mBank Hipoteczny S.A.

IFRS Condensed Financial Statements
for the first half of 2017

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 2017.

Selected financial data		in PLN `000		in EUR `000	
		1 half of 2017 period from 01.01.2017 to 30.06.2017 unaudited	1 half of 2016 period from 01.01.2016 to 30.06.2016 unaudited	1 half of 2017 period from 01.01.2017 to 30.06.2017 unaudited	1 half of 2016 period from 01.01.2016 to 30.06.2016 unaudited
I.	Interest income	180 904	147 875	42 592	33 758
II.	Fee and commission income	899	3 558	212	812
III.	Net trading income	(3 425)	2 024	(806)	462
IV.	Operating result	28 219	19 835	6 644	4 528
V.	Profit before income tax	16 999	13 387	4 002	3 056
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	10 256	13 766	2 415	3 143
VII.	Net cash flows from operating activities	(929 409)	(386 765)	(218 818)	(88 292)
VIII.	Net cash flows from investing activities	(7 263)	(3 127)	(1 710)	(714)
IX.	Net cash flows from financing activities	740 098	129 196	174 247	29 493
X.	Total net cash flows	(196 574)	(260 696)	(46 281)	(59 513)
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	3.23	4.60	0.76	1.05

Selected financial data		in PLN `000 as at			in EUR`000 as at		
		30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
I.	Total assets	11 335 233	10 649 499	9 672 321	2 681 943	2 407 210	2 185 588
II.	Amounts due to other banks	3 881 459	3 316 817	2 910 403	918 362	749 733	657 644
III.	Amounts due to customers	11 141	36 394	295 296	2 636	8 226	66 726
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	1 036 551	903 699	895 003	245 250	204 272	202 238
V.	Share capital*	321 000	309 000	309 000	75 949	69 846	69 823
VI.	Number of shares*	3 210 000	3 090 000	3 090 000	3 210 000	3 090 000	3 090 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)*	323	292	290	76	66	65
VIII.	Total capital ratio (%)	15.82	14.54	14.32	15.82	14.54	14.32

* As at 30 June 2016 the items include unregistered paid-up capital described in detail in Points 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 2017: EUR 1 = PLN 4.2265, 31 December 2016: EUR 1 = PLN 4.4240 and 30 June 2016: EUR 1 = PLN 4.4255
- for items of the income statement and items of statement of cash flows – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2017 and 2016: EUR 1 = PLN 4.2474 and EUR 1 = PLN 4.3805 respectively.

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Condensed income statement

Total profit of mBank Hipoteczny S.A. for the first half of 2017 and the first half of 2016 relates to the result of continued operations.

	Note	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Interest income	5	180 904	147 875
Interest expense	5	(108 679)	(87 785)
Net interest income		**72 225**	**60 090**
Fee and commission income	6	899	3 558
Fee and commission expenses	6	(4 018)	(2 191)
Net fee and commission income		**(3 119)**	**1 367**
Net trading income, including:	7	(3 425)	2 024
Foreign exchange result		*(3 098)*	*2 323*
Other net trading income and result on hege accounting		*(327)*	*(299)*
Other operating income	8	499	1 813
Net impairment write-downs on loans and advances	9	(1 742)	(10 351)
Overhead costs	10	(34 118)	(31 191)
Amortisation and depreciation		(1 563)	(1 645)
Other operating expenses	11	(538)	(2 272)
Operating result		**28 219**	**19 835**
Taxes on the Bank balance sheet items		(11 220)	(6 448)
Profit before income tax		**16 999**	**13 387**
Income tax	23	(6 743)	379
Net profit		**10 256**	**13 766**

Net profit attributable to shareholders of the mBank Hipoteczny S.A.		**10 256**	**13 766**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	12	**3 172 210**	**2 993 846**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	12	**3.23**	**4.60**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

