mBank Hipoteczny S.A.

IFRS Condensed Financial Statements
for the first half of 2016

Selected financial data

The following selected financial data constitute supplementary information to the condensed financial statements of mBank Hipoteczny S.A. for the first half of 2016.

Selected financial data		in PLN `000		in EUR `000	
		1 half of 2016 period from 01.01.2016 to 30.06.2016 unaudited	1 half of 2015 period from 01.01.2015 to 30.06.2015 unaudited	1 half of 2016 period from 01.01.2016 to 30.06.2016 unaudited	1 half of 2015 period from 01.01.2015 to 30.06.2015 unaudited
I.	Interest income	147 875	120 387	33 758	29 120
II.	Fee and commission income	3 558	6 547	812	1 584
III.	Net trading income	2 024	(1 881)	462	(455)
IV.	Operating result	19 835	8 305	4 528	2 009
V.	Profit before income tax	13 387	8 305	3 056	2 009
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	13 766	4 956	3 143	1 199
VII.	Net cash flows from operating activities	(386 765)	(577 595)	(88 292)	(139 715)
VIII.	Net cash flows from investing activities	(3 127)	(2 860)	(714)	(692)
IX.	Net cash flows from financing activities	129 196	815 086	29 493	197 162
X.	Total net cash flows	(260 696)	234 631	(59 513)	56 755
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	4.60	1.74	1.05	0.42

Selected financial data		in PLN `000			in EUR `000		
		As at 30.06.2016 unaudited	As at 31.12.2015	As at 30.06.2015 unaudited	As at 30.06.2016 unaudited	As at 31.12.2015	As at 30.06.2015 unaudited
I.	Total assets	9 672 321	8 419 125	7 231 359	2 185 588	1 975 625	1 724 051
II.	Amounts due to other banks	2 910 403	2 959 741	2 429 053	657 644	694 530	579 118
III.	Amounts due to customers	295 296	265 509	223 337	66 726	62 304	53 246
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	895 003	782 336	628 445	202 238	183 582	149 830
V.	Share capital *	309 000	299 000	285 000	69 823	70 163	67 948
VI.	Number of shares *	3 090 000	2 990 000	2 850 000	3 090 000	2 990 000	2 850 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR) *	289.64	261.65	220.51	65.45	61.40	52.57
VIII.	Total capital ratio (%)	14.32	13.81	12.56	14.32	13.81	12.56

* The items include unregistered paid-up capital described in detail in Points 8 and 22 of Selected explanatory information.

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2016: EUR 1 = PLN 4.4255, 31 December 2015: EUR 1 = PLN 4.2615 and 30 June 2015: EUR 1 = PLN 4.1944
- for items of the income statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2016 and 2015: EUR 1 = PLN 4.3805 and EUR 1 = PLN 4.1341 respectively.

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Income statement

Total profit of mBank Hipoteczny S.A. for the first half of 2016 and the first half of 2015 relates to the result of continued operations.

	Note	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Interest income	5	147 875	120 387
Interest expense	5	(87 785)	(69 183)
Net interest income		**60 090**	**51 204**
Fee and commission income	6	3 558	6 547
Fee and commission expenses	6	(2 191)	(2 582)
Net fee and commission income		**1 367**	**3 965**
Net trading income, including:	7	2 024	(1 881)
Foreign exchange result		*2 323*	*707*
Other net trading income and result on hege accounting		*(299)*	*(2 588)*
Other operating income	8	1 813	250
Net impairment write-downs on loans and advances	9	(10 351)	(13 608)
Overhead costs	10	(31 191)	(26 766)
Amortisation and depreciation		(1 645)	(2 276)
Other operating expenses	11	(2 272)	(2 583)
Operating result		**19 835**	**8 305**
Taxes on the Bank balance sheet items		(6 448)	-
Profit before income tax		**13 387**	**8 305**
Income tax	23	379	(3 349)
Net profit		**13 766**	**4 956**
Net profit attributable to shareholders of the Bank		**13 766**	**4 956**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	12	**2 993 846**	**2 850 000**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	12	**4.60**	**1.74**

Explanatory notes and selected explanatory data presented on pages 10 to 59 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2016 PLN (000's)

Statement of comprehensive income

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Net profit	**13 766**	**4 956**
Other comprehensive income net of tax, including:	**(1 035)**	**(1 052)**
Items that may be reclassified to the income statement		
Change in valuation of available for sale financial assets (gross)	(1 278)	(1 298)
Deferred tax on valuation available for sale financial assets	243	246
Change in valuation of available for sale financial assets (net)	(1 035)	(1 052)
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	**12 731**	**3 904**
Net comprehensive income attributable to shareholders of the Bank	**12 731**	**3 904**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	**2 993 846**	**2 850 000**
Net comprehensive income per ordinary share / Diluted net comprehensive income per ordinary share (in PLN)	**4.25**	**1.37**

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IFRS Condensed Financial Statements for the first half of 2016 PLN (000's)

Statement of financial position

ASSETS	Note	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Cash and balances with the central bank		121 426	7 521	6 872
Amounts due from other banks	13	442	205 180	61 429
Derivative financial instruments	14	51 946	32 212	24 332
Loans and advances to customers	15	8 391 043	7 391 743	6 229 866
Investment securities available for sale	16	1 068 772	748 505	870 046
Intangible assets	17	10 226	8 152	6 219
Tangible fixed assets	18	6 944	7 523	6 676
Current income tax assets		610	1 597	-
Deferred income tax assets	23	10 680	7 213	11 670
Other assets, including:	19	10 232	9 479	14 249
- inventories		3 432	6 768	8 115
Total assets		**9 672 321**	**8 419 125**	**7 231 359**

LIABILITIES AND EQUITY		30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Liabilities				
Amounts due to other banks		2 910 403	2 959 741	2 429 053
Derivative financial instruments	14	11 680	3 770	21 981
Amounts due to customers	20	295 296	265 509	223 337
Debt securities in issue	21	5 287 777	4 164 902	3 792 086
Hedge accounting adjustments related to fair value of hedged items	7	46 794	21 530	12 888
Subordinated liabilities		200 452	200 899	100 227
Other liabilities and provisions	22	24 916	20 438	22 348
Current income tax liabilities		-		994
Total liabilities		**8 777 318**	**7 636 789**	**6 602 914**
Equity				
Share capital:		**614 792**	**514 856**	**374 938**
- Registered share capital		299 000	299 000	285 000
- Paid up unregistered capital		10 000	-	-
- Share premium		305 792	215 856	89 938
Retained earnings		**280 397**	**266 631**	**252 796**
- Profit from the previous years		266 631	247 840	247 840
- Profit for the current period		13 766	18 791	4 956
Other components of equity		**(186)**	**849**	**711**
Total equity		**895 003**	**782 336**	**628 445**
TOTAL LIABILITIES AND EQUITY		**9 672 321**	**8 419 125**	**7 231 359**
Total capital ratio (%)		**14.32**	**13.81**	**12.56**

Explanatory notes and selected explanatory data presented on pages 10 to 59 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2016 PLN (000's)

Statement of changes in equity

Changes in the period from 1 January 2016 to 30 June 2016 (unaudited)

	Share capital			Retained earnings				Other components of equity		Total
	Registered share capital	Paid up unregistered capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of available-for-sale financial assets	Actuarial gains and losses on post-employment benefits	
As at 1 January 2016	**299 000**	**-**	**215 856**	**211 340**	**36 500**	**18 791**	**-**	**825**	**24**	**782 336**
Net profit	-	-	-	-	-	-	13 766	-	-	13 766
Other comprehensive income (gross)	-	-	-	-	-	-	-	(1 278)	-	(1 278)
Deferred tax on other comprehensive income	-	-	-	-	-	-	-	243	-	243
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**13 766**	**(1 035)**	**-**	**12 731**
Transfer to general banking risk reserve	-	-	-	-	6 000	(6 000)	-	-	-	-
Transfer to supplementary capital	-	-	-	12 791	-	(12 791)	-	-	-	-
Issue of shares	-	10 000	90 000	-	-	-	-	-	-	100 000
Share issue costs	-	-	(64)	-	-	-	-	-	-	(64)
As at 30 June 2016	**299 000**	**10 000**	**305 792**	**224 131**	**42 500**	**-**	**13 766**	**(210)**	**24**	**895 003**

Changes in the period from 1 January 2015 to 31 December 2015

	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	-	-	-	-	-	18 791	-	-	18 791
Other comprehensive income (gross)	-	-	-	-	-	-	(1 132)	4	(1 128)
Deferred tax on other comprehensive income	-	-	-	-	-	-	215	(1)	214
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**18 791**	**(917)**	**3**	**17 877**
Transfer to general banking risk reserve	-	-	-	3 500	(3 500)	-	-	-	-
Transfer to supplementary capital	-	-	18 871	-	(18 871)	-	-	-	-
Issue of shares	14 000	126 000	-	-	-	-	-	-	140 000
Share issue costs	-	(82)	-	-	-	-	-	-	(82)
As at 31 December 2015	**299 000**	**215 856**	**211 340**	**36 500**	**-**	**18 791**	**825**	**24**	**782 336**

Explanatory notes and selected explanatory data presented on pages 10 to 59 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2016 PLN (000's)

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 period	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	-	-	-	-	-	-	-	-	-
As at 30 June 2015	**285 000**	**89 938**	**211 340**	**36 500**	**-**	**4 956**	**690**	**21**	**628 445**

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IFRS Condensed Financial Statements for the first half of 2016 PLN (000's)

Statement of cash flow

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
A. Cash flows from operating activities	**(386 765)**	**(577 595)**
Profit before income tax	**13 387**	**8 305**
Adjustments:	***(400 152)***	***(585 900)***
Income tax paid	(1 858)	(1 351)
Amortisation	1 645	2 276
Interest income (income statement)	(147 875)	(120 387)
Interest expenses (income statement)	87 785	69 183
Interest received	146 860	127 384
Interest paid	(4 353)	(7 806)
Change in balances with the central bank	1	-
Change in amounts due from other banks	(1)	-
Change in assets and liabilities on derivative financial instruments	(12 699)	22 288
Change in loans and advances to customers	(1 005 382)	(908 771)
Change in investment securities	(489 041)	66 382
Change in other assets	(753)	441
Change in amounts due to other banks	305 295	206 047
Change in amounts due to customers	29 349	(26 715)
Change in debt securities in issue	661 146	(10 259)
Change in hedge accounting adjustments related to fair value of hedged items	25 264	(12 875)
Change in other liabilities and provisions	4 478	8 259
Result on disposal of intangible assets and tangible fixed assets	(13)	4
Net cash from operating activities	**(386 765)**	**(577 595)**
B. Cash flows from investing activities	**(3 127)**	**(2 860)**
Investing activity inflows	**190**	**17**
Disposal of intangible assets and tangible fixed assets	190	17
Investment activity outflows	**(3 317)**	**(2 877)**
Purchase of intangible assets and tangible fixed assets	(3 317)	(2 877)
Net cash from investing activities	**(3 127)**	**(2 860)**
C. Cash flows from financing activities	**129 196**	**815 086**
Financing activities inflows	**1 069 166**	**1 375 550**
Loans and advances from banks	300 960	586 515
Due to the issue of debt securities	662 665	785 713
Due to the issue of shares	99 937	-
Interest received from hedging derivative financial instruments	5 604	3 322
Financing activities outflows	**(939 970)**	**(560 464)**
Repayment of loans and advances from banks	(655 579)	(342 193)
Redemption of debt securities	(200 000)	(150 000)
Interest paid on loans received, debt securities in issue, subordinated loan	(84 391)	(68 271)
Net cash from financing activities	**129 196**	**815 086**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(260 696)**	**234 631**
Cash and cash equivalents as at the beginning of the reporting period, including:	**682 564**	**518 614**
Cash and balances with the central bank	7 521	7 669
Amounts due from other banks	205 180	30 972
Investment securities with maturity of up to 3 months from the date of purchase	469 863	479 973
Cash and cash equivalents as at the end of the reporting period, including:	**421 868**	**753 245**
Cash and balances with the central bank	121 426	6 872
Amounts due from other banks	442	61 429
Investment securities with maturity of up to 3 months from the date of purchase	300 000	684 944

Explanatory notes and selected explanatory data presented on pages 10 to 59 constitute an integral part of these condensed financial statements.

