	2018-10-22	-	45	345
Total hedging items			**33 983**	**45**	**27 287**

30.06.2014

Derivative instruments	Nominal value	Transaction end date	Fair value of asset	Fair value of liability	Change in the fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	6 556	-	1 199
IRS (EUR)	8 000	2029-02-28	1 308	-	658
IRS (EUR)	15 000	2029-03-15	2 103	-	1 222
IRS (EUR)	20 000	2029-05-30	-	794	1 344
Total hedging items			**9 967**	**794**	**4 423**

The interest rate risk is the only type of risk hedged for which hedge accounting is applied. The result on hedged items and hedging instruments is presented in the tables above. 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.

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

	Period from 01.01.2015 to 30.06.2015 unaudited	**Period from 01.01.2014 to 30.06.2014** unaudited
Interest income on derivative instruments concluded under fair value hedge accounting (Note 6)	2 525	433
Net profit on hedged items	12 875	(5 463)
Net profit on hedging instruments	(15 233)	4 423
Total income from fair value hedge accounting	**167**	**(607)**

9. Other operating income

	Period from 01.01.2015 to 30.06.2015 unaudited	**Period from 01.01.2014 to 30.06.2014** unaudited
Income from sales of services	144	237
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	39	26
Other	67	259
Total other operating income	**250**	**522**

ended 30 June 2015 (PLN '000)

10. Net impairment write-downs on loans and advances

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Net impairment charges on loans and advances to customers	(13 589)	(9 099)
Net impairment charges for contingent liabilities towards customers	(19)	-
Net impairment write-downs on loans and advances	**(13 608)**	**(9 099)**

In June 2015, the Bank updated the impairment measurement methodology, as part of which the LIP parameter was extended. Following the methodology change and parameters update, the IBNR write-downs amount increased by PLN 4,657 thousand in June 2015.

11. Overhead costs

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Staff-related expenses	(15 359)	(13 085)
Material costs, of which:	(8 485)	(7 016)
- logistics costs	(3 347)	(2 851)
- IT costs	(2 211)	(1 668)
- marketing costs	(1 822)	(1 770)
- consulting services costs	(456)	(527)
- other material costs	(649)	(200)
Contribution and payments to the Bank Guarantee Fund	(1 763)	(869)
Taxes and fees	(987)	(587)
Contributions to the Company Social Benefit Fund	(172)	(142)
Total overhead costs	**(26 766)**	**(21 699)**

Staff-related expenses

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Wages and salaries	(12 639)	(10 853)
Social insurance expenses	(2 045)	(1 617)
Provision for unused employee leaves	(32)	(28)
Other employee benefits	(643)	(587)
Total staff-related expenses	**(15 359)**	**(13 085)**

ended 30 June 2015 (PLN '000)

12. Other operating expenses

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Write-downs on receivables (excluding loans)	(1 665)	-
Real estate valuation costs	(557)	-
Costs of enforcement proceedings	(139)	(439)
Result on the sales of assets repossessed for debts (inventories) and costs of their maintenance	(94)	(423)
Write-downs on inventories	(77)	-
Provisions for disputes	(11)	-
Compensation, penalties and fines paid	(6)	(281)
Loss on sales or liquidation of fixed assets and intangible fixed assets	(4)	(1)
Other	(30)	(282)
Total other operating expenses	**(2 583)**	**(1 426)**

The item "Write-downs on receivables (excluding loans)" constitutes an increase of the write-down to 100% of the Bank's receivables from incorrect VAT rate applied by a counterparty on an invoice that documented the supply of real property for the Bank. The write-down was increased in connection with the Bank's receipt in April 2015 of information from the receiver in bankruptcy of the counterparty about declaring the counterparty bankrupt by decision of a competent district court of 11 March 2015.

13. Income tax

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Current income tax	(3 347)	(3 179)
Deferred income tax	(2)	(1 594)
Total income tax	**(3 349)**	**(4 773)**

Profit before income tax	**8 305**	**18 589**
Income tax calculated at the rate applicable in a given fiscal year (19%)	(1 578)	(3 532)
Non-tax-deductible expenses, including	(2 223)	(1 308)
- value of write-downs on receivables	(1 983)	(1 037)
- costs of the prudent fee to the Bank Guarantee Fund	(70)	(62)
- other	(170)	(209)
Non-taxable income	452	67
Total tax expense	**(3 349)**	**(4 773)**

Effective tax rate calculation		
Profit before income tax	8 305	18 589
Income tax	(3 349)	(4 773)
Effective tax rate	**40,33%**	**25,68%**
Nominal tax rate	**19%**	**19%**

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14. Profit per share

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 30.06.2014 unaudited
Basic:		
Net income from activities attributable to shareholders of mBank Hipoteczny S.A.	4 956	13 816
Weighted average number of ordinary shares	2 850 000	2 750 000
Basic net income per share (in PLN per share)	**1,74**	**5,02**
Diluted:		
Net income attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted profit per share	4 956	13 816
Weighted average number of ordinary shares	2 850 000	2 750 000
Weighted average number of ordinary shares for diluted profit per share	2 850 000	2 750 000
Diluted net income per share (in PLN per share)	**1,74**	**5,02**