Condensed statement of comprehensive income

	Period from 01.01.2017 to 30.06.2017 unaudited	**Period from 01.01.2016 to 30.06.2016** unaudited
Net profit	**10 256**	**13 766**
Other comprehensive income taxable	**2 669**	**(1 035)**
Items that may be reclassified to the income statement		
Change in valuation of available for sale financial assets (gross)	3 289	(1 278)
Deferred tax on valuation available for sale financial assets	(625)	243
Change in valuation of available for sale financial assets (net)	2 664	(1 035)
Items that will not be reclassified to the income statement		
Actuarial gains and losses on post-employment benefits (gross)	6	-
Deferred tax on actuarial gains and losses on post-employment benefits	(1)	-
Actuarial gains and losses on post-employment benefits (net)	5	-
Total comprehensive income net of tax	**12 925**	**12 731**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.	**12 925**	**12 731**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

Condensed statement of financial position

ASSETS	Note	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Cash and balances with the central bank		46 753	5 530	121 426
Amounts due from other banks	13	9 927	16 262	442
Derivative financial instruments	14	40 568	45 160	51 946
Loans and advances to customers	15	10 173 290	9 411 505	8 391 043
Investment securities available for sale	16	1 025 279	1 134 049	1 068 772
Intangible assets	17	18 343	13 357	10 226
Tangible fixed assets	18	8 253	7 603	6 944
Current income tax assets		-	-	610
Deferred income tax assets	23	5 761	8 644	10 680
Other assets, including:	19	7 059	7 389	10 232
- inventories		3 432	3 432	3 432
TOTAL ASSETS		**11 335 233**	**10 649 499**	**9 672 321**

LIABILITIES AND EQUITY		30.06.2017 unaudited	31.12.2016	30.06.2016 niebadane
L i a b i l i t i e s				
Amounts due to other banks		3 881 459	3 316 817	2 910 403
Derivative financial instruments	14	7 006	9 635	11 680
Amounts due to customers	20	11 141	36 394	295 296
Debt securities in issue	21	6 158 931	6 152 771	5 334 571
Subordinated liabilities		200 428	200 484	200 452
Current income tax liabilities		3 707	2 791	-
Other liabilities and provisions	22	36 010	26 908	24 916
TOTAL LIABILITIES		**10 298 682**	**9 745 800**	**8 777 318**
E q u i t y				
Share capital:		**734 719**	**614 792**	**614 792**
- Registered share capital		321 000	309 000	299 000
- Paid up unregistered capital		-	-	10 000
- Share premium		413 719	305 792	305 792
Retained earnings		**300 309**	**290 053**	**280 397**
- Profit from the previous years		290 053	266 631	266 631
- Profit for the current period		10 256	23 422	13 766
Other components of equity		**1 523**	**(1 146)**	**(186)**
TOTAL EQUITY		**1 036 551**	**903 699**	**895 003**
TOTAL LIABILITIES AND EQUITY		**11 335 233**	**10 649 499**	**9 672 321**
Total capital ratio (%)		**15.82**	**14.54**	**14.32**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

Condensed statement of changes in equity

Changes in the period from 1 January 2017 to 30 June 2017 (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 2017	**309 000**	**305 792**	**224 131**	**42 500**	**23 422**	**-**	**(1 168)**	**22**	**903 699**
Net profit	-	-	-	-	-	10 256	-	-	10 256
Other comprehensive income (gross)	-	-	-	-	-	-	3 289	6	3 295
Deferred tax on other comprehensive income	-	-	-	-	-	-	(625)	(1)	(626)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**10 256**	**2 664**	**5**	**12 925**
Transfer to general banking risk reserve	-	-	-	2 300	(2 300)	-	-	-	-
Transfer to supplementary capital	-	-	21 122	-	(21 122)	-	-	-	-
Issue of shares	12 000	108 000	-	-	-	-	-	-	120 000
Share issue costs	-	(73)	-	-	-	-	-	-	(73)
As at 30 June 2017	**321 000**	**413 719**	**245 253**	**44 800**	**-**	**10 256**	**1 496**	**27**	**1 036 551**