Explanatory notes to the condensed financial statements

1. Information on mBank Hipoteczny S.A.

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

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

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

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

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

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

Registered office of the Bank is located in Warsaw, at Armii Ludowej av. No. 26.

The Bank was established for an indefinite period of time.

mBank Hipoteczny S.A. is a specialised mortgage bank that plays a leading role on the commercial real estate financing market and issuing of covered bonds - debt securities through which the Bank finances its loan activities.

There are two business lines in the Bank:

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

Since the end of 2012, the Bank has not been providing financing to local government units or other entities with a surety of local government units. However, the Bank has a legacy portfolio of loan transactions for this segment which is the basis for the issue of public sector covered bonds.

Activities of mBank Hipoteczny S.A. are carried out in the segments described in detail in Note 4.

As at June 30, 2016 the employment in the Bank was 215 FTEs and 228 persons (June 30, 2015: 210 FTEs; 220 persons).

Average employment in the first half 2016 was 225 employees, in the first half 2015 it was 213 employees.

2. Description of the relevant accounting policies

The most important accounting policies applied to the drafting of these condensed financial statements are presented below. These policies were applied consistently over all presented periods, unless specified otherwise.

2.1. Accounting basis

The condensed financial statements of mBank Hipoteczny S.A. have been prepared for the 6-month period ended 30 June 2016. These condensed financial statements are standalone financial statements.

Both as at 30 June 2016 and as at 30 June 2015, mBank Hipoteczny S.A. did not have any subsidiaries.

These condensed financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, in particular in accordance with the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements.

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 2015.

The condensed 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 3.

2.2. Interest income and expenses

All interest income and expenses on financial instruments carried at amortised cost is recognised in the income statement using the effective interest rate method as well as interest income from assets held for trading and available for sale.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest expense to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Bank estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. 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 includes interest and commissions received or due on account of loans, inter-bank deposits, cash on bank accounts as well as investment securities recognised in the calculation of the effective interest rate.

Interest income reported by the Bank also include commission on early repayment of loans granted, recognised in the income statement on a one-off basis.

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the line Interest income/expense on derivatives classified into banking book. The Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking book.

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

Interest expenses include paid and accrued interests as well as commissions from deposits accepted from clients, interbank deposits, received loans, other financial liabilities with deferred payment term, subordinated loans, funds deposited in clients' bank accounts and own issued debt securities, which are recognized using the effective interest rate method.

Interests accrued on receivables for which impairment was found are recognised in interest income on the basis of interest rates used to discount future cash flows when calculating allowances for impairment. Those interests are credited to the income statement from part of equity possible to be recovered, i.e. with consideration of adjustment of impairment of exposure.

2.3. Fee and commission income and expenses

Fee and commission income is recognised on the accrual basis, at the time of performance of the respective services. Commissions for granted loans are recognised using the effective interest rate method and included in interest income. Commissions related to agreements that were not orginated on the date of collection or payment of commission adjust the value of effective interest rate on the date of disbursement of funds. Commissions for loan agreements that were not orginated are included as one-off items in the income statement on the date of termination of a loan agreement. Commissions for loan tranches (for exposure) placed at the disposal of a client are calculated evenly over the period of provision of the service. The amount of commission is recognized over time linearly over the period covering the transaction that is subject to commission. Income and cost for fees and commissions for which the method of effective interest rate is not applied are generally recognised in accordance with the accrual basis at the time of provision of the service.

Commission expenses related to amounts paid on received loans, issued securities adjust the value of effective interest rate on the date of the orgination of the funds or on the day of payment, if it took place after the day of orgniation of the funds, are presented in the line of interest expenses.

Commissions on other operations are included in the income statement as one-off items.

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

The Bank treats insurance products as bundled with financial instruments, in particular when insurance product is offered to the customer only with certain 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 insurance products which are not bundled with financial instruments.

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

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

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

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

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

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

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

2.5. Segment reporting

An operating segment is a component of the entity:

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

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

In accordance with IFRS 8, the Bank distinguished the following operating segments: "Commercial loans", "Retail loans", "Other loans" and "Non-allocated assets items", described in detail in Note 4.

2.6. Financial assets / financial liabilities

2.6.1. Financial assets

The Bank classifies its financial assets to the following categories:

- financial assets valued at fair value through the income statement;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale.

The classification of financial assets is determined by the Management at the time of their initial recognition. Financial assets at initial recognition are measured at fair value plus related transaction costs in case of a financial asset item not measured at fair value through profit or loss.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognized on the settlement date – the date on which the Bank delivers or receives the asset. Changes in fair value in the period between trade and settlement date with respect to assets carried at fair value is recognized in profit or loss or in other components of equity. Loans are recognized when cash is advanced to the borrowers. Derivative financial instruments are recognized beginning from the date of transaction.

A financial asset is de-recognized if Bank loses control over any contractual rights attached to that asset, which usually takes place if the financial instrument is disposed of or if all cash flows attached to the instrument are transferred to an independent third party.

<u>Financial assets valued at fair value through the income statement</u>

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale. Derivative instruments are also classified as "held for trading", unless they were designated for hedging according to IAS 39.

The Bank classifies derivative instruments as financial assets valued at fair value through profit or loss. In the reporting periods presented in these financial statements, the Bank did not classify any financial instruments at their initial recognition as financial assets measured 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 item Interest income/expense on derivatives classified into banking book or in the item Interest income/expense on derivatives concluded under the hedge accounting.

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.

Loans and receivables

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the Bank supplies monetary assets, goods or services directly to the debtor without any intention of trading the receivable.

Loans and receivables are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method.

Investments held to maturity

Investments held to maturity comprise listed on active markets financial assets, not classified as derivative instruments, where the payments are determined or possible to determine and with specified maturity dates, and which the Bank intends and is capable of holding until their maturity.

In the case of sale by the Bank before maturity of a part of assets held to maturity which cannot be deemed insignificant the held to maturity portfolio is tainted, and there with all the assets of this category are reclassified to the available for sale category.

In reporting periods presented in these financial statements, there were no assets held to maturity at the Bank.

Financial assets available for sale

Available for sale investments consist of investments which the Bank intends to hold for an undetermined period of time. They may be sold, e.g., in order to improve liquidity, in reaction to changes of interest rates, foreign exchange rates, or prices of equity instruments.

Interest income and expense from available for sale investments are presented in net interest income.

Available for sale financial assets and financial assets measured at fair value through the income statement are valued at the end of the reporting period according to their fair value. Loans and receivables, as well as investments held to maturity are measured at adjusted cost of acquisition (amortised cost), applying the effective interest rate method.

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

Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established. The fair value of quoted investments in active markets is based on current market prices. In reporting periods presented in these financial statements, there were no available for sale equity instruments at the Bank.

2.6.2. Financial liabilities

The Bank categorises its financial liabilities as follows:

- financial liabilities disclosed at the fair value through the income statement,
- other financial liabilities.

Financial liabilities measured at fair value through the income statement are:

- liabilities for held for trading incurred in order to achieve economic benefits resulting from short-term changes of prices and fluctuations of other market factors,

- other financial liabilities, regardless of intentions followed when concluding a contract, if they constitute one asset of portfolio of similar financial liabilities, in relation to which there is a high probability of realisation of expected economic benefits in a short-term,
- derivative financial instruments,
- financial liabilities disclosed at the fair value through the income statement by Bank's decision.

Apart from derivative instruments the Bank did not classify any other financial liability as measured at the fair value through the income statement.

Other financial liabilities include in particular:

- fund on current accounts,
- deposits from clients,
- subordinated loans received,
- loans received,
- other financial liabilities with deferred payment term,
- debt securities issued by the Bank (covered bonds and bonds),
- trade payables.

Other financial liabilities are valued at the depreciated cost using the effective interest rate method.

2.7. Offsetting financial instruments

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

2.8. Impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Bank estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank measures the impairment of credit exposures in accordance with the International Accounting Standard No 39.

For the purposes of impairment analysis, four portfolios have been distinguished at the Bank:

- the commercial portfolio,
- retail loan portfolio acquired in cooperation with mBank S.A.,
- portfolio of loans to local government units, including loans guaranteed by local government units, hereinafter referred to as the "LGU portfolio",
- portfolio of other retail loans.

The commercial portfolio is divided into two sub-portfolios to distinguish between commercial loans (development loans, commercial loans and loans to legal entities) and other loans to sole traders.

A credit exposure provides indication of impairment where an indication of default has been identified for the debtor (contract holder). mBank Hipoteczny applies a uniform definition of default in all areas of credit risk management, including for the purpose of calculating allowances, provisions and capital requirements. The definition of default is based on the definition contained in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (CRR Regulation).

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:

- any exposure of the customer towards the Bank or the Bank's parent is past due by over 90 days, and the overdue amount exceeds PLN 500 for retail customers and PLN 3,000 for other customers,
- 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);
- classification of the entity as "in default" by the Bank's parent company.

For the retail portfolio acquired in cooperation with mBank S.A., the threshold amount of PLN 500 is exceeded where the total overdue amount on all credit exposures of the debtor towards the Bank and mBank S.A. (past due by over 31 days) exceeds PLN 500.

Reclassification of at least one liability of the customer to the category of default causes the reclassification of all liabilities of the customer to the category of default.

The following elements correspond to the deterioration of credit quality of a customer/transaction in accordance with the adopted definition:

- recognition of an impairment charge due to a visible deterioration of creditworthiness of the debtor;
- Bank's disposal of exposure at a significant economic loss associated with changes of its creditworthiness;
- 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;
- 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;
- 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;

For commercial loan portfolios, the LGU portfolio and other retail loans, apart from the stringent premises determining the occurrence of a default event (listed above), 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.

In the case of assets for which 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>

The calculation of loan loss provisions 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), based on group models applicable in the mBank Group (the Bank is a local user). These parameters are subject to adjustments in order to comply with applicable regulations.

The estimate of loan loss provisions for balance sheet credit exposures and provisions for off-balance sheet credit exposures for impaired transactions is made based on the LGD model for defaulted customers. On the basis of historical data, the model estimates the future discounted recovery depending on the type of transaction, collateral level, the period of customers' default and the occurrence of a delay.

Commercial loan portfolio, LGU portfolio and portfolio of other retail loans

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

In the event of lack of identification of impairment in relation to credit exposure, the lon loss provisions for 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, the Bank 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. 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.

Where indicators of impairment are identified, the Bank, for the retail and LGU portfolio, calculates impairment allowances in a case-by-case analysis. The process of calculation in the case-by-case analysis consists in:

- determining the estimated future cash flows (repayments) both from the collateral and repayments made by borrowers, taking into account planned costs,
- 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,
- accouting for loan loss provisions.

If there are impairment indicatiors and the individual analysis of a given credit exposure does not show any impairment, the loan loss provision is calculated based on portfolio analysis parameters.

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

Uncollectible loans are written off against the related loan loss provision. 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 net impairment losses 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 loan loss provision 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.

Financial assets available for sale

At the end of the reporting period the Bank estimates whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of instruments classified as investments available for sale, a significant or prolonged decline in the fair value of the security below its cost resulting from higher credit risk is considered when determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value less impairment of relevant asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses concerning equity instruments recorded in the income statement are not reversed through the income statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the income statement, then the respective impairment loss is reversed in the income statement.

Renegotiated agreements

The Bank considers renegotiations on contractual terms of loans and advances as impairment indicator unless the renegotiation was not due to the situation of the debtor but had been carried out on normal business terms. In such a case the Bank makes an assessment whether the impairment should be recognised on either individual or group basis.

2.9. Cash and cash equivalents

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

2.10. Derivative financial instruments and hedge accounting

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

The best fair value indicator for a derivative instrument at the time of its initial recognition is the price of the transaction (i.e., the fair value of the paid or received consideration) unless the fair value of the particular instrument may be determined by comparison with other current market transactions concerning the same instrument (not modified) or relying on valuation techniques based exclusively on market data that are available for observation. 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 recognized 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:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value,
- 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 hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Fair value hedges

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in the income statement together with any changes in the fair value of the hedged liability that are attributable to the hedged risk.