15. Derivative financial instruments

	30.06.2015 unaudited		31.12.2014		30.06.2014 unaudited	
	assets	liabilities	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading classified into banking book	2 563	16 012	3 308	9 397	9 643	165
Hedging derivative financial instruments	21 769	5 969	33 983	45	9 967	794
Total derivative financial instruments assets/liabilities	**24 332**	**21 981**	**37 291**	**9 442**	**19 610**	**959**

16. Loans and advances to customers

	30.06.2015 unaudited	31.12.2014	30.06.2014 unaudited
Loans and advances to corporate customers	**4 498 689**	**4 375 564**	**3 811 867**
Loans and advances to individual customers	**1 667 460**	**862 951**	**195 231**
Loans and advances to the public sector	**159 425**	**174 925**	**189 481**
Other receivables	**-**	**-**	**2 209**
Loans and advances from customers (gross)	**6 325 574**	**5 413 440**	**4 198 788**
Write-downs on receivables (negative amount)	(95 708)	(87 699)	(79 586)
Loans and advances from customers (net)	**6 229 866**	**5 325 741**	**4 119 202**
Short-term (up to 1 year)	555 015	427 185	370 967
Long-term (over 1 year)	5 674 851	4 898 556	3 748 235

ended 30 June 2015 (PLN '000)

Movements in impairment write-downs on loans and advances

	Impairment write-downs as at 01.01.2015	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 30.06.2015 unaudited
Corporate customers	(85 356)	(19 372)	6 162	5 580	(92 986)
Individual customers	(2 291)	(1 339)	956	-	(2 674)
Public sector customers	(52)	-	4	-	(48)
Total movements in impairment write-downs on loans and advances	(87 699)	(20 711)	7 122	5 580	(95 708)

	Impairment write-downs as at 01.01.2014	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 31.12.2014
Corporate customers	(73 528)	(36 112)	15 451	8 833	(85 356)
Individual customers	(1 993)	(760)	462	-	(2 291)
Public sector customers	(67)	-	15	-	(52)
Total movements in impairment write-downs on loans and advances	(75 588)	(36 872)	15 928	8 833	(87 699)

	Impairment write-downs as at 01.01.2014	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 30.06.2014 unaudited
Corporate customers	(73 528)	(24 086)	14 997	5 101	(77 516)
Individual customers	(1 993)	(158)	138	-	(2 013)
Public sector customers	(67)	-	10	-	(57)
Total movements in impairment write-downs on loans and advances	(75 588)	(24 244)	15 145	5 101	(79 586)

17. Investment securities

	30.06.2015 unaudited			31.12.2014			30.06.2014 unaudited		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**847 192**	**22 854**	**870 046**	**532 483**	**202 737**	**735 220**	**520 975**	**2 165**	**523 140**
Issued by government	162 249	22 854	185 103	52 510	202 737	255 247	106 061	2 165	108 226
- government bonds	162 249	22 854	185 103	52 510	202 737	255 247	106 061	2 165	108 226
Issued by central bank	684 943	-	684 943	479 973	-	479 973	414 914	-	414 914
- money bills	684 943	-	684 943	479 973	-	479 973	414 914	-	414 914
Total debt securities	**847 192**	**22 854**	**870 046**	**532 483**	**202 737**	**735 220**	**520 975**	**2 165**	**523 140**
Short-term (up to 1 year)	847 192	20 713	867 905	532 483	152 207	684 690	440 793	-	440 793
Long-term (over 1 year)	-	2 141	2 141	-	50 530	50 530	80 182	2 165	82 347

The Bank had no debt securities based on floating interest rates.

Pledged assets are not subject to resale or further pledging.

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18. Other assets

	30.06.2015 unaudited	31.12.2014	30.06.2014 unaudited
Other, including:	**14 249**	**14 690**	**12 785**
- inventories	8 115	8 192	8 192
- other prepayments	4 001	1 253	1 295
- receivables from agency model settlements	1 321	182	123
- income receivables	353	2 966	1 122
- debtors	338	1 895	-
- receivables from the sale of inventories	-	-	1 734
- other	121	202	319
Total other assets	**14 249**	**14 690**	**12 785**
Short-term (up to 1 year)	14 249	14 690	-
Long-term (over 1 year)	-	-	-

19. Amounts due to customers

	30.06.2015 unaudited	31.12.2014	30.06.2014 unaudited
Corporate customers:	**223 198**	**249 834**	**255 012**
Cash in current accounts	181 013	191 638	194 577
Term deposits (including overnight deposits)	33 508	55 810	57 012
Other liabilities (in respect of):	8 677	2 386	3 423
- cash collateral	706	915	904
- other	7 971	1 471	2 519
Public sector customers:	**-**	**18**	**-**
Other liabilities (in respect of):	-	18	-
- other	-	18	-
Individual customers:	**139**	**160**	**257**
Other liabilities (in respect of):	139	160	257
- cash collateral	65	65	65
- other	74	95	192
Total amounts due to customers	**223 337**	**250 012**	**255 269**
Short-term (up to 1 year)	222 565	249 108	254 299
Long-term (over 1 year)	772	904	970

20. Debt securities in issue

As at 30 June 2015, mortgage and public sector covered bonds had a rating of BBB on the scale of Fitch Rating Ltd. agency in London (as at 30 June 2014: A).