Changes in the period from 1 January 2016 to 31 December 2016

	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 2016	**299 000**	**215 856**	**211 340**	**36 500**	**18 791**	**-**	**825**	**24**	**782 336**
Net profit	-	-	-	-	-	23 422	-	-	23 422
Other comprehensive income (gross)	-	-	-	-	-	-	(2 461)	(3)	(2 464)
Deferred tax on other comprehensive income	-	-	-	-	-	-	468	1	469
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**23 422**	**(1 993)**	**(2)**	**21 427**
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 31 December 2016	**309 000**	**305 792**	**224 131**	**42 500**	**-**	**23 422**	**(1 168)**	**22**	**903 699**

Explanatory notes and selected explanatory data presented on pages 10 to 62 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

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**

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IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

Condensed statement of cash flows

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
A. Cash flows from operating activities	**(929 409)**	**(386 765)**
Profit before income tax	**16 999**	**13 387**
Adjustments:	***(946 408)***	***(400 152)***
Income tax paid	(3 570)	(1 858)
Amortisation and depreciation	1 563	1 645
Interest income (income statement)	(180 904)	(147 875)
Interest expenses (income statement)	108 679	87 785
Interest received	176 325	146 860
Interest paid	(10 284)	(4 353)
Change in balances with the central bank	1	1
Change in amounts due from other banks	6	(1)
Change in assets and liabilities on derivative financial instruments	(3 162)	(12 699)
Change in loans and advances to customers	(758 078)	(1 005 382)
Change in investment securities	(119 544)	(489 041)
Change in other assets	330	(753)
Change in amounts due to other banks	(137 443)	305 295
Change in amounts due to customers	(25 265)	29 349
Change in debt securities in issue	(4 234)	686 410
Change in other liabilities and provisions	9 108	4 478
Result on disposal of intangible assets and tangible fixed assets	64	(13)
Net cash from operating activities	**(929 409)**	**(386 765)**
B. Cash flows from investing activities	**(7 263)**	**(3 127)**
Investing activity inflows	**24**	**190**
Disposal of intangible assets and tangible fixed assets	24	190
Investment activity outflows	**7 287**	**(3 317)**
Purchase of intangible assets and tangible fixed assets	7 287	(3 317)
Net cash from investing activities	**(7 263)**	**(3 127)**
C. Cash flow from financing activites	**740 098**	**129 196**
Financing activity inflows	**1 233 679**	**1 069 166**
Due to the loans and advances from banks	700 000	300 960
Due to the issue of debt securities	407 620	662 665
Due to the issue of shares	119 927	99 937
Interest received from hedging derivative financial instruments	6 132	5 604
Financing activities outflows	**493 581**	**(939 970)**
Due to the repayment of loans and advances from banks	-	(655 579)
Due to the redemption of debt securities	400 000	(200 000)
Interest paid on loans received, debt securities in issue, subordinated loan	93 581	(84 391)
Net cash from financing activities	**740 098**	**129 196**
Net increase / decrease in cash and cash equivalents, total (A+B+C)	**(196 574)**	**(260 696)**
Cash and cash equivalents as at the beginning of the reporting period, including:	**253 254**	**682 564**
Cash and balances with the central bank	5 530	7 521
Amounts due from other banks	16 262	205 180
Investment securities with maturity of up to 3 months from the date of purchase	231 462	469 863
Cash and cash equivalents as at the end of the reporting period, including:	**56 680**	**421 868**
Cash and balances with the central bank	46 753	121 426
Amounts due from other banks	9 927	442
Investment securities with maturity of up to 3 months from the date of purchase	-	300 000

Explanatory notes and selected explanatory data presented on pages 10 to 62 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 had a legacy portfolio of loan transactions for this segment which was 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, 2017 the employment in the Bank was 214 FTEs and 222 persons (June 30, 2016: 215 FTEs; 228 persons).

Average employment in the first half 2017 was 225 persons, in the first half 2016 it was 225 persons.

These condensed financial statements were approved by the Management Board of mBank Hipoteczny S.A. on 4 August 2017.