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

2.11. Intangible assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction or modernisation) less any accumulated amortization and any impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets. If for a given intangible asset expected period of useful life is different than the period specified below, the period of amortisation for a given asset may be determined with consideration of this difference. Expenditures on an intangible asset are included in costs as they are incurred, unless they constitute an element of the purchase price or cost of creation of an intangible asset that meets the criteria of recognition.

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

Computer software

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

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

Development costs

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

"Development costs" useful lives are finite and the amortization period does not exceed 5 years. Amortization rates are adjusted to the period of economic utilisation.

Development expenditure comprises all expenditure that is directly attributable to research and development activities.

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

2.12. Tangible fixed assets

The balance sheet value is the purchase price or cost of production of a given asset decreased by the total value of amortisation write-offs and the total amount of impairment losses.

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

The value, which is either a purchase price or cost of production of specific assets, reduced by the final value of this asset, should be amortised.

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

The recoverable value corresponds to the net selling price of an asset or its use value depending on which is higher.

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

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

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

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

<u>Useful lives of individual groups of tangible fixed assets amount to:</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 for a given tangible fixed asset expected useful life is different than the one specified above, the period of amortisation for a given asset may be determined with consideration of this difference.

Depreciable fixed assets are tested for impairment always whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at the end of each reporting period. The value of a fixed asset carried in the statement of financial position is reduced to the level of its recoverable value if the carrying value in the statement of financial position exceeds the estimated recoverable amount. The recoverable value is the higher of two amounts: the fair value of the fixed asset reduced by its selling costs and the value in use.

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

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

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

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

2.13. Deferred income tax

Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax. Temporary differences are differences arising between the carrying amount of an asset or liability and its tax base.

Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value.

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

The Bank presents the deferred income tax assets and liabilities netted in the statement of financial position separately for each subsidiary undergoing consolidation. Such assets and provisions may be Revaluation of non-financial assets available for sale and due to actuarial profits and losses on valuation of pension benefits is recognised in the same manner as revaluation and actuarial profits and losses, directly in the other comprehensive income.

This Regulation shall come into force on 1 January 2015.

2.14. Inventories

Assets repossessed for debt are classified by the Bank as inventories. At initial recognition assets repossessed for debt are stated at the lower of: purchase price or net sales price. Net realisable value is the estimated selling price in the ordinary course of business, less 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 as "Other operating income".

2.15. Prepayments, accruals and deferred income

The Bank recognises prepayments if the costs incurred relate to future reporting periods. Prepayments are presented in the statement of financial position under "Other assets".

Accrued expenses are liabilities payable for goods and services that were received/provided, but were not paid, invoiced or officially agreed with the supplier, including amounts due to employees. Deferred income includes received amounts of future benefits. Accruals and deferred income are presented in the statement of financial position under the item "Other liabilities and provisions".

2.16. Provisions

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

2.17. Retirement and other employee benefits

Provision for retirement and similar benefits

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

Phantom share-based benefits settled in cash

The Bank runs a remuneration program for the Management Board and persons 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. The costs are accounted for over the vesting period and recognised in the item "Overhead costs". 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 average valuation of these shares obtained on the basis of two values: the phantom share value at the end of the annual period preceding the payment date and the phantom share value at the end of the first half of the year in which the payment is due in a given reporting period. The aforementioned average value is multiplied by the number of phantom shares to be executed in a given period, and the outcome determines the amount of the cash payment resulting from phantom shares held.The final value of the bonus, which constitutes the product of the number of shares, and their expected value on the balance sheet date preceding the implementation of each of deferred trenches is actuarially discounted on the reporting day. The discounted amount is reduced by actuarially discounted amount of annual allocation to the reserve for the same day. The actuarial discount means the product of financial discount and probability of reaching the moment of complete purchase of entitlements to each of deferred trenches by each of participants individually. Amounts of annual allocations are calculated in accordance with projected unit credit method. The probability referred to above was established using Multiple Decrement Model, where the three following risks were taken into account: the probability of dismissal from work, risk of total incapacity to work, risk of death.

Pursuant to the Resolution of the Supervisory Board No 14/2016 of 18 April 2016, the amended Policy for remuneration of persons having a material impact on the risk profile in mBank Hipoteczny S.A. was approved. The amendment concerned the calculation of average value of the phantom shares for the execution of non-deferred non-cash portion and deferred non-cash tranches. Before the amendment, the value of shares was defined as the value as at the end of the annual period preceding the payment date. At present, the average phantom share value is calculated as the sum of phantom share values as at the end of the annual period preceding the payment date and the phantom share value at the end of the first half of the year in which the payment is due, divided by two.

2.18. Issue of securities

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

2.19. Loans and advances received and deposits accepted

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

2.20. Equity

Equities consist of capitals and funds produced by the Bank in accordance with specified provisions of law, i.e. appropriate acts, the Articles of Association.

Registered share capital

Share capital is presented at its nominal value, in accordance with the Articles of Association and with the entry in the National Court Register.

Paid unregistered share capital

Paid-up capital not entered into the 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 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 Articles of Association or in other legal regulations,
- retained earnings from the previous year,
- net result for the current year.

Other components of equity

Other equity items include amount from valuation of available for sale financial instruments and actuarial of employee benefits after the period of employment.

2.21. Leasing

The Bank acts as the lessee. Leasing agreements in the Bank are operational leasing agreements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. No financial lease agreements were concluded by the Bank.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement and assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

2.22. Valuation of items denominated in foreign currencies

Functional currency and presentation currency

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

Transactions and balances

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

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

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

2.23. New standards, interpretations and amendments to published standards

These condensed financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2016.

Published Standards and Interpretations which have been issued and binding for the Bank for annual periods starting on 1 January 2016

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.
- Improvements to IFRSs 2010 - 2012, published by the International Accounting Standards Board on 12 December 2013, approved by European Union on 17 December 2014, in majority 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.
- Amendments to IAS 1, Disclosure initiative, published by the International Accounting Standards Board on 18 December 2014 approved by European Union on 18 December 2015 and binding for annual periods starting on or after 1 January 2016.
- 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, approved by European Union on 2 December 2015, binding for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants published by the International Accounting Standards Board on 30 June 2014, approved by European Union on 23 November 2015, binding for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 27, Equity method in separate financial statements, published by the International Accounting Standards Board on 12 August 2014, approved by European Union on 18 December 2015, binding for annual periods beginning on or after 1 January 2016.
- IFRS 11 (Amended), Accounting for acquisitions of interests in joint operations, published by the International Accounting Standards Board on 6 May 2014, approved by European Union on 24 November 2015, binding for annual periods beginning on or after 1 January 2016.
- Annual Improvements to IFRSs 2012-2014 Cycle, changing 4 standards, published by the International Accounting Standards Board on 25 September 2014, approved by European Union on 15 December 2015 and binding for annual periods beginning on or after 1 January 2016.

These condensed financial statements do not include the following standards and interpretations which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In relation to standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Bank did not use the possibility of early application.

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

Standards and interpretations not yet approved by the European Union:

- 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, wherein the term has been initially postponed by the International Accounting Standards Board.

  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.

- 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 impact on the financial statements in the period of their 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.

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

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 Instruments: Recognition and Measurement. The new standard addresses classification and measurement of financial assets and financial liabilities, impairment identification methodology and hedge accounting. IFRS 9 does not include macro hedge accounting, which is a separate project of International Accounting Standards Board. The Bank continues to apply IAS 39 accounting for macro hedges. The new standard is effective 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 and measurement of these instruments in the financial statements.

- 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.

  Amendments to IFRS 15 were published by International Accounting Standards Board on 11 September 2015 and are binding for annuals periods starting on or after 1 January 2018.
  Amendments to IFRS 15, Clarifications to IFRS 15 Revenue from Contracts with Customers, published by International Accounting Standards Board on 12 April 2016, binding for annuals periods starting 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 12, Recognition of Deferred Tax Assets for Unrealised Losses, published by the International Accounting Standards Board on 19 January 2016, binding for annual periods beginning on or after 1 January 2017.

  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 IAS 7, Disclosure Initiative, published by the International Accounting Standards Board on 29 January 2016, binding for annual periods beginning on or after 1 January 2017.

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 16, Leases, published by the International Accounting Standards Board on 13 January 2016, binding for annual periods starting on or after 1 January 2019.

  IFRS 16 introduces new principles for the recognition of leases. The main amendment is the elimination of the classification of leases as either operating leases or finance leases and instead, the introduction of a single lessee accounting model. Applying a single accounting model, a lessee is required to recognize lease assets and corresponding liability in the statement of financial position, except for leases with a term of less than 12 months and leases with underlying asset of low value. A lessee is also required to recognize depreciation costs of lease asset separately from interest costs on lease liabilities in the income statement.

  IFRS 16 substantially carries forward the lessor accounting approach. It means that lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

  The Bank is of the opinion that the application of a new standard will have an impact on the recognition, presentation, measurement and disclosure of lease assets and corresponding liability in the financial statements of the Bank as lessee.

- Amendments to IFRS 2, Classification and measurement of share-based payment transactions, published by International Accounting Standards Board on 20 June 2016, binding for annuals periods starting on or after 1 January 2018

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

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

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

<u>Impairment of loans and advances</u>

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to establish whether the impairment should be reported in the income statement, the Bank assesses whether there is any evidence indicating possible to measure decrease of estimated future cash flows arising from granted loans and advances. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows (with exclusion of future impairments due to outstanding loans that were no incurred yet), discounted according to original effective interest rate of a given element of financial assets. The rules of impairment measurement are presented in Note 2.8.

<u>Impairment of non-financial assets - inventories</u>

Impairment losses of acquired real estates are calculated in semi-annual and annual periods. Calculation of an impairment loss in comparison to sale prices of real estates (apartments) of comparable market in the last half-year/year to the purchase prices of concerned real estates (apartments). Loss on sale is an evidence for estimation of loss impairment of the value of unsold real estate properties for relevant location / relevant project.

<u>Deferred tax assets</u>

The Bank activates accumulated impairment losses on loans in deferred tax in case of occurrence of events allowing for prima facie evidence of irrecoverability of loans in accordance with applicable tax regulations, including as an effect of debt collection activities.

Liabilities due to post-employment employee benefits

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

Phantom share-based benefits

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

In accordance with the provisions of IAS 19 to determine the present value of liabilities for employee benefits the method of projected unit credit was applied. The amount of bonus which the Bank obliges to pay on the basis of Remuneration Policy for employees having significant influence on the Bank's risk profile is the basis for calculation of reserve for deferred part of the variable remuneration for entitled employees of the Bank.

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 average valuation of these shares obtained on the basis of two values: the phantom share value at the end of the annual period preceding the payment date and the phantom share value at the end of the first half of the year in which the payment is due in a given reporting period. The aforementioned average value is multiplied by the number of phantom shares to be executed in a given period, and the outcome determines the amount of the cash payment resulting from phantom shares held. The final value of the bonus, which constitutes the product of the number of shares, and their expected value on the balance sheet date preceding the implementation of each of deferred trenches is actuarially discounted on the reporting day. The discounted amount is reduced by actuarially discounted amount of annual allocation to the reserve for the same day. The actuarial discount means the product of financial discount and probability of reaching the moment of complete purchase of entitlements to each of deferred trenches by each of participants individually. Amounts of annual allocations are calculated in accordance with projected unit credit method. The probability referred to above was established using Multiple Decrement Model, where the three following risks were taken into account: the probability of dismissal from work, risk of total incapacity to work, risk of death.

Fair value of financial instruments

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

Leasing classification

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

Classification for forbearance exposures

In accordance with the Bank's forbearance policy presented under Note 3.1.7 in Financial Statements for 2015, the Bank classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

4. Business segments

Following the management approach, 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, debt securities which refinance its credit activities.

There are two business lines in the Bank:

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

Since the end of 2012, the Bank has not been providing financing to local government units or other entities with a surety of local government units. However, the Bank has a legacy portfolio of loan transactions for this segment which is the basis for the issue of public sector covered bonds.

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

- Commercial loans – including loans: for refinancing, to housing developers, to commercial developers,
- Retail loans – loans to natural persons acquired in cooperation with mBank S.A.,
- Other – including loans: to local government units (LGU), for the purchase of land, for natural persons, not financed in cooperation with mBank S.A.