Receivables secured with mortgage entered as the first position in the land and mortgage register are set up as collateral for mortgage covered bonds. The collateral for public sector covered bonds are loans, including interest receivable, partly secured with a guarantee or pledge of local government units and loans granted to such local government units. In addition, the basis for the issue of mortgage covered bonds up to 10% of the amount of the Bank's debt claims secured by a mortgage may include:

- the Bank's funds invested in securities issued or guaranteed by the National Bank of Poland (NBP), the European Central Bank, governments or central banks of the Member States of the European Union, the Organisation for Economic Co-operation and Development (OECD), except for countries which restructure or have restructured their foreign debt over the past 5 years, as well as the State Treasury,
- the Bank's funds deposited with the National Bank of Poland (NBP),
- the Bank's funds held in cash.

Total nominal value of mortgage covered bonds issued as at:

- 30 June 2015 amounted to PLN 3,352,668 thousand,
- 31 December 2014 amounted to PLN 2,677,214 thousand,
- 30 June 2014 amounted to PLN 2,164,606 thousand.

Total nominal value of public sector covered bonds issued as at:

- 30 June 2015 amounted to PLN 350,000 thousand,
- 31 December 2014 amounted to PLN 350,000 thousand,
- 30 June 2014 amounted to PLN 350,000 thousand.

The carrying amount of covered bonds issued as at 30 June 2015, 31 December 2014 and 30 June 2014 is presented in the tables provided on the next pages.

The non-overdue principal of loans registered in the register of mortgage covered bonds collateral that constitute the collateral for the issue of mortgage covered bonds as at:

- 30 June 2015 amounted to PLN 4,583,902 thousand,
- 31 December 2014 amounted to PLN 3,263,858 thousand,
- 30 June 2014 amounted to PLN 2,765,397 thousand,

In addition, the basis for the issue of mortgage covered bonds as at 31 December 2014 were treasury bonds with the nominal value of PLN 160,000 thousand. In turn, as at 30 June 2014 and 30 June 2015, there was no additional collateral for the issue of mortgage covered bonds.

According to the Act on covered bonds and mortgage banks, the Bank is eligible to refinance mortgage-backed loans not exceeding 60% of the mortgage lending value with the proceeds from issue of covered bonds. The value of loan receivables constituting collateral for the issue of mortgage covered bonds not exceeding 60% of the bank and mortgage value of real estate as at:

- 30 June 2015 amounted to PLN 3,739,746 thousand,
- 31 December 2014 amounted to PLN 2,653,030 thousand,
- 30 June 2014 amounted to PLN 2,298,516 thousand.

Both as at 30 June 2015, 31 December 2014 and 30 June 2014, mortgage covered bonds were backed by loan receivables secured by mortgages entered as the first item in the mortgage register.

The non-overdue principal of loans registered in the register of public sector covered bonds collateral that constitute the collateral for the issue of public sector covered bonds as at:

- 30 June 2015 amounted to PLN 398,264 thousand,
- 31 December 2014 amounted to PLN 421,805 thousand,
- 30 June 2014 amounted to PLN 441,027 thousand.

The nominal value of treasury bonds constituting additional collateral for the issue of public sector covered bonds as at:

- 30 June 2015 amounted to PLN 20,000 thousand,
- 31 December 2014 amounted to PLN 30,000 thousand.

As at 30 June 2014, there was no additional collateral for the issue of public sector covered bonds.

The minimum level of collateral for covered bonds in trading required by law is specified as the equivalent of the nominal amount of the issued mortgage covered bonds.

The nominal value of mortgage covered bonds quoted on two markets as part of the CATALYST system: The Regulated Market of Securities maintained by BondSpot S.A. and the regulated parallel stock exchange market of GPW w Warszawie S.A. (Warsaw Stock Exchange) as at:

- 30 June 2015 amounted to PLN 3,352,668 thousand,
- 31 December 2014 amounted to PLN 2,677,214 thousand,
- 30 June 2014 amounted to PLN 2,164,606 thousand.

The nominal value of public covered bonds quoted on two markets as part of the CATALYST system: The Regulated Market of Securities maintained by BondSpot S.A. and the regulated parallel stock exchange market of GPW w Warszawie S.A. (Warsaw Stock Exchange) as at:

- 30 June 2015 amounted to PLN 350,000 thousand,
- 31 December 2014 amounted to PLN 350,000 thousand,
- 30 June 2014 amounted to PLN 350,000 thousand.

ended 30 June 2015 (PLN '000)

Debt securities issued as at 30 June 2015 (unaudited)