2. Description of the relevant accounting policies

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

2.1. Basis of preparation

The condensed financial statements of mBank Hipoteczny S.A. have been prepared for the 6-month period ended 30 June 2017. These condensed financial statements are standalone financial statements.

Both as at 30 June 2017 and as at 30 June 2016, 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 2016.

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank. The issues in relation to which a significant professional judgement is required, more complex issues, or such issues where estimates or judgments are material to the financial statements are disclosed in Note 3.

The condensed financial statements of mBank Hipoteczny S.A. 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.

Financial statements are prepared in compliance with materiality principle. Material omissions or misstatements of positions of financial statements are material if they could, individually or collectively, influence the economic decisions that users make on the basis of Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of the position of financial statements or a combination of both. The Bank presents separately each material class of similar positions. The Bank presents separately positions of dissimilar nature or function unless they are immaterial.

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.

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.

Interest income reported by the Bank also include commission on early repayment of loans granted, recognized 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 position Interest income/expense on derivatives classified into banking book. The Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking book.

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

Interest expenses include paid and accrued interests as well as commissions 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.

2.3. Fee and commission income and expenses

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

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

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

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

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

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

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

2.5. Segment reporting

An operating segment is a component of the entity:

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

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

In accordance with IFRS 8, the Bank distinguished the following operating segments: "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 of the Bank 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.

<u>Loans and receivables</u>

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.

<u>Investments held to maturity</u>

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.

<u>Financial assets available for sale</u>

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 measured 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

<u>Assets carried at amortised cost</u>

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 S.A. 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).

<u>Retail loan portfolio, LGU and other retail loans</u>

The Bank assumes the occurrence of a default in relation to a given debtor, if at least one out of three following events took place:

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

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

   - in case of retail exposures the overdue amount exceeds PLN 500,
   - in case of other exposures the overdue amount exceeds PLN 3 000,

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

For a default date the Bank assumes the date of decision on occurrence of a default - on the basis of obtaining of information about hard and soft evidence as well as on the basis of conducted exposure assessment analysis.

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

- preparation of a loss impairment as a result of significant deterioration of debtor's creditworthiness,
- sale by the Bank of an exposure with significant economic loss associated with changes in its creditworthiness,
- the Bank's permission for forced restructuring of loan liability, if it may cause reduction of financial liabilities through amortisation of significant part of the liability or deferring of payment of the principal amount, interests or - if applicable - commission,
- filing by the Bank a bankruptcy motion against debtor or filing similar motion in respect of loan obligations of the debtor towards the Bank, the parent of the Bank.
- bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of loan obligations towards the Bank, the parent entity of the Bank,

- fraud of the client (provision of false data at the time of granting of a loan or during its monitoring, credit fraud etc.),
- termination of an agreement (in whole or in part) and/or initiation of debt collection activities.

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

The Bank calculated loss impairments on the basis of individual analysis (commercial or public sector portfolio) and portfolio analysis (retail portfolio and exposures from the commercial or public sector portfolio for which no value loss was identified in the individual analysis).

The process of calculation of impairment losses in the individual analysis consists in:

a) determination of estimated future cash flows (repayments) both from collaterals and payments made by borrowers, including planned costs,

b) in the calculation of difference between balance sheet value of a given asset and current value of estimated profits and costs discounted with effective interest rate,

c) booking of impairment losses.

In case of evidence of loss of value and individual analysis of a given credit exposure, not stating the loss of value, impairment loss is calculated on the basis portfolio parameters analysis.

In case of lack of evidence of the loss of value against credit exposure, on the basis of probability of default, an impairment loss is calculated in the portfolio analysis for the incurred, but not identified losses.

The portfolio analysis covers all retail and commercial loans not covered by the individual analysis. The Bank applies estimated for the purposes of loss of value measurement parameters specifying the rate of healing (ZLGD), indicator of faulty collaterals (BD) and indicator of relationship between recovery and the value of collateral (CCR), as well as individual for each exposure indicator of relationship between a debt and the value of collateral (LTV) used for determination of LGD in the portfolio analysis and additionally parameters PD and LIP. The Bank assumes that LIP amounts to 8 months for the commercial loan portfolio and 12 months for retail loans. PD parameter is currently determined using 3 year time series. LGD parameter is estimated on the basis of data from 2009, selection of the scope of data is made in order to ensure adequacy of estimation of the amount of impairment losses to current economic conditions. Each of separated portfolios has its own set of ZLGD, BD, CRR and PD parameters.