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.

Commercial loans — is a segment of the Bank's business that includes the following loans:

- for refinancing — loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A.,
- to housing developers — loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent),
- loans to commercial developers — loans for the financing of commercial real estate projects that are consistent with the Bank's credit policy.

Retail loans — is a segment of the Bank's business that includes the following loans:

- loans to natural persons granted for housing purposes in PLN, secured with a mortgage on a housing property, sold under an agency agreement with mBank S.A., mainly through the sales network of the mBank Group (Aspiro S.A., mBank S.A.) – agency model,
- loans to natural persons in PLN, secured with a mortgage on a housing property, acquired from mBank S.A., that can form a basis for the issue of mortgage covered bonds – pooling.

Other loans – this segment of the Bank's business is in decline due to the discontinuation of sales in the segment. The Bank classifies the following loans into this segment:

- to local government units — loans to local government units (municipalities, districts, provinces) as well as loans secured by local government units (commercial companies established by local governments, public health care institutions);
- for land purchase — loans for financing and refinancing the purchase of land for housing real estate development projects.
- to natural persons — loans to natural persons granted not in cooperation with mBank S.A. The Bank discontinued the sales in this segment in 2004.

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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 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 groups 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.

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.

Business segment reporting on the activities of mBank Hipoteczny S.A. – positions from income statement

Period from 01.01.2016 to 30.06.2016 unaudited	**Commercial loans**	**Retail loans**	**Other loans**	**Total**
Interest income	88 812	51 680	7 383	147 875
Interest expense	(35 721)	(45 053)	(7 011)	(87 785)
Net interest income	**53 091**	**6 627**	**372**	**60 090**
Fee and commission income	2 240	1 169	149	3 558
Fee and commission expenses	(278)	(1 888)	(25)	(2 191)
Net impairment write-downs on loans and advances	(8 831)	(546)	(974)	(10 351)
Amortisation/depreciation and overhead costs	(28 093)	(10 327)	(865)	(39 285)
Other income statement items	1 121	411	34	1 566
Segment result (before tax)	**19 250**	**(4 554)**	**(1 309)**	**13 387**

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Period from 01.01.2015 to 30.06.2015 unaudited *	**Commercial loans**	**Retail loans**	**Other loans**	**Total**
Interest income	89 545	21 852	8 990	120 387
Interest expense	(41 383)	(18 696)	(9 104)	(69 183)
Net interest income	**48 162**	**3 156**	**(114)**	**51 204**
Fee and commission income	4 549	1 673	325	6 547
Fee and commission expenses	(602)	(1 912)	(68)	(2 582)
Net impairment write-downs on loans and advances	(13 221)	(516)	129	(13 608)
Amortisation/depreciation and overhead costs	(24 038)	(4 076)	(928)	(29 042)
Other income statement items	(3 488)	(591)	(135)	(4 214)
Segment result (before tax)	**11 362**	**(2 266)**	**(791)**	**8 305**

* At the end of 2015, the Bank changed the key for dividing individual items of the income statement to individual segments. The main changes consist in the application of the average state of risk-weighted assets instead of the states as of the end of the period and average liabilities and average margin while calculating the refinancing costs. Additionally, the following segments were aggregated by the Bank in 2016: "Loans for refinancing", "Loans to housing developers" "Loans to commercial real estate developers" into one "Commercial loans" segment and "Loans for LGU", "Loans for land purchase", "Loans to individual customers" into one "Other loans" segment. In connection with these changes, the comparative data for the first half of 2015 were restated accordingly.

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.

Business segment reporting on the activities of mBank Hipoteczny S.A. – positions from financial position

30.06.2016 unaudited	**Commercial loans**	**Retail loans**	**Other loans**	**Non-allocated assets items**	**Total**
Loans and advances to customers	**4 592 803**	**3 405 100**	**393 140**	**-**	**8 391 043**
Other assets	**-**	**-**	**-**	**1 281 278**	**1 281 278**
Segment assets	**4 592 803**	**3 405 100**	**393 140**	**1 281 278**	**9 672 321**

31.12.2015*	**Commercial loans**	**Retail loans**	**Other loans**	**Non-allocated assets items**	**Total**
Loans and advances to customers	**4 408 134**	**2 569 136**	**414 378**	**96**	**7 391 743**
Other assets	**-**	**-**	**-**	**1 027 382**	**1 027 382**
Segment assets	**4 408 134**	**2 569 136**	**414 378**	**1 027 478**	**8 419 125**

30.06.2015* unaudited	**Commercial loans**	**Retail loans**	**Other loans**	**Non-allocated assets items**	**Total**
Loans and advances to customers	**4 186 650**	**1 590 481**	**452 735**	**-**	**6 229 866**
Other assets	**-**	**-**	**-**	**1 001 493**	**1 001 493**
Segment assets	**4 186 650**	**1 590 481**	**452 735**	**1 001 493**	**7 231 359**

* The following segments were aggregated by the Bank in 2016: "Loans for refinancing", "Loans to housing developers" "Loans to commercial real estate developers" into one "Commercial loans" segment and "Loans for LGU", "Loans for land purchase", "Loans to individual customers" into one "Other loans" segment. Because of the change the comparative data has been amended as of 31.12.2015 and as of 30.06.2015.

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5. Net interest income

	Period from 01.01.2016 to 30.06.2016 unaudited	**Period from 01.01.2015 to 30.06.2015** unaudited
Interest income		
Loans and advances, including the unwind of discount relating to impairment write-down:	129 402	105 030
Cash and short-term deposits	482	203
Investment securities	8 449	7 774
Interest income on derivatives classified into banking book	6 004	4 855
Interest income on derivatives concluded under hedge accounting	3 538	2 525
Total interest income	**147 875**	**120 387**
Interest expense		
Due to settlements with banks	(22 088)	(18 138)
Due to settlements with customers	(542)	(459)
Due to the issue of debt securities	(59 975)	(47 946)
Due to subordinated loan	(5 180)	(2 640)
Total interest expense	**(87 785)**	**(69 183)**
Total net interest income	**60 090**	**51 204**

Interest income related to impaired financial assets amounted to PLN 2 743 thousand (30 June 2015: PLN 2 292 thousand).

6. Net fee and commission income

	Period from 01.01.2016 to 30.06.2016 unaudited	**Period from 01.01.2015 to 30.06.2015** unaudited
Fee and commission income		
Credit-related fees and commissions	3 335	6 317
Commissions from bank accounts	203	211
Commissions from money transfers	20	19
Total fee and commission income	**3 558**	**6 547**
Fee and commission expenses		
Costs of real estate analyses and valuations related to the lending activity	(1 269)	(1 483)
Costs related to the debt securities issue program (covered bonds and bonds)	(385)	(520)
Commission expense from the stand-by credit line	(45)	(281)
Cost of servicing loan products	(343)	(183)
Other	(149)	(115)
Total fee and commission expense	**(2 191)**	**(2 582)**
Total net fee and commission income	**1 367**	**3 965**

7. Net trading income

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Foreign exchange result	**2 323**	**707**
Net exchange differences on translation	14 021	6 223
Valuation of foreign currency derivatives	(11 698)	(5 516)
Other net trading income and result on hedge accounting	**(299)**	**(2 588)**
Interest rate risk instruments	(297)	(230)
Hedge accounting, including:	(2)	(2 358)
- net profit on hedged items	(25 264)	12 875
- net profit on hedging instruments	25 262	(15 233)
Total net trading income	**2 024**	**(1 881)**

Foreign exchange result covers realised and unrealised, positive and negative exchange rate differences, as well as profits and losses on spot transactions and forward 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. 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 following tables. 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.

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

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

<u>Hedged items</u>

The hedged items are fixed-interest rate mortgage covered bonds with the nominal value of EUR 124 000 thousand.

<u>Hedging instruments</u>

Interest Rate Swap transactions are the hedging instruments swapping the fixed interest rate for a variable interest rate.

<u>Presentation of the result from hedged and hedging transactions</u>

Fair value adjustment of the hedged liabilities as well as valuation of the hedging instruments is recognised in the income statement as the income from trading operation, except for interest income and expenses related to the interest measurement component of hedging instruments which are presented in the position of interest income/expenses on derivatives concluded under the hedge accounting.

The 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.

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As at 30.06.2016

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2016	Redemption date	Carrying amount of liability	Hedge accounting adjustments related to fair value of hedged items	Change of fair value due to hedge acounting
Mortgage covered bonds (EUR)	30 000	2,75%	2020-07-28	134 634	6 527	(1 499)
Mortgage covered bonds (EUR)	8 000	3,50%	2029-02-28	35 182	6 682	(3 357)
Mortgage covered bonds (EUR)	15 000	3,50%	2029-03-15	66 015	12 575	(6 323)
Mortgage covered bonds (EUR)	20 000	3,20%	2029-05-30	87 264	16 548	(8 489)
Mortgage covered bonds (EUR)	20 000	1,115%	2018-10-22	88 929	1 023	(446)
Mortgage covered bonds (EUR)	20 000	1,135%	2022-02-25	88 112	2 597	(2 454)
Mortgage covered bonds (EUR)	11 000	1,285%	2025-04-24	48 439	842	(2 696)
Total hedged items				**548 575**	**46 794**	**(25 264)**

As at 31.12.2015

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2015	Redemption date	Carrying amount of liability	Hedge accounting adjustments related to fair value of hedged items	Change of fair value due to hedge acounting
Mortgage covered bonds (EUR)	30 000	2,75%	2020-07-28	127 653	5 028	(754)
Mortgage covered bonds (EUR)	8 000	3,50%	2029-02-28	34 432	3 325	651
Mortgage covered bonds (EUR)	15 000	3,50%	2029-03-15	64 621	6 252	1 225
Mortgage covered bonds (EUR)	20 000	3,20%	2029-05-30	85 281	8 059	1 650
Mortgage covered bonds (EUR)	20 000	1,115%	2018-10-22	85 094	577	(251)
Mortgage covered bonds (EUR)	20 000	1,135%	2022-02-25	85 241	143	(143)
Mortgage covered bonds (EUR)	11 000	1,285%	2025-04-24	46 917	(1 854)	1 855
Total hedged items				**529 239**	**21 530**	**4 233**

As at 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 of hedged items	Change of fair value due to hedge acounting
Mortgage covered bonds (EUR)	30 000	2,75%	2020-07-28	127 169	3 165	1 109
Mortgage covered bonds (EUR)	8 000	3,50%	2029-02-28	33 266	2 609	1 367
Mortgage covered bonds (EUR)	15 000	3,50%	2029-03-15	62 443	4 910	2 568
Mortgage covered bonds (EUR)	20 000	3,20%	2029-05-30	82 524	6 314	3 395
Mortgage covered bonds (EUR)	20 000	1,115%	2018-10-22	84 156	313	13
Mortgage covered bonds (EUR)	20 000	1,135%	2022-02-25	45 855	(2 910)	1 513
Mortgage covered bonds (EUR)	11 000	1,285%	2025-04-24	83 343	(1 513)	2 910
Total hedged items				**518 756**	**12 888**	**12 875**

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

As at 30.06.2016

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge acounting
IRS (EUR)	30 000	2020-07-28	11 099	-	1 339
IRS (EUR)	8 000	2029-02-28	7 350	-	3 345
IRS (EUR)	15 000	2029-03-15	13 476	-	6 290
IRS (EUR)	20 000	2029-05-30	14 546	-	8 425
IRS (EUR)	20 000	2018-10-22	1 515	-	477
IRS (EUR)	20 000	2022-02-25	1 858	-	2 570
IRS (EUR)	11 000	2025-04-24	447	-	2 816
Total hedging items			**50 291**	**-**	**25 262**

As at 31.12.2015

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge acounting
IRS (EUR)	30 000	2020-07-28	8 646	-	(26)
IRS (EUR)	8 000	2029-02-28	4 566	-	(1 008)
IRS (EUR)	15 000	2029-03-15	8 259	-	(1 890)
IRS (EUR)	20 000	2029-05-30	7 477	-	(2 323)
IRS (EUR)	20 000	2018-10-22	517	-	442
IRS (EUR)	20 000	2022-02-25	-	285	201
IRS (EUR)	11 000	2025-04-24	-	2 084	(2 021)
Total hedging items			**29 465**	**2 369**	**(6 625)**

As at 30.06.2015

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge acounting
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)	20 000	2022-02-25	-	2 513	(1 521)
IRS (EUR)	11 000	2025-04-24	-	3 456	(3 087)
Total hedging items			**21 769**	**5 969**	**(15 233)**

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.