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2015	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Covered bonds (PLN)	100 000	3,02%	Mortgage covered bonds register	2015-09-28	100 751
Covered bonds (PLN)	100 000	2,93%	Public sector covered bonds register	2015-11-30	100 244
Covered bonds (PLN)	200 000	2,80%	Mortgage covered bonds register	2016-04-20	200 987
Covered bonds (PLN)	200 000	2,75%	Mortgage covered bonds register	2017-06-16	199 969
Covered bonds (PLN)	100 000	2,92%	Mortgage covered bonds register	2015-07-07	101 399
Covered bonds (PLN)	200 000	2,95%	Mortgage covered bonds register	2017-04-20	200 910
Covered bonds (PLN)	200 000	3,46%	Mortgage covered bonds register	2018-06-15	199 900
Covered bonds (EUR)	10 000	1,98%	Mortgage covered bonds register	2017-10-19	42 064
Covered bonds (PLN)	100 000	3,42%	Mortgage covered bonds register	2016-11-15	100 353
Covered bonds (PLN)	100 000	3,30%	Public sector covered bonds register	2015-07-28	101 383
Covered bonds (PLN)	150 000	3,45%	Public sector covered bonds register	2016-09-28	151 177
Covered bonds (PLN)	80 000	2,79%	Mortgage covered bonds register	2019-06-21	79 962
Covered bonds (EUR)	30 000	2,75%	Mortgage covered bonds register	2020-07-28	127 169
Covered bonds (EUR)	50 000	1,13%	Mortgage covered bonds register	2018-10-22	209 780
Covered bonds (EUR)	7 500	0,93%	Mortgage covered bonds register	2018-02-15	31 437
Covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	2029-02-28	33 266
Covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	2029-03-15	62 443
Covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	2029-05-30	82 524
Covered bonds (PLN)	300 000	2,93%	Mortgage covered bonds register	2022-07-28	302 452
Covered bonds (PLN)	200 000	2,83%	Mortgage covered bonds register	2023-02-20	201 125
Covered bonds (EUR)	20 000	1,12%	Mortgage covered bonds register	2018-10-22	84 157
Covered bonds (EUR)	50 000	0,88%	Mortgage covered bonds register	2019-10-15	209 591
Covered bonds (PLN)	200 000	2,44%	Mortgage covered bonds register	2022-04-28	200 054
Covered bonds (EUR)	20 000	1,14%	Mortgage covered bonds register	2022-02-25	83 343
Covered bonds (PLN)	250 000	2,53%	Mortgage covered bonds register	2023-10-16	250 116
Covered bonds (EUR)	11 000	1,29%	Mortgage covered bonds register	2025-04-24	45 855
Covered bonds (EUR)	50 000	0,68%	Mortgage covered bonds register	2020-06-24	209 138
Bonds (PLN)	20 000	3,48%	no collateral	2019-01-16	20 280
Bonds (PLN)	60 000	3,10%	no collateral	2019-01-21	60 257
Debt securities in issue (carrying amount)					**3 792 086**

ended 30 June 2015 (PLN '000)

Debt securities issued as at 31 December 2014

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2014	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Covered bonds (PLN)	100 000	3,03%	Mortgage covered bonds register	2015-05-15	100 342
Covered bonds (PLN)	100 000	3,56%	Mortgage covered bonds register	2015-07-07	101 695
Covered bonds (PLN)	100 000	3,99%	Public sector covered bonds register	2015-07-28	101 663
Covered bonds (PLN)	100 000	3,66%	Mortgage covered bonds register	2015-09-28	100 891
Covered bonds (PLN)	100 000	3,23%	Public sector covered bonds register	2015-11-30	100 240
Covered bonds (PLN)	200 000	3,15%	Mortgage covered bonds register	2016-04-20	201 072
Covered bonds (PLN)	150 000	4,09%	Public sector covered bonds register	2016-09-28	151 384
Covered bonds (PLN)	100 000	3,73%	Mortgage covered bonds register	2016-11-15	100 343
Covered bonds (PLN)	200 000	3,30%	Mortgage covered bonds register	2017-04-20	201 000
Covered bonds (PLN)	200 000	3,03%	Mortgage covered bonds register	2017-06-16	199 944
Covered bonds (PLN)	200 000	3,74%	Mortgage covered bonds register	2018-06-15	199 882
Covered bonds (PLN)	80 000	3,05%	Mortgage covered bonds register	2019-06-21	79 963
Covered bonds (PLN)	300 000	3,62%	Mortgage covered bonds register	2022-07-28	303 335
Covered bonds (PLN)	200 000	3,62%	Mortgage covered bonds register	2023-02-20	202 017
Covered bonds (EUR)	10 000	2,08%	Mortgage covered bonds register	2017-10-19	42 745
Covered bonds (EUR)	7 500	1,10%	Mortgage covered bonds register	2018-02-15	31 945
Covered bonds (EUR)	50 000	1,21%	Mortgage covered bonds register	2018-10-22	213 164
Covered bonds (EUR)	20 000	1,12%	Mortgage covered bonds register	2018-10-22	85 000
Covered bonds (EUR)	50 000	0,95%	Mortgage covered bonds register	2019-10-15	212 724
Covered bonds (EUR)	30 000	2,75%	Mortgage covered bonds register	2020-07-28	127 338
Covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	2029-02-28	34 407
Covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	2029-03-15	64 564
Covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	2029-05-30	85 223
Bonds (PLN)	50 000	3,31%	no collateral	2015-03-16	50 072
Bonds (PLN)	20 000	4,14%	no collateral	2019-01-16	20 342
Bonds (PLN)	60 000	3,48%	no collateral	2019-01-21	60 293
Debt securities in issue (carrying amount)					**3 171 588**

ended 30 June 2015 (PLN '000)