In case of assets for which a loss of value was identified, the Bank executes stricter monitoring, e.g. revaluation of the mortgage lending value of the property constituting collateral of a loan.

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

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

a) that the overdue of at least one loan liability of the debtor is maintained for a period exceeding 90 days and the total amount of overdue on all loan exposures of the debtor (overdue by over 31 days) exceeds PLN 500,

b) one of the client's transactions is subject to restructuring,

c) loan claim is sold with significant economic credit loss,

d) the Bank submits a motion to commence execution proceedings, bankruptcy or recovery proceedings (resulting with possible omission or delay in repayment) by the debtor,

e) loss impairment was made as a result of significant deterioration of the client's creditworthiness.

Calculation of impairment losses on balance sheet credit exposures and reserves on off-balance sheet credit exposures in parameters based on risk determined using methodology applied for the purposes of advanced method of internal ratings (AIRB) after necessary elimination of differences between approach resulting from AIRB and MSR 39.

The factors analysed in recognition of loan impairment include all evidence of impairment recognized by the Bank, including, among other things, significant financial difficulties of the debtor and a violation of the contract, i.e. failure to pay interest or the principal amount of the liability.

The main legal collateral for the loans granted to customers by the Bank is a mortgage established for the Bank in the first place in the land and mortgage register maintained for the property.

The value of the property which is collateral for a loan granted by the Bank is estimated on the basis of the so-called mortgage lending value which assumes that the property will maintain its value in the longer term.

In the event of adverse changes in the value of collateral, the Bank verifies it by revaluing the property. Depending on the results of the revaluation, as a rule the Bank negotiates with the borrower, pursuant to the concluded loan agreement:

a) establishing additional collateral;

b) changing the collateral;

c) making a one-time repayment of the debt to the LTV level accepted by the Bank;

d) renegotiating the terms of the agreement.

As a result of the analysis of the valuation, the Bank revalues the estimated amount recoverable from own payments and from the collateral and recognizes an impairment allowance.

Failure to reach an agreement may result in partial or full termination of the agreement if the borrower's economic and financial position shows permanent deterioration.

The Bank has a contingency plan in the event of unexpected, radical changes in prices on the real estate market.

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 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 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 equity 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 equity. 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.

The general rule of the restructuring policy conducted by the Bank is recognition of the reasons of threat of failure to repay a loan granted according to conditions specified in the loan agreement as early as possible and diagnosis whether those threats are attributed to the market or the entrepreneur.

In case of threats resulting from the situation on the market, the Bank conducts a policy of restructuring of the granted loan towards implementation of the "stay" strategy which assumes maintenance of relationship with the borrower and consists in such change of the conditions of the granted loan which will allow the entrepreneur to continue business activity and its further development in case of beneficial change of market conditions.

In case of threats attributed to the entrepreneur, the Bank conducts a policy of restructuring of the granted loan towards implementation of the "exit" strategy assuming termination of relationship with a borrower as fast as possible and without losses.

The most important factor taken into account in restructuring of granted loans is assumed time of repayment of a loan, the Bank prioritises restructuring over debt collection, unless restructuring does not bring tangible effects.

In case of restructuring of conditions of repayment of loans, the Bank is flexible in terms of applied margins, commissions and fees, provided that the repayment of the entire current value of a loan is guaranteed.

Due to the specificity of the loan product (mortgage loan) offered by the Bank, the Bank prefers, in case of impairment calculation, taking assumptions of future cash inflows from the sale of assets on which the Bank established mortgages in time resulting from standard periods of liquidation of those assets, and not from inflows from the borrower's own contributions or implementation of other securities, unless such inflows are almost guaranteed.