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

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Interest income on derivatives concluded under hedge accounting of fair value (Note 5)	3 538	2 525
Net profit on hedged items	(25 264)	12 875
Net profit on hedging instruments	25 262	(15 233)
Total net profit on hedge accounting of fair value	**3 536**	**167**

8. Other operating income

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Reversal of impairment write-downs on receivables (excluding loans)	907	-
Income from sales of services	372	144
Income from sales or liquidation tangible fixed assets and intangible assets	13	-
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	10	39
Compensations, penalties and fines recived	2	-
Other	509	67
Total other operating income	**1 813**	**250**

9. Net impairment losses on loans and advances

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Net write-downs on loans and advances to customers	(10 338)	(13 589)
Net write-downs for contingent liability towards customers	(13)	(19)
Net impairment write-downs on loans and advances	**(10 351)**	**(13 608)**

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10. Overhead costs

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Staff-related costs	(16 797)	(15 359)
Material costs, including:	(11 159)	(8 485)
- logistic cost	(4 038)	(3 347)
- IT cost	(2 285)	(2 211)
- marketing cost	(2 303)	(1 822)
- consulting services cost	(1 623)	(456)
- other cost	(910)	(649)
Contribution and payments to the Bank Guarantee Fund	(1 603)	(1 763)
Taxes and fees	(1 457)	(987)
Contributions to the Social Benefits Fund	(175)	(172)
Total overhead costs	**(31 191)**	**(26 766)**

The Bank applied the Interpretation of the International Financial Reporting Interpretations Committee - IFRIC 21 Public charges 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. In connection with the Act of 14 December 1994 on the Bank Guarantee Fund and its amendment, which entered into force on 11 March 2016 and changed the manner and terms of calculation of fees for BFG, the comparative data for the first half of 2015 fully correspond with the data for the first half of 2016.

Staff-related expenses

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Wages and salaries	(13 331)	(12 463)
Social security expenses	(2 238)	(2 045)
Provision for holiday equivalents	-	(32)
Remuneration payment in the form of phantom shares settled in cash	(721)	(176)
Other employee benefits	(507)	(643)
Staff-related costs, total	**(16 797)**	**(15 359)**

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11. Other operating expenses

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Inventory write-downs	(1 717)	(77)
Result on the sales of assets repossessed for debts (inventories) and costs of their maintenance	(381)	(94)
Costs of enforcement proceedings	(92)	(139)
Cost of real estate valuation	(9)	(557)
Provisions for disputes	(39)	(11)
Compensations, penalties and fines paid	(4)	(6)
Loss on sales or liquidation of tangible fixed assets and intangible assets	-	(4)
Receivables write-downs (excluding loans)	-	(1 665)
Other	(30)	(30)
Total other operating expenses	**(2 272)**	**(2 583)**

12. Earnings per share

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 30.06.2015 unaudited
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	13 766	4 956
Weighted average number of ordinary shares	2 993 846	2 850 000
Basic net profit per share (in PLN per share)	**4.60**	**1.74**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted profit per share	13 766	4 956
Weighted average number of ordinary shares	2 993 846	2 850 000
Weighted average number of ordinary shares for calculation of diluted earnings per share	2 993 846	2 850 000
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN per share)	**4.60**	**1.74**

13. Amounts due from other banks

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Deposits in other banks (overnight deposits)	-	150 006	15 001
Current accounts	435	55 172	43 718
Other receivables	7	2	2 710
Recognised in cash equivalents	**442**	**205 180**	**61 429**
Amounts (gross) due from other banks, in total	**442**	**205 180**	**61 429**
Amounts (net) due from other banks, in total	**442**	**205 180**	**61 429**

Short-term amounts due from other banks (up to 1 year)	442	205 180	61 429

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14. Derivative financial instruments

	30.06.2016 unaudited		31.12.2015		30.06.2015 unaudited	
	assets	liabilities	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading, classified into banking book	1 655	11 680	2 747	1 401	2 563	16 012
Derivatives financial instruments held for hedging	50 291	-	29 465	2 369	21 769	5 969
Total derivative financial instruments assets/liabilities	**51 946**	**11 680**	**32 212**	**3 770**	**24 332**	**21 981**

The Bank has the following derivative instruments in its portfolio:

- Interest rate risk instruments: IRS (Interest Rate Swap),
- currency exchange rate risk instruments: FX SWAP contracts

All derivative transactions are concluded by the Bank exclusively for the purpose of securing the currency exchange and interest rate risk. The Bank is not engaged in trading; all derivative transactions are included in the Bank's portfolio.

15. Loans and advances to customers

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Loans and advances to corporate customers	**4 870 235**	**4 701 272**	**4 498 689**
Loans and advances to individual ccustomers	**3 473 896**	**2 641 448**	**1 667 460**
Loans and advances to the public sector	**153 742**	**146 317**	**159 425**
Other receivables	**-**	**95**	**-**
Loans and advances from customers (gross)	**8 497 873**	**7 489 132**	**6 325 574**
Write-downs on receivables (negative amount)	(106 830)	(97 389)	(95 708)
Loans and advances from customers (net)	**8 391 043**	**7 391 743**	**6 229 866**
Short-term (up to 1 year)	705 199	678 031	555 015
Long-term (over 1 year)	7 685 844	6 713 712	5 674 851

The gross carrying amount of the portfolio of retail loans acquired as part of cooperation with mBank S.A was:

- as at 30 June 2016 – PLN 3,406,520 thousand,
- as at 31 December 2015 – PLN 2,569,974 thousand,
- as at 30 June 2015 – PLN 1,591,227 thousand.

The gross carrying amount of the commercial transferred under the commercial pooling arrangement from mBank S.A. amounted to:

- as at 30 June 2016 – PLN 267,077 thousand,
- as at 31 December 2015 – PLN 251,982 thousand,
- as at 30 June 2015 – PLN 35,095 thousand.

Movements in Impairment write-downs on loans and advances

	Impairment write-downs as at 01.01.2016	Write-downs created	Reversal of write-downs	Receivables written-off	Write-downs transfer	Impairment write-downs as at 30.06.2016 unaudited
Corporate customers	(94 546)	(20 085)	10 515	897	5	(103 214)
Individual customers	(2 799)	(2 018)	1 247	-	-	(3 570)
Public sector customers	(44)	-	3	-	(5)	(46)
Total movements in impairment write-downs on loans and advances	(97 389)	(22 103)	11 765	897	-	(106 830)

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	Impairment write-downs as at 01.01.2015	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 31.12.2015
Corporate clients	(85 356)	(35 687)	11 428	15 069	(94 546)
Individual clients	(2 291)	(3 216)	2 708	-	(2 799)
Public sector clients	(52)	-	8	-	(44)
Total movements in impairment write-downs on loans and advances	(87 699)	(38 903)	14 144	15 069	(97 389)

	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 clients	(85 356)	(19 372)	6 162	5 580	(92 986)
Individual clients	(2 291)	(1 339)	956	-	(2 674)
Public sector clients	(52)	-	4	-	(48)
Total movements in impairment write-downs on loans and advances	(87 699)	(20 711)	7 122	5 580	(95 708)

16. Investment securities

30.06.2016 unaudited	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**970 755**	**98 017**	**1 068 772**
Issued by government	670 755	98 017	768 772
- government bonds	670 755	98 017	768 772
Issued by central bank	300 000	-	300 000
- central bank's money bills	300 000	-	300 000
Total debt securities	**970 755**	**98 017**	**1 068 772**
Short-term (up to 1 year)	300 000	8 143	308 143
Long-term (over 1 year)	670 755	89 874	760 629
Based on fixed interest rate	578 281	2 086	580 367
Based on floating interest rate	392 474	95 931	488 405

31.12.2015	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**680 092**	**68 413**	**748 505**
Issued by government	210 229	68 413	278 642
- government bonds	210 229	68 413	278 642
Issued by central bank	469 863	-	469 863
- central bank's money bills	469 863	-	469 863
Total debt securities	**680 092**	**68 413**	**748 505**
Short-term (up to 1 year)	569 139	2 070	571 209
Long-term (over 1 year)	110 953	66 343	177 296
Based on fixed interest rate	569 140	2 070	571 210
Based on floating interest rate	110 952	66 343	177 295

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30.06.2015 unaudited	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**847 192**	**22 854**	**870 046**
Issued by government	162 249	22 854	185 103
- government bonds	162 249	22 854	185 103
Issued by central bank	684 943	-	684 943
- central bank's money bills	684 943	-	684 943
Total debt securities	**847 192**	**22 854**	**870 046**
Short-term (up to 1 year)	847 192	20 713	867 905
Long-term (over 1 year)	-	2 141	2 141
Based on fixed interest rate	847 192	22 854	870 046
Based on floating interest rate	-	-	-

Pledged assets are not subject to resale and further pledge.

17. Intangible assets

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Concessions, patents, licences and similar assets, including:	5 395	5 556	4 557
- computer software	5 395	5 556	4 557
Intangible assets under development	4 831	2 596	1 662
Intangible assets, total	**10 226**	**8 152**	**6 219**

18. Tangible assets

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Technical equipment and machinery	5 253	5 608	4 898
Vehicles	354	392	494
Fixed assets under construction	163	237	438
Other fixed assets	1 174	1 286	846
Tangible fixed assets, total	**6 944**	**7 523**	**6 676**

19. Other assets

	30.06.2016 unadited	31.12.2015	30.06.2015 unaudited
Other, including:	**10 232**	**9 479**	**14 249**
- inventories	3 432	6 768	8 115
- receivables from agency model valuation	2 447	425	1 321
- income receivable	2 060	670	353
- debtors	1 165	438	338
- other prepayments	1 015	1 149	4 001
- other	113	29	121
Total other assets	**10 232**	**9 479**	**14 249**
Short-term (up to 1 year)	10 232	9 479	14 249

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20. Amounts due to customers

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Corporate customers:	**295 132**	**265 364**	**223 198**
Cash in current accounts	284 426	242 011	181 013
Term deposits (including overnight deposits)	7 247	20 663	33 508
Other liabilities (in respect of):	3 459	2 690	8 677
- cash collateral	718	1 130	706
- other	2 741	1 560	7 971
Individual customers:	**129**	**141**	**139**
Other liabilities (in respect of):	129	141	139
- cash collateral	65	65	65
- other	64	76	74
Public sector customers:	**35**	**4**	**-**
Other liabilities (in respect of):	35	4	-
- other	35	4	-
Total amounts due to customers	**295 296**	**265 509**	**223 337**
Short-term (up to 1 year)	294 529	264 825	222 565
Long-term (over 1 year)	767	684	772

21. Debt securities in issue

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

Receivables in respect of loans granted to local government units and loans secured with warranties of local government units form the basis for the issue of public sector covered bonds.

Covered bonds may also be issued based on the Bank's funds invested in treasury securities, deposited with the National Bank of Poland or in cash, hereinafter referred to as the "Substitute collateral".

<u>Principles for the admissible amount of the substitute collateral</u>

The Bank is required to maintain, separately for mortgage covered bonds and public sector covered bonds, a surplus created from the funds forming the Substitute collateral, equal to or higher than the aggregate nominal value of interest on the outstanding mortgage covered bonds or public sector covered bonds, as applicable, due over the next 6 months (hereinafter referred to as the "Surplus"). Such surplus funds may not serve as a basis for issuing covered bonds.

With respect to comparative periods, i.e. 31 December 2015 and 30 June 2015, the Substitute collateral could serve as a basis for issuing covered bonds up to 10% of the amount of the Bank's debt claims secured by a mortgage.