Debt securities issued as at 30 June 2014 (unaudited)

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2014	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Covered bonds (PLN)	200 000	4,12%	Mortgage covered bonds register	2014-07-28	203 461
Covered bonds (PLN)	100 000	4,10%	Mortgage covered bonds register	2015-09-28	100 982
Covered bonds (PLN)	100 000	3,98%	Mortgage covered bonds register	2014-11-28	100 342
Covered bonds (PLN)	100 000	3,92%	Public sector covered bonds register	2015-11-30	100 272
Covered bonds (PLN)	200 000	3,88%	Mortgage covered bonds register	2016-04-20	201 229
Covered bonds (PLN)	100 000	3,75%	Mortgage covered bonds register	2015-05-15	100 411
Covered bonds (PLN)	200 000	3,68%	Mortgage covered bonds register	2017-06-16	199 898
Covered bonds (PLN)	100 000	3,59%	Mortgage covered bonds register	2015-07-07	101 641
Covered bonds (PLN)	200 000	4,03%	Mortgage covered bonds register	2017-04-20	201 157
Covered bonds (PLN)	200 000	4,39%	Mortgage covered bonds register	2018-06-15	199 832
Covered bonds (EUR)	10 000	2,33%	Mortgage covered bonds register	2017-10-19	41 734
Covered bonds (PLN)	100 000	4,45%	Mortgage covered bonds register	2016-11-15	100 425
Covered bonds (PLN)	100 000	4,02%	Public sector covered bonds register	2015-07-28	101 599
Covered bonds (PLN)	150 000	4,53%	Public sector covered bonds register	2016-09-28	151 519
Covered bonds (PLN)	80 000	3,70%	Mortgage covered bonds register	2019-06-21	79 975
Covered bonds (EUR)	30 000	2,75%	Mortgage covered bonds register	2020-07-28	125 823
Covered bonds (EUR)	50 000	1,46%	Mortgage covered bonds register	2018-10-22	208 108
Covered bonds (EUR)	7 500	1,19%	Mortgage covered bonds register	2018-02-15	31 165
Covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	2029-02-28	32 964
Covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	2029-03-15	61 868
Covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	2029-05-30	81 779
Bonds (PLN)	50 000	3,93%	no collateral	2015-03-16	50 062
Bonds (PLN)	50 000	3,62%	no collateral	2014-10-06	50 415
Bonds (PLN)	20 000	3,62%	no collateral	2014-10-22	20 136
Bonds (PLN)	20 000	4,17%	no collateral	2019-01-16	20 333
Bonds (PLN)	60 000	4,17%	no collateral	2019-01-21	60 341
Short-term issues (with original maturity of up to 1 year)					
Bonds (PLN)	15 000	3,62%	no collateral	2014-07-15	15 114
Bonds (PLN)	35 000	3,57%	no collateral	2014-10-27	35 213
Bonds (PLN)	40 000	3,35%	no collateral	2014-07-07	39 978
Debt securities in issue (carrying amount)					**2 817 776**

Condensed Interim Financial Statements for the 6 months ended 30 June 2015 (PLN '000)

Movements in the balance of debt securities issued

	Period from 01.01.2015 to 30.06.2015 unaudited	Period from 01.01.2014 to 31.12.2014	Period from 01.01.2014 to 30.06.2014 unaudited
As at the beginning of the period	**3 171 588**	**2 661 407**	**2 661 407**
Increase (due to)	837 691	1 278 672	413 304
- issue	785 713	1 154 178	360 652
- accrued interest	47 945	104 705	50 917
- exchange differences	4 033	19 789	1 735
Decrease (due to)	(217 193)	(768 491)	(256 935)
- redemption	(150 000)	(665 000)	(205 000)
- interest payment	(52 900)	(103 491)	(50 906)
- exchange differences	(14 293)	-	(1 029)
As at the end of the period	**3 792 086**	**3 171 588**	**2 817 776**
Short-term (up to 1 year)	609 419	564 374	623 170
Long-term (over 1 year)	3 182 667	2 607 214	2 194 606
Fixed interest rate debt securities issued	518 756	396 532	342 411
Floating interest rate debt securities issued	3 273 330	2 775 056	2 475 365

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed interim financial statements for the first half of 2015 and comparative data for 6 months of 2014, as at 31 December 2014 and as at 30 June 2014 fulfill the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

2. Consistency of accounting principles and calculation methods applied to the drafting of the half year report and the last annual financial statements

A detailed description of the accounting policy principles of the Bank is presented under Note 2, 3 and 4 of the notes to the condensed interim financial statements for the first half of 2015. The accounting policies adopted by the Bank were applied consistently over all periods presented in the financial statements.

3. Seasonal or cyclical nature of the business

In the first half of 2015, as well as in the comparative periods presented, business operations of the Group did not involve significant events that would be subject to seasonal or cyclical variations.

4. Nature and values of items affecting assets, liabilities, equity, net profit/(loss) or cash flows, which are extraordinary in terms of their nature, magnitude or exerted impact

In the first half of 2015, as well as in the comparative periods presented, the above events did not occur at the Bank.

5. Nature and amounts of changes in estimate values of items, which were presented in previous interim periods of the current reporting year, or changes of accounting estimates indicated in prior reporting years, if they bear a substantial impact upon the current interim period

In the first half of 2015, as well as in the comparative periods presented, the above events did not occur at the Bank.

6. Issues, redemption and repayment of debt securities and equity securities

Data on the issue, redemption of debt securities has been presented in Note 20 of these condensed interim financial statements.

7. Dividends paid (or declared) altogether or per one share, broken down by ordinary shares and other shares

The Bank does not plan to pay a dividend for 2015, nor did it pay any for 2014.

8. Significant events after the end of the first half of 2015, which are not reflected in the condensed interim financial statements

Increase of the Bank's share capital

On 24 July 2015, the Extraordinary General Shareholders' Meeting of BRE Bank Hipoteczny S.A. adopted Resolution No 1 on the increase of the share capital and the exclusion of shareholders from the pre-emptive right to shares pursuant to which the share capital of mBank Hipoteczny S.A. was increased by PLN 14,000 thousand, i.e. to PLN 299,000 thousand, by way of issuing 140,000 ordinary registered shares with a nominal value of PLN 100 each and issue price of PLN 1,000 each. The new shares were offered for subscription to mBank S.A. through private placement. The shares were paid-up in full on 31 July 2015.

Therefore, the Bank's share capital as at the date of signing these financial statements amounts to:

- paid up share capital — PLN 299,000 thousand, including paid up and unregistered share capital — PLN 14,000 thousand,
- share premium — PLN 215,856 thousand.

Decision of the Polish Financial Supervision Authority concerning the issue of the Bank's shares of 13 November 2014

In accordance with the decision of the Polish Financial Supervision Authority of 10 July 2015, the Bank, as of the date of the decision, may classify equity instruments in the form of 100,000 ordinary registered shares with a nominal value of PLN 10,000 thousand and issue price of PLN 1,000 each issued on 13 November 2014 into common equity Tier 1, i.e. it may classify the following amounts in common equity Tier 1 in relation to the said issue:

- PLN 10,000 thousand of share capital,
- PLN 89,938 thousand of share premium.

As at 30 June 2015, the Bank's total capital ratio is 12.56%. Had the issue of instruments of 13 November 2014 not been included in common equity Tier 1, the common equity Tier 1 ratio would have amounted to 8.29%, while the Tier 1 capital ratio and the total capital ratio would have remained unchanged as at 30 June 2015.

9. Effect of changes in the structure of the entity in the first half of 2015, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

In the first half of 2015, the above events did not occur at the Bank.

10. Changes in contingent liabilities and commitments

In the first half of 2015, as well as in the comparative periods presented, there were no significant changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Bank.

11. Write-offs of the value of inventories down to net realisable value and reversals of such write-offs

In the first half of 2015, the Bank verified the valuation of repossessed real properties and made an impairment write-down on inventories in the amount of PLN 77 thousand.

In the first half of 2014, the Bank did not make any changes to write-downs on inventories.

12. Revaluation write-offs on account of impairment of tangible fixed assets, intangible assets, or other assets as well as reversals of such write-offs

In the first half of 2015, the Bank increased the amount of impairment write-downs on receivables from debtors by PLN 1,665 thousand (Note 12). As at 30 June 2015, the total amount of the write-downs on receivables (excluding loans) from debtors amounted to PLN 1,866 thousand and was presented in Note 18 as a reduction of the item "debtors".

In the first half of 2014, the said events did not occur.

13. Revaluation write-offs on account of impairment of financial assets

Data regarding write-offs on account of impairment of financial assets are presented under Note 10 of these condensed interim financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2015, as well as in the comparative periods presented, the above events did not occur at the Bank.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2015, as well as in the comparative periods presented, there were no material transactions of acquisition or disposal of any tangible fixed assets.

16. Material liabilities assumed on account of acquisition of tangible fixed assets

In the first half of 2015, as well as in the comparative periods presented, the above events did not occur at the Bank.

17. Information about changing the process (method) of measurement the fair value of financial instruments

In the first half of 2015, as well as in the comparative periods, the above events did not occur at the Bank.

18. Changes in the classification of financial assets due to changes of purpose or use of these assets

In the first half of 2015, the above events did not occur at the Bank.

In the first half of 2014, the Bank implemented fair value hedge accounting in relation to issued fixed-interest rate mortgage covered bonds issued. Interest Rate Swap is the hedging instrument swapping the fixed interest rate for a variable interest rate. The Bank has been applying hedge accounting since 19 May 2014.

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19. Corrections of errors from previous reporting periods

In the first half of 2015, as well as in the comparative periods presented, there were no corrections of errors from previous reporting periods.

20. Default or infringement of a loan agreement or failure to initiate composition proceedings

In the first half of 2015, as well as in the comparative periods presented, the above events did not occur at the Bank.