<u>Principles for the statutory over-collateralisation of covered bonds</u>

The sum of nominal amounts of the Bank's claims:

- from loans secured with a mortgage and the Substitute collateral, entered in the register of collaterals of covered bonds, constituting the basis for issuing mortgage covered bonds, cannot be lower than 110% of the total amount of nominal values of the outstanding mortgage covered bonds, and the sum of nominal amounts of claims of the Bank secured by mortgages, constituting the basis for issuing mortgage covered bonds, cannot be lower than 85% of the total amount of nominal values of the outstanding mortgage covered bonds,
- in respect of loans granted to local self-government entities or loans secured by local self-government sureties and substitute collaterals entered in the register of collaterals of covered bonds, constituting the basis for issuing public covered bonds, cannot be lower than 110% of the total amount of nominal values of the public covered bonds currently in trading, and the sum of nominal amounts of liabilities of the Bank in respect of loans

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granted to local self-government entities or loans secured by local self-government sureties, constituting the basis for issuing public covered bonds, cannot be lower than 85% of the total amount.

In relation to comparative data, i.e. 31 December 2015 and 30 June 2015, 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.

Principles for refinancing loans with means originating from issuance of covered bonds

According to the Act on covered bonds and mortgage banks, the Bank can refinance loans secured by a mortgage and acquired liabilities of other banks resulting from mortgage-secured loans granted with means obtained from issuance of covered bonds; the refinancing in respect of a single loan or single liability cannot exceed the amount equivalent to 60% of the mortgage lending value of the real property, and in the case of residential real property - 80% of the mortgage lending value (as of 31 December 2015 and 30 June 2016 the limit of refinancing of liabilities secured by a mortgage on a residential real property was 60% of the lending mortgage value of the real property).

The tables below show data related to the issuance of covered bonds as of 30 June 2016, as of 31 December 2015 and as of 30 June 2015

Data as at 30.06.2016	Mortgage covered bonds	Public sector covered bonds
1. Nominal value of covered bonds listed on the market	4 446 308	150 000
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	6 606 166	342 683
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	42 510	3 345
4. Level of collateral the covered bonds by receivables (2/1)	148.58%	228.46%
5. Total covered bonds collateral level (2+3) / 1	149.53%	230.69%
6. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	2 459 987	-
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	3 259 971	-

Permissible value of Substitute collateral as at 30.06.2016	Mortgage covered bonds	Public sector covered bonds
1. Cash invested in treasury bonds	90 000	6 000
2. Interests from covered bonds on the market which will be paid in the next 6 months	47 490	2 655
3. Surplus	47 490	2 655
4. The level of coverage Surplus (3-2)	-	-
5. Permissible value of Substitute collateral (1-3)	42 510	3 345

Data as at 31.12.2015	Mortgage covered bonds	Public sector covered bonds
Nominal value of covered bonds listed on the market	3 927 227	150 000
The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (The value of not matured capital)	5 403 757	361 911
Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	60 000	-
The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	4 342 172	-

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Data as at 30.06.2015	Mortgage covered bonds	Public sector covered bonds
Nominal value of covered bonds on the market	3 352 668	350 000
The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	4 583 902	398 264
Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	-	20 000
The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	3 739 746	-

The total nominal amount of the covered bonds in trading, both as of 30 June 2016 and as of 31 December 2015 and 30 June 2015 was listed on two markets under CATALYST: 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).

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As at 30.06.2016r.

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2016	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Mortgage covered bonds (PLN)	200 000	2.73%	Mortgage cover bonds register	2017-06-16	200 104
Mortgage covered bonds (PLN)	200 000	3.03%	Mortgage cover bonds register	2017-04-20	201 077
Mortgage covered bonds (PLN)	200 000	3.44%	Mortgage cover bonds register	2018-06-15	200 030
Mortgage covered bonds (EUR)	10 000	1.76%	Mortgage cover bonds register	2017-10-19	44 389
Mortgage covered bonds (PLN)	100 000	3.44%	Mortgage cover bonds register	2016-11-15	100 407
Public sector covered bonds (PLN)	150 000	3.53%	Public sector cover bonds register	2016-09-28	151 331
Mortgage covered bonds (PLN)	80 000	2.76%	Mortgage cover bonds register	2019-06-21	79 996
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage cover bonds register	2020-07-28	134 634
Mortgage covered bonds (EUR)	50 000	0.88%	Mortgage cover bonds register	2018-10-22	221 373
Mortgage covered bonds (EUR)	7 500	0.69%	Mortgage cover bonds register	2018-02-15	33 197
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage cover bonds register	2029-02-28	35 182
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage cover bonds register	2029-03-15	66 015
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage cover bonds register	2029-05-30	87 264
Mortgage covered bonds (PLN)	300 000	2.68%	Mortgage cover bonds register	2022-07-28	302 321
Mortgage covered bonds (PLN)	200 000	2.67%	Mortgage cover bonds register	2023-02-20	201 104
Mortgage covered bonds (EUR)	20 000	1.12%	Mortgage cover bonds register	2018-10-22	88 929
Mortgage covered bonds (EUR)	50 000	0.62%	Mortgage cover bonds register	2019-10-15	221 166
Mortgage covered bonds (PLN)	200 000	2.52%	Mortgage cover bonds register	2022-04-28	200 191
Mortgage covered bonds (EUR)	20 000	1.14%	Mortgage cover bonds register	2022-02-25	88 112
Mortgage covered bonds (PLN)	250 000	2.61%	Mortgage cover bonds register	2023-10-16	250 291
Mortgage covered bonds (EUR)	11 000	1.29%	Mortgage cover bonds register	2025-04-24	48 439
Mortgage covered bonds (EUR)	50 000	0.41%	Mortgage cover bonds register	2020-06-24	220 794
Mortgage covered bonds (PLN)	500 000	2.78%	Mortgage cover bonds register	2020-09-10	499 560
Mortgage covered bonds (PLN)	255 000	2.84%	Mortgage cover bonds register	2021-09-20	254 431
Mortgage covered bonds (PLN)	300 000	2.88%	Mortgage cover bonds register	2021-03-05	299 765
Mortgage covered bonds (EUR)	50 000	0.61%	Mortgage cover bonds register	2021-06-21	220 694
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage cover bonds register	2020-04-28	50 132
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage cover bonds register	2020-04-28	100 172
Bonds (PLN)	20 000	3.21%	no collateral	2019-01-16	20 263
Bonds (PLN)	60 000	3.12%	no collateral	2019-01-21	60 289
Short-term issues (with original maturity up to 1 year)					
Bonds (PLN)	30 000	2.19%	no collateral	2016-08-30	29 890
Bonds (PLN)	60 000	2.15%	no collateral	2016-12-22	59 375
Bonds (PLN)	30 000	2.14%	no collateral	2016-10-20	29 801
Bonds (PLN)	10 000	2.02%	no collateral	2016-07-11	9 994
Bonds (PLN)	6 000	2.14%	no collateral	2016-11-14	5 951
Bonds (PLN)	35 000	2.07%	no collateral	2016-08-12	34 914
Bonds (PLN)	191 600	2.07%	no collateral	2016-08-25	190 986
Bonds (PLN)	10 000	1.99%	no collateral	2016-07-29	9 984
Bonds (PLN)	10 000	2.08%	no collateral	2016-08-31	9 964
Bonds (PLN)	40 000	2.08%	no collateral	2016-09-06	39 843
Bonds (PLN)	20 000	1.95%	no collateral	2016-07-05	19 996
Bonds (PLN)	20 000	1.95%	no collateral	2016-07-18	19 981
Bonds (PLN)	15 000	2.08%	no collateral	2016-09-14	14 934
Bonds (PLN)	15 000	1.93%	no collateral	2016-07-01	15 000
Bonds (PLN)	10 000	2.00%	no collateral	2016-07-25	9 987
Bonds (PLN)	91 700	2.00%	no collateral	2016-08-02	91 535
Bonds (PLN)	14 000	1.92%	no collateral	2016-07-14	13 990
Debt securities in issue (carrying value)					**5 287 777**

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As at 31.12.2015r.

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2015	Guarantee / collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Mortgage covered bonds (PLN)	255 000	2.87%	Mortgage cover bonds register	2021-09-20	254 365
Mortgage covered bonds (PLN)	500 000	2.82%	Mortgage cover bonds register	2020-09-10	499 473
Mortgage covered bonds (EUR)	50 000	0.56%	Mortgage cover bonds register	2020-06-24	212 540
Mortgage covered bonds (EUR)	11 000	1.29%	Mortgage cover bonds register	2025-04-24	46 917
Mortgage covered bonds (PLN)	250 000	2.68%	Mortgage cover bonds register	2023-10-16	250 279
Mortgage covered bonds (EUR)	20 000	1.14%	Mortgage cover bonds register	2022-02-25	85 241
Mortgage covered bonds (PLN)	200 000	2.59%	Mortgage cover bonds register	2022-04-28	200 175
Mortgage covered bonds (EUR)	50 000	0.82%	Mortgage cover bonds register	2019-10-15	212 991
Mortgage covered bonds (EUR)	20 000	1.12%	Mortgage cover bonds register	2018-10-22	85 094
Mortgage covered bonds (PLN)	200 000	2.73%	Mortgage cover bonds register	2023-02-20	201 153
Mortgage covered bonds (PLN)	300 000	2.72%	Mortgage cover bonds register	2022-07-28	302 336
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage cover bonds register	2029-05-30	85 281
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage cover bonds register	2029-03-15	64 621
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage cover bonds register	2029-02-28	34 432
Mortgage covered bonds (EUR)	7 500	0.85%	Mortgage cover bonds register	2018-02-15	31 958
Mortgage covered bonds (EUR)	50 000	1.08%	Mortgage cover bonds register	2018-10-22	213 187
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage cover bonds register	2020-07-28	127 653
Mortgage covered bonds (PLN)	80 000	2.77%	Mortgage cover bonds register	2019-06-21	79 985
Public sector covered bonds (PLN)	150 000	3.59%	Public sector cover bonds register	2016-09-28	151 314
Mortgage covered bonds (PLN)	100 000	3.50%	Mortgage cover bonds register	2016-11-15	100 384
Mortgage covered bonds (EUR)	10 000	1.93%	Mortgage cover bonds register	2017-10-19	42 747
Mortgage covered bonds (PLN)	200 000	3.46%	Mortgage cover bonds register	2018-06-15	199 984
Mortgage covered bonds (PLN)	200 000	3.10%	Mortgage cover bonds register	2017-04-20	201 054
Mortgage covered bonds (PLN)	200 000	2.75%	Mortgage cover bonds register	2017-06-16	200 052
Mortgage covered bonds (PLN)	200 000	2.95%	Mortgage cover bonds register	2016-04-20	201 132
Bonds (PLN)	60 000	3.18%	no collateral	2019-01-21	60 286
Bonds (PLN)	20 000	3.24%	no collateral	2019-01-16	20 268
Debt securities in issue (carrying value)					**4 164 902**

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As at 30.06.2015r.