21. Position of the management on the probability of performance of previously published profit/loss forecasts for the year in light of the results presented in the half year report compared to the forecast

mBank Hipoteczny S.A. did not publish a performance forecast for the year 2015.

22. Registered share capital

As at 30 June 2015 and as at 31 December 2014, the total number of ordinary shares was 2,850,000 shares with a nominal value of PLN 100 per share. As at 30 June 2014, the total number of ordinary shares was 2,750,000 shares with a nominal value of PLN 10 per share. All shares in issue are fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 June 2015							
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	08.01.2003	01.01.2013
registered	-	-	100 000	10 000 000	Cash	30.12.2014	01.01.2015
Total number of shares			**2 850 000**				
Total registered share capital				**285 000 000**			

23. Change in Bank shares and rights to shares (options) held by managers and supervisors

As at the date of publishing the condensed interim financial statements for the first half of 2015 and as the end of the previous periods presented in the statements, the Members of the Bank's Management Board had no and they have no options for the Bank's shares.

In the first half of 2015, as well as in the comparative periods presented, Member of the Bank's Supervisory Board held no shares of the Bank and no options for the Bank's shares.

24. Litigation pending before a court, an appropriate arbitration authority or public administration authority

In the first half of 2015, as well as in the comparative periods presented, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority which represent at least 10% of the Bank's equity.

Information about litigation pending before a court, an appropriate arbitration authority or public administration authority

1. As at 30 June 2015, proceedings were pending before the District Court in Poznań concerning an action brought by the Bank against a limited borrower who acquired a mortgaged real property from the Bank. Value of the subject of dispute is PLN 11,692 thousand.
2. The Bank acts as the assignee under an agreement for assignment of receivables in respect of an insurance policy. The assignment was made to secure a loan granted by the Bank to a borrower. The borrower had suffered a loss due to a real property fire. The Insurer paid compensation which did not cover the loss. The Bank, as an authorised entity under the policy, applied for compensation, at first by submitting a request for payment, and

ended 30 June 2015 (PLN '000)

subsequently, on 4 February 2014, by filing a lawsuit at the District Court in Warsaw, 20th Commercial Division, against the Insurer for the payment of compensation in the amount of PLN 18,494 thousand. After the lawsuit was filed the Insurer has voluntarily satisfied a part of the Bank's claim by paying to the Bank the net amount of PLN 6,523 thousand. On 24 February 2014 the Court issued a payment order instructing the Insurer to pay to the Bank the amount of PLN 18,494 thousand with the statutory interest. On 26 March 2014, the Insurer successfully filed an objection against the payment order. On 10 June 2014 the Bank filed a reply to the objection of the Insurer and extended the amount claimed by PLN 1,324 thousand by way of capitalised interest together with statutory interest due as from the date of filing the lawsuit until the date of payment. In November 2014, the case was submitted to mediation, however none of the parties agreed to the mediation. The date of the first hearing was appointed to 17 September 2015.

3. As at 30 June 2015, proceedings were pending before the District Court in Warsaw, 24th Civil Division, concerning an action brought by the Capital City of Warsaw against mBank Hipoteczny S.A. for the payment of the amount of PLN 39 thousand as a statutory interest on the annual fee for 2012 for the perpetual usufruct of a real property repossessed by the Bank in the course of collection from real property (adjudication of the perpetual usufruct right) located in Warsaw at ul. Nałęczowska 33/35. On 20 May 2015, the District Court in Warsaw issued a decision on the discontinuance of proceedings concerning the principal claim (which had been settled by the Bank), dismissed the claim of the City of Warsaw for the payment of statutory interest in the amount of PLN 39 thousand and ordered the Bank to pay the costs of the proceedings in the amount of PLN 9 thousand. On 23 June 2015, the Bank appealed against the decision on ordering the Bank to pay the costs of the proceedings, requesting that the court's decision be changed in this respect, i.e. not to order the Bank to pay the costs of the proceedings. As at 30 June 2015, the Bank had a provision for the above proceedings in the amount of PLN 48 thousand, of which PLN 11 thousand was recognised as costs in 2015 (Note 12) and the remaining amount was recognised as costs of the second half of 2014.

25. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2015, 31 December 2014, and 30 June 2014.

		30.06.2015 unaudited	31.12.2014	30.06.2014 unaudited
1.	**Off-balance sheet liabilities granted and received**	**1 170 090**	**1 255 997**	**1 270 419**
	Liabilities granted	**999 763**	**1 085 818**	**1 101 285**
	Financial liabilities	999 763	1 085 818	1 101 285
	Liabilities received:	**170 327**	**170 179**	**169 134**
	Financial liabilities	170 327	170 179	169 134
2.	**Derivative financial instruments**	**3 478 115**	**3 800 810**	**2 942 194**
	1. Interest rate derivative instruments	2 040 211	2 492 788	1 632 318
	2. Foreign exchange derivative instruments	1 437 904	1 308 022	1 309 876
	Total off-balance sheet items	**4 648 205**	**5 056 807**	**4 212 613**

26. Related party transactions

MLV 45 sp. z o.o. spółka komandytowa is the direct parent entity of mBank Hipoteczny S.A. mBank S.A. is the parent entity of MLV 45 sp. z o.o. spółka komandytowa (formerly: BRE Holding Sp. z o.o.). Commerzbank AG is the ultimate parent company. Commerzbank AG is the direct parent entity of mBank S.A.