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)					
Mortgage covered bonds (PLN)	100 000	3.02%	Mortgage cover bonds register	2015-09-28	100 751
Public sector covered bonds (PLN)	100 000	2.93%	Public sector cover bonds register	2015-11-30	100 244
Mortgage covered bonds (PLN)	200 000	2.80%	Mortgage cover bonds register	2016-04-20	200 987
Mortgage covered bonds (PLN)	200 000	2.75%	Mortgage cover bonds register	2017-06-16	199 969
Mortgage covered bonds (PLN)	100 000	2.92%	Mortgage cover bonds register	2015-07-07	101 399
Mortgage covered bonds (PLN)	200 000	2.95%	Mortgage cover bonds register	2017-04-20	200 910
Mortgage covered bonds (PLN)	200 000	3.46%	Mortgage cover bonds register	2018-06-15	199 900
Mortgage covered bonds (EUR)	10 000	1.98%	Mortgage cover bonds register	2017-10-19	42 064
Mortgage covered bonds (PLN)	100 000	3.42%	Mortgage cover bonds register	2016-11-15	100 353
Public sector covered bonds (PLN)	100 000	3.30%	Public sector cover bonds register	2015-07-28	101 383
Public sector covered bonds (PLN)	150 000	3.45%	Public sector cover bonds register	2016-09-28	151 177
Mortgage covered bonds (PLN)	80 000	2.79%	Mortgage cover bonds register	2019-06-21	79 962
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage cover bonds register	2020-07-28	127 169
Mortgage covered bonds (EUR)	50 000	1.13%	Mortgage cover bonds register	2018-10-22	209 780
Mortgage covered bonds (EUR)	7 500	0.93%	Mortgage cover bonds register	2018-02-15	31 437
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage cover bonds register	2029-02-28	33 266
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage cover bonds register	2029-03-15	62 443
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage cover bonds register	2029-05-30	82 524
Mortgage covered bonds (PLN)	300 000	2.93%	Mortgage cover bonds register	2022-07-28	302 452
Mortgage covered bonds (PLN)	200 000	2.83%	Mortgage cover bonds register	2023-02-20	201 125
Mortgage covered bonds (EUR)	20 000	1.12%	Mortgage cover bonds register	2018-10-22	84 157
Mortgage covered bonds (EUR)	50 000	0.88%	Mortgage cover bonds register	2019-10-15	209 591
Mortgage covered bonds (PLN)	200 000	2.44%	Mortgage cover bonds register	2022-04-28	200 054
Mortgage covered bonds (EUR)	20 000	1.14%	Mortgage cover bonds register	2022-02-25	83 343
Mortgage covered bonds (PLN)	250 000	2.53%	Mortgage cover bonds register	2023-10-16	250 116
Mortgage covered bonds (EUR)	11 000	1.29%	Mortgage cover bonds register	2025-04-24	45 855
Mortgage covered bonds (EUR)	50 000	0.68%	Mortgage cover 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 value)					**3 792 086**

Movements in debt securities in issue

	Period from 01.01.2016 to 30.06.2016 unaudited	Period from 01.01.2015 to 31.12.2015	Period from 01.01.2015 to 30.06.2015 unaudited
As at the beginning of the period	**4 164 902**	**3 171 588**	**3 171 588**
Increase (due to)	2 607 835	1 647 504	837 691
- issue	2 491 443	1 540 713	785 713
- accrued interest	59 976	97 491	47 945
- exchange differences	56 416	9 300	4 033
Decrease (due to)	(1 484 960)	(654 190)	(217 193)
- redemption	(1 424 048)	(550 000)	(150 000)
- interest repayment	(60 912)	(104 190)	(52 900)
- exchange differences	-	-	(14 293)
As at the end of the period	**5 287 777**	**4 164 902**	**3 792 086**
Short-term (up to 1 year)	1 261 469	457 675	609 419
Long-term (over 1 year)	4 026 308	3 707 227	3 182 667
Fixed interest rate debt securities issued	1 305 004	529 239	518 756
Floating interest rate debt securities issued	3 982 773	3 635 663	3 273 330

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22. Other liabilities and provisions

22.1. Other liabilities

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Other liabilities (due to)	**24 697**	**20 272**	**22 191**
- accrued expenses	16 412	16 924	13 322
- settlements with insurers	1 832	1 353	1 382
- settlements due to tax from Bank's balance sheet positions	1 477	-	-
- liabilities due to income tax on salaries, Social Security contributions and VAT	1 037	956	845
- provision for holiday equivalents	946	971	631
- deferred income	-	-	3 666
- other	2 993	68	2 345
Other liabilities, in total	**24 697**	**20 272**	**22 191**

22.2. Provisions

	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Provision (for)	**219**	**166**	**157**
- off-balance sheet contingent liabilities granted	31	18	21
- provisions for retirement and disability benefits	93	93	88
- provisions for legal proceedings	95	55	48
Provision, in total	**219**	**166**	**157**

23. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
As at the beginning of the period	**32 499**	**34 544**	**34 544**
- Changes recognized in the income statement	10 581	(2 045)	(2 814)
- Changes recognized in other comprehensive income	49	-	-
As at the end of the period	**43 129**	**32 499**	**31 730**

Deferred tax liabilities	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
As at the beginning of the period	**(25 286)**	**(23 118)**	**(23 118)**
- Changes recognized in the income statement	(7 357)	(2 382)	2 812
- Changes recognized in other comprehensive income	194	214	246
As at the end of the period	**(32 449)**	**(25 286)**	**(20 060)**

Income tax	30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
Current income tax	(3 072)	(3 579)	(3 347)
Adjustments in respect of current income tax from previous years	227	-	-
Deferred income tax recognised in income statement	3 224	(4 427)	(2)
Income tax recognised in the income statement	**379**	**(8 006)**	**(3 349)**
Recognised in other comprehensive income	243	214	246
Total income tax	**622**	**(7 792)**	**(3 103)**

24. Fair value of financial assets and liabilities

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

- on the main market 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.

Following market practices the Bank values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All significant open positions in derivatives (currency or interest rates) are valued by marked-to-model using prices observable in the market.

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

<u>Loans and advances to 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.

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

The fair value for loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including appropriate credit spreads and is based on the expected maturity of the respective loan agreements. The level of credit spread was determined based on market quotation of median credit spreads for Moody's rating grade. Attribution of a credit spread to a given credit exposure is based on a mapping between Moody's rating grade and internal rating grades of the Bank. To reflect the fact that the majority of the Bank's exposures is collateralised whereas the median of market quotation is centred around unsecured issues, the Bank applied appropriate adjustments.

<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.

Financial instruments on the liabilities side are:

- 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.

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.

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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.

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	30.06.2016 unaudited		31.12.2015		30.06.2015 unaudited	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Cash and balances with the central bank	**121 426**	**121 426**	**7 521**	**7 521**	**6 872**	**6 872**
Amounts due from other banks	**442**	**442**	**205 180**	**205 180**	**61 429**	**61 429**
Loans and advances to customers, including:	**8 391 043**	**8 567 207**	**7 391 743**	**7 542 198**	**6 229 866**	**6 311 254**
Corporate customers	4 767 021	4 863 620	4 606 821	4 648 842	4 405 704	4 465 831
Individual customerss	3 470 326	3 544 855	2 638 649	2 742 969	1 664 785	1 684 447
Public sector customers	153 696	158 732	146 273	150 387	159 377	160 976
Total financial assets	**8 512 911**	**8 689 075**	**7 604 444**	**7 754 899**	**6 298 167**	**6 379 555**
Financial liabilities						
Amounts due to other banks	**2 910 403**	**2 910 403**	**2 959 741**	**2 959 741**	**2 429 053**	**2 429 053**
Amounts due to customers, including:	**295 296**	**295 296**	**265 509**	**265 509**	**223 337**	**223 337**
Corporate customers	295 132	295 132	265 364	265 364	223 198	223 198
Individual customerss	129	129	141	141	139	139
Public sector customers	35	35	4	4	-	-
Debt securities in issue	**5 287 777**	**5 333 746**	**4 164 902**	**4 186 469**	**3 792 086**	**3 751 592**
Subordinated liabilities	**200 452**	**200 452**	**200 899**	**200 899**	**100 227**	**100 227**
Total financial liabilities	**8 693 928**	**8 739 897**	**7 591 051**	**7 612 618**	**6 544 703**	**6 504 209**

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 as of 30 June 2016.

30.06.2016	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Investment securities available for sale, including:	**1 068 772**	**768 772**	**300 000**	**-**
- Treasury bonds	768 772	768 772	-	-
- Money bills	300 000	-	300 000	-
Derivative financial instruments, including:	**51 946**	**-**	**51 946**	**-**
- Interest-bearing instruments	50 599	-	50 599	-
- Foreign exchange instruments	1 347	-	1 347	-
TOTAL FINANCIAL ASSETS	**1 120 718**	**768 772**	**351 946**	**-**

30.06.2016	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**11 680**	**-**	**11 680**	**-**
Interest-bearing instruments	-	-	-	-
Foreign exchange instruments	11 680	-	11 680	-
TOTAL FINANCIAL LIABILITIES	**11 680**	**-**	**11 680**	**-**

RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 120 718**	**768 772**	**351 946**	-
TOTAL FINANCIAL LIABILITIES	**11 680**	**-**	**11 680**	-

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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 as of 31 December 2015.

31.12.2015	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				
Investment securities available for sale, including:	**748 505**	**278 642**	**469 863**	**-**
- Treasury bonds	278 642	278 642	-	-
- Money bills	469 863	-	469 863	-
Derivative financial instruments, including:	**32 212**	**-**	**32 212**	**-**
- Interest-bearing instruments	29 995	-	29 995	-
- Foreign exchange instruments	2 217	-	2 217	-
TOTAL FINANCIAL ASSETS	**780 717**	**278 642**	**502 075**	**-**

31.12.2015	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	**3 770**	**-**	**3 770**	**-**
Interest-bearing instruments	2 369	-	2 369	-
Foreign exchange instruments	1 401	-	1 401	-
TOTAL FINANCIAL LIABILITIES	**3 770**	**-**	**3 770**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**780 717**	**278 642**	**502 075**	-
TOTAL FINANCIAL LIABILITIES	**3 770**	**-**	**3 770**	-

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 as of 30 June 2015.

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				
Investment securities available for sale, 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**	**-**

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**	-

With regard to financial instruments valuated in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by appropriate department on the basis of internal rules.

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.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed financial statements for the first half of 2016 and comparative data for 6 months of 2016, as at 31 December 2015 and as at 30 June 2015 fulfil the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259 with further amendments).

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 and 3 of these condensed financial statements. The accounting policies were applied consistently over all periods presented in these condensed financial statements.

3. Seasonal or cyclical nature of the business

In the first half of 2016, as well as in the comparative periods presented, business operations of the Bank 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

- Act on tax on certain financial institutions

On 15 January 2016 the Polish Parliament adopted the "Act on tax on certain financial institutions". The Act came into force on 1 February 2016.

The Act regulates the taxation of the assets of certain financial institutions. In the case of the Bank, the tax base is the excess of the total value of assets, resulting from the trial balance determined on the basis of the general ledger records as of the last day of the month in accordance with the accounting standards applied by the Bank, above the amount of PLN 4 billion, reduced by the value of own funds and treasury securities. The tax rate introduced by the Act is 0.0366% of the tax base per month. The cost of tax on certain financial institutions included in the results and equity of the Bank for the six months of 2016 amounted to PLN 6 448 thousand.

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

5. 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 2016, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

6. Issues, redemption and repayment of non-equity and equity securities

Data on the issue, redemption of debt securities has been presented in Note 21 of these condensed financial statements.

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

On 19 April 2016, the Ordinary General Meeting of mBank Hipoteczny S.A., adopted the resolution on division of the 2015 net profit which does not provide for the payment of dividend for the year 2015.

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8. Significant events after the end of the first half of 2016, which are not reflected in the financial statements

- Rating change

On 30 June 2016, rating agency Fitch made a decision (published on 1 July 2016) to upgrade the rating for mortgage covered bonds issued by the Bank from "BBB+" to "A" and changed the rating outlook from stable to positive for public covered bonds. The rating was upgraded following the amendments to the Act on covered bonds and mortgage banks, which entered into force on 1 January 2016.

- Decision of the Management Board on transferring bank accounts to mBank S.A.

In connection with the signing by the President of the Republic of Poland on 30 June 2016 of the Act of 10 June 2016 on Bank Guarantee Fund, Deposit Guarantee Scheme and Mandatory Restructuring, repealing, in Article 348, the legal basis for maintaining bank accounts by mortgage banks, the Management Board of mBank Hipoteczny S.A., by way of Resolution No 85/2016 adopted on 12 July 2016, decided to transfer services provided to the Bank's customers as regards maintaining escrow accounts and closed trust accounts to mBank by way of jointly offering mBank S.A.'s products that comply with specific functionality requirements to the customers.

- Conclusion of a deposit agreement

On 25 July 2016, a deposit agreement was concluded between mBank S.A. and mBank Hipoteczny S.A., under which mBank S.A. undertakes to place a deposit with mBank Hipoteczny S.A., the value of which will not exceed PLN 150,000 thousand.

- Registration of the increased share capital

On 1 August 2016, the new amount of share capital of mBank Hipoteczny S.A., increased as a result of the new issue, described in detail in Section 22 of Selected explanatory information, was entered in the National Court Register. As at 1 August 2016, the share capital of mBank Hipoteczny S.A. (fully paid-up) amounts to PLN 309,000,000.