All the transactions between the Bank and its related entities were, according to the Management Board, typical and routine transactions concluded on arm's length terms, and their nature and terms resulted from the current operating activities conducted by the Bank. Transactions with related entities concluded in the normal course of operating activities include loans, deposits, liabilities in respect of debt securities in issue and derivative transactions.

Agreements concluded in the first half of 2015 with mBank S.A. on the transfer of a portfolio of retail loans secured with a mortgage on real estate:

1. Portfolio transfer agreement concluded on 30 January 2015, under which mBank Hipoteczny S.A. acquired from mBank S.A. a retail portfolio of mortgage-backed loans with the fair value of PLN 114,138 thousand.
2. Portfolio transfer agreement concluded on 31 March 2015, under which mBank Hipoteczny S.A. acquired from mBank S.A. a retail portfolio of mortgage-backed loans with the fair value of PLN 104,171 thousand.
3. Portfolio transfer agreement concluded on 29 May 2015, under which mBank Hipoteczny S.A. acquired from mBank S.A. a retail portfolio of mortgage-backed loans with the fair value of PLN 109,051 thousand.

The above agreements were concluded under a framework agreement on the acquisition of portfolios of receivables in respect of mortgage-backed loans in order to refinance them through the issue of mortgage covered bonds and on entrusting mBank S.A. with further servicing of the acquired portfolios by mBank Hipoteczny S.A. signed on 28 August 2014.

The table below presents the amounts of the Bank's transactions with related entities. The amounts of transactions include assets, liabilities as at 30 June 2015, 31 December 2014 and 30 June 2014 and related costs and income in the periods from 1 January to 30 June 2015, 1 January to 31 December 2014 and from 1 January to 30 June 2014.

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
As at the end of the period	**30.06.2015** unaudited	**31.12.2014**	**30.06.2014** unaudited	**30.06.2015** unaudited	**31.12.2014**	**30.06.2014** unaudited	**30.06.2015** unaudited	**31.12.2014**	**30.06.2014** unaudited
Statement of financial standing									
Assets	2 094	4 317	-	83 213	68 412	23 075	-	-	-
Liabilities	4 224	4 374	-	2 952 314	2 502 849	1 548 915	628 510	425 888	208 108
Contingent liabilities									
Liabilities received	-	-	-	170 327	170 179	169 034	-	-	-
Derivative instruments (purchase, sales)				-					
IRS contracts	-	-	-	2 040 211	2 492 788	1 632 318	-	-	-
FX SWAP contracts	-	-	-	1 434 550	1 306 742	1 307 382	-	-	-

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
Year ended	**30.06.2015** unaudited	**31.12.2014**	**30.06.2014** unaudited	**30.06.2015** unaudited	**31.12.2014**	**30.06.2014** unaudited	**30.06.2015** unaudited	**31.12.2014**	**30.06.2014** unaudited
Income statement									
Interest income	660	291	-	7 531	18 305	8 979	-	-	-
Interest expense	-	(212)	-	(26 111)	(42 015)	(18 799)	(2 313)	(3 226)	(1 563)
Fee and commission income	881	1 686	1 391	-	-	-	-	-	-
Fee and commission expense	-	(38)	(19)	(501)	(905)	(380)	-	-	-
Net trading income	-	-	-	(20 976)	12 859	4 304	-	-	-
Other operating income	-	-	-	70	240	98	-	-	-
Other operating expenses	(17)	(5)	(5)	(556)	-	-	-	-	-
Overhead costs	(633)	(1 099)	(486)	(1 705)	(3 364)	(1 492)	-	-	-

* The item "mBank Group companies" includes transactions with the following mBank Group companies: Aspiro S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance S.A., mLeasing, mLocum S.A., BRE Ubezpieczenia TUiR S.A. (data relating to transactions with the company in 2014), BRE Ubezpieczenia Sp. z o.o. (company acquired by Aspiro S.A. on 2 March 2015).

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

27. Loan, advance sureties granted or guarantees granted in excess of 10% of the equity

In the first half of 2015, as well as in the comparative periods presented, the above events did not occur at the Bank.

28. Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance and their changes as well as information relevant to an assessment of the issuer's capacity to meet its liabilities

By Resolution No 7/2015 of 31 March 2015, the Supervisory Board appointed Mr Grzegorz Trawiński a Member of the Management Board of mBank Hipoteczny S.A. as of 1 April 2015.

As at 30 June 2015, the composition of the Management Board was as follows:

- Piotr Cyburt — President of the Management Board
- Marcin Romanowski — Member of the Management Board
- Grzegorz Trawiński — Member of the Management Board
- Marcin Wojtachnio — Member of the Management Board

Signatures: Warsaw, 4 August 2015

President of the Management Board
Piotr Cyburt

Member of the Management Board
Marcin Romanowski

Member of the Management Board
Grzegorz Trawiński

Member of the Management Board
Marcin Wojtachnio

Financial Director
Milena Zwolińska-Grabowicz