The shareholding structure and the structure of the share capital after the registration of the share capital increased as a result of the new issue are presented below.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 01 AUGUST 2016							
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
registered	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
registered	-	-	100 000	10 000 000	cash	01.08.2016	01.01.2017
Total number of shares			**3 090 000**				
Total registered share capital				**309 000 000**			

- Acquisition by the Bank of a portfolio of mortgage loans granted by mBank S.A.

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, another portfolio transfer agreement was concluded on 29 July 2016 between mBank S.A. and mBank Hipoteczny S.A. Under this agreement, mBank Hipoteczny S.A. acquired a retail portfolio of mortgage-backed loans with the total fair value of PLN 152,641 thousand from mBank S.A.

- New issue of covered bonds

On 19 August 2016, the Bank issued, by way of a private placement, floating-rate mortgage covered bonds with the nominal value of EUR 70 million, maturing on 28 August 2019. The issue was carried out under a programme for private placement of covered bonds with the value of up to PLN 2 billion, organised by mBank S.A.

9. Effect of changes in the structure of the entity in the first half of 2016, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

In the first half of 2016, events as indicated above did not occur at the Bank.

10. Changes in contingent liabilities and commitments

In the first half of 2016, 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 2016, the Bank verified the valuation of repossessed real properties and made an impairment write-down on inventories in the amount of PLN 1 717 thousand (Note 11).

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 (Note 11).

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 2016, the Bank decreased the amount of impairment write-downs on receivables from sundry debtors:

- by PLN 907 thousand (Note 8) in connection with a repayment of a portion of receivables received as a result of a final plan of division of bankruptcy estate funds in accordance with the court's order of 4 January 2016,
- by PLN 827 thousand by writing off the remaining amount of receivables.

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 11). 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 19 as a reduction of the item "debtors".

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 9 of these condensed financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2016, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2016, 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 2016, as well as in the comparative periods presented, events as indicated above 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 2016, as well as in the comparative periods presented, events as indicated above 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 2016, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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19. Corrections of errors from previous reporting periods

In the first half of 2016, events as indicated above did not occur at the Bank.

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

In the first half of 2016, events as indicated above 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 2016.

22. Registered share capital

The total number of ordinary shares as at 30 June 2016 and 31 December 2015 was 2 990 000 shares at PLN 100 nominal value each. The total number of ordinary shares as at 30 June 2015 was 2 850 000 shares at PLN 100 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 JUNE 2016							
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
registered	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
Total number of shares			**2 990 000**				
Total registered share capital				**299 000 000**			

- Increase of the Bank's share capital

On 2 June 2016, the Extraordinary General Shareholders' Meeting of mBank 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 10,000 thousand, i.e. to PLN 309,000 thousand, by way of issuing 100,000 ordinary registered shares with the 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 24 June 2016. On 1 August 2016, the registry court entered the increased share capital in the register of entrepreneurs, as disclosed in Note 8 of the Selected explanatory information. The capital increase is presented in a separate item of the statement of financial position, "Paid-up unregistered capital".

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

As at the date of publishing the condensed financial statements for the first half of 2016 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 2016, 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. Proceedings before a court, arbitration body or public administration authority

In the first half of 2016, 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 2016, 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. The District Court in Poznań suspended the pending proceedings due to the absence in the company of a body authorised to represent it. On 8 December 2015 the Bank filed an application for

the appointment of an administrator with the District Court in Poznań, Commercial Division of the National Court Register. The registry court dismissed the proceedings concerning the administrator because it concluded that a resignation from the function of the member of the company's management board was ineffective. Therefore, the District Court set another hearing to be held on 4 November 2016.

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 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. During the first hearing which was held on 17 September 2015 witnesses indicated by the Bank were questioned. Subsequent hearings aimed at questioning proposed witnesses were held on 21 January and 16 May 2016. Currently, both parties to the dispute await the appointment of experts by the Court.

3. As at 30 June 2016, 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. The plaintiff, City of Warsaw, filed within the statutory time limit an appeal against the judgement with respect to the dismissal of the suit for interest. Both the appeal concerning costs of proceedings and the appeal concerning the interest are awaiting dates of hearings to be set by the Court of Appeal in Warsaw. As at 30 June 2016, the Bank had a provision for the above proceedings in the amount of PLN 95 thousand, of which PLN 39 thousand was recognised as costs of the first half of 2016 (Note 11).

4. On 30 December 2015 the Bank filed a suit for the issuance of a payment order of EUR 2,002 thousand against a borrower due to the failure to repay the loan after a notice of termination of the loan agreement. The case was completed in the first half of 2016 by the issuance of a payment order on 25 February 2016 in accordance with the Bank's request. On 15 April 2016 the order became legally valid.

5. On 16 March 2016 the Bank filed a suit for the issuance of a payment order of EUR 850 thousand against a borrower due to the failur to repay the loan after a notice of termination of the loan agreement. On 6 June 2016 the competent District Court issued a payment order as requested by the Bank.

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25. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2016, 31 December 2015 and 30 June 2015

		30.06.2016 unaudited	31.12.2015	30.06.2015 unaudited
1.	**Off-balance sheet liabilities granted and received**	**1 779 255**	**1 161 699**	**1 170 090**
	Liabilities granted	**1 357 795**	**990 932**	**999 763**
	Financial liabilities	1 357 795	990 932	999 763
	Liabilities received:	**421 460**	**170 767**	**170 327**
	Financial liabilities	421 460	170 767	170 327
2.	**Derivative financial instruments**	**3 005 918**	**2 680 582**	**3 478 115**
	1. Interest rate derivatives	1 397 524	1 456 852	2 040 211
	2. Foreign exchange derivatives	1 608 394	1 223 730	1 437 904
	Total off-balance sheet items	**4 785 173**	**3 842 281**	**4 648 205**

26. Transactions with related entities

mbank S.A. is the direct parent entity of mBank Hipoteczny S.A. Commerzbank AG is the direct parent entity of mBank S.A.

All transactions between the Bank and related entities were typical and routine transactions concluded on terms, which not differ from arm's length terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and liabilities in respect of debt securities in issue and derivative transactions.

Agreements concluded in the first half of 2016 with mBank S.A.:

1. As part of the framework agreement signed on 28 August 2014 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. the following agreements were signed in the first hald of 2016:
   - on 29 February 2016, a portfolio transfer agreement was concluded between mBank S.A. and mBank Hipoteczny S.A. Under this agreement, mBank Hipoteczny S.A. acquired a retail portfolio of mortgage-backed loans with the total fair value of PLN 120,078 thousand from mBank S.A.
   - on 31 March 2016, a portfolio transfer agreement was concluded between mBank S.A. and mBank Hipoteczny S.A. Under this agreement, mBank Hipoteczny S.A. acquired a retail portfolio of mortgage-backed loans with the total fair value of PLN 84,327 thousand from mBank S.A.
   - on 31 May 2016, a portfolio transfer agreement was concluded between mBank S.A. and mBank Hipoteczny S.A. Under this agreement, mBank Hipoteczny S.A. acquired a retail portfolio of mortgage-backed loans with the fair value of PLN 157,895 thousand from mBank S.A.
2. On 21 March 2016, a commercial credit transfer agreement was concluded between mBank S.A. and mBank Hipoteczny S.A. relating to a mortgage-backed commercial credit in the amount of EUR 32,000 thousand.
3. On 29 January 2016 a contract of mandate was concluded for preparing and carrying out a covered bonds issue as part of an issue programme worth up to PLN 15 billion, between mBank S.A., Dom Maklerski mBanku S.A., mCorporate Finance S.A. as organizers of the issue and mBank Hipoteczny S.A. as the issuer.
4. On 14 April 2016 an agreement for the programme of a public issue of covered bonds was concluded between mBank S.A. and mBank Hipoteczny S.A. up to the amount of PLN 15 billion.
5. On 20 May 2016 a loan agreement relating to a revolving loan was concluded between mBank S.A. and mBank Hipoteczny S.A. up to the amount of PLN 250,000 thousand.
6. On 30 May 2016 an agreement for the programme of the private issue of covered bonds was concluded between mBank S.A. and mBank Hipoteczny S.A. up to the amount of PLN 2 billion.

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 2016, 31 December 2015 and 30 June 2015 and related costs and income in the periods from 1 January to 30 June 2016, 1 January to 31 December 2015 and from 1 January to 30 June 2015.

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
As at the end of the period	**30.06.2016** unaudited	**31.12.2015**	**30.06.2015** unaudited	**30.06.2016** unaudited	**31.12.2015**	**30.06.2015** unaudited	**30.06.2016** unaudited	**31.12.2015**	**30.06.2015** unaudited
Statement of finacial position									
Assets	2 346	2 265	2 094	52 483	236 950	83 213	-	-	-
Liabilities	230 037	352 506	4 224	3 454 650	3 182 879	2 952 314	884 028	638 718	628 510
Contingent liabilities									
Liabilities received	-	-	-	421 460	170 767	170 327	-	-	-
Derivative instruments (purchase, sale)									
IRS contracts	-	-	-	1 397 524	1 056 852	2 040 211	-	-	-
FX SWAP contracts	-	-	-	1 589 812	1 218 294	1 434 550	-	-	-

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
Year ended	**30.06.2016** unaudited	**31.12.2015**	**30.06.2015** unaudited	**30.06.2016** unaudited	**31.12.2015**	**30.06.2015** unaudited	**30.06.2016** unaudited	**31.12.2015**	**30.06.2015** unaudited
Income statement									
Interest income	658	1 344	660	9 918	14 953	7 531	-	-	-
Interest expense	(307)	-	-	(31 495)	(57 169)	(26 111)	(2 780)	(4 993)	(2 313)
Fee and commission income	133	1 020	881	-	-	-	-	-	-
Fee and commission expenses	(19)	(38)	-	(395)	(850)	(501)	-	-	-
Net trading income	-	-	-	13 234	3 902	(20 976)	-	-	-
Other operating income	-	-	-	302	181	70	-	-	-
Other operating expenses	-	-	(17)	(9)	-	(556)	-	-	-
Overhead costs, (amortisation and depreciation)	(1 227)	(1 320)	(633)	(2 112)	(3 602)	(1 705)	-	-	-

* 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 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.

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27. Credit and loan guarantees, other guarantees granted in excess of 10% of the equity

In the first half of 2016, as well as in the comparative periods presented, events as indicated above 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

- Changes in the Supervisory Board of mBank S.A.

On 19 April 2016 the Annual General Meeting of mBank Hipoteczny S.A. appointed the following Supervisory Board members for the tenth term of office:

1. Hans-Dieter Kemler
2. Lidia Jabłonowska-Luba
3. Joerg Hessenmueller
4. Cezary Kocik
5. Michał Popiołek
6. Dariusz Solski
7. Mariusz Tokarski

By Resolution 25 of the Supervisory Board of mBank Hipoteczny S.A. of 20 June 2016, Mr. Hans-Dieter Kemler was appointed the Chairman of the Supervisory Board. By Resolution 26 of the Supervisory Board of mBank Hipoteczny S.A. of 20 June 2016, Ms. Lidia Jabłonowska-Luba was appointed the Vice-Chairman of the Supervisory Board.

Mr. Joerg Hessenmueller resigned from his Supervisory Board Member position as of 30 June 2016.

On 6 July 2016, by resolution of the Extraordinary General Meeting of mBank Hipoteczny S.A., Mr Christoph Heins was appointed a Member of the Supervisory Board.

- End of the covered bonds issue programme

On 30 June 2016, the Bank's Management Board adopted a resolution to end the programme of recurring issues of mortgage and public bearer covered bonds up to the total nominal value of PLN 6 billion, offered in public offers, issued based on a Bank's prospectus, which programme had been approved by Financial Supervision Authority's decision no. DEM/WE/410/36/24/09 of 28 October 2009.

- New covered bonds issue programme

On 26 July 2016, the Bank's Management Board adopted a resolution (amended by the Bank's Management Board resolution of 18 August 2016) on the issue of mortgage covered bonds as part of an issue programme up to the total nominal value of PLN 15 billion.

Signatures: Warsaw, 22 August 2016

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

....
The person responsible for bookkeeping

Milena Zwolińska-Grabowicz