A set of measures, defined by internal regulations and related to the renegotiation and restructuring of terms of loan agreements, defined as the Banks policy with respect to forbearance, was described in Note 3.1.5 in Financial Statements of mBank Hipoteczny S.A. for 2016.

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. Cash and cash equivalents are valued to the amount of amortised cost.

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 fulfillment 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.

<u>Fair value hedges</u>

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

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.

<u>Derivative instruments not fulfilling the criteria of hedge accounting</u>

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.

<u>Rules of calculation of impairments (valuation adjustment) on credit risk of the counterparty from valuation of derivative instruments of the market risk.</u>

Impairment loss due to credit risk (valuation adjustment) for derivative instruments is created for customers in the financial sector, who were not classified to the default category or technical default which means a default resulting from the breach of provisions of agreement (e.g. failure to cover costs arising from a transaction despite the fact that the main receivable was settled in a timely manner). The amount of impairment constitutes the sum of expected on particular transactions concluded with a given counterparty credit losses for a default of this counterparty, which will become apparent until the maturity date of particular derivative instruments. Expected loss due to counterparty risk is estimated per counterparty - cumulatively for all transactions of the counterparty on the basis of indicated term structure of expected future positive exposure (EPE) and curves of credit spreads for individual sectors and ratings.

2.11. Intangible assets

On initial recognition, the Bank measures intangible assets at purchase price. After initial recognition intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) less any accumulated amortisation and any impairment losses. Accumulated amortisation 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.

<u>Computer software</u>

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.

<u>Development costs</u>

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 and financial 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 amortisation period does not exceed 5 years. Amortisation 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 and at the end of each reporting period.

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 depreciation write-offs and the total amount of impairment losses.

The purchase price or cost of production of tangible fixed assets position 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 or otherwise determined fair value reduced by the final value of this asset, should be depreciated.

The depreciation is a systematic distribution of value subject to depreciation 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).

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

The Bank depreciates tangible fixed assets using the straight-line method by distributing its initial value or revalued amount reduced by final value by estimated useful life. The final value and 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 depreciation for a given asset may be determined with consideration of this difference.

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

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

Deferred tax liabilities and assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax. 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, if the Bank has a legally enforceable right to their simultaneous consideration in calculating the tax liability.

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

The Bank uses the accounting method to determine exchange differences as of January 1, 2015.

2.14. Inventories

Assets repossessed for debt are classified by the Bank as inventories. At initial recognition assets repossessed for debt are valued at their fair value and then 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.

By Resolution No. 13/2017 of the Supervisory Board dated 27 March 2017 an amended Policy of remuneration of persons who have a significant effect on the Bank's risk profile at mBank Hipoteczny S.A. was approved. This change consisted of setting a limit on the payment of variable remuneration so that if the amount of variable remuneration is equal to or lower than PLN 200 thousand, the Bank's Management Board may decide not to defer the variable remuneration for the following years and award the entire variable remuneration in the form of undeferred cash.

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

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. Tax from the off-balance sheet positions of the Bank

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

2.24. New standards, interpretations and amendments to published standards

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2017.

These financial statements do not include standards and interpretations listed below 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.

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

Standards and interpretations approved by the European Union:

- IFRS 9, Financial Instruments, published by the International Accounting Standards Board on 24 July 2014, approved by European Union on 22 November 2016, 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 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.

  IFRS 9 introduces a new impairment model based on the concept of „expected credit losses", changes to the rules of classification and measurement of financial instruments (particularly of financial assets) as well as a new approach towards hedge accounting.

  In June 2015 the Bank launched an IFRS 9 implementation project which actively engages the Bank's organizational units responsible for accounting, financial reporting and risk management as well as business and IT department. For the retail portfolio, the Bank is carrying out work as part of a project carried out at mBank S.A.

  The Bank is currently implementing necessary solutions for the particular IFRS 9 requirements based on the results of gap analysis and defined methodological assumptions. The Bank intends to complete the project by December 2017.

  As at 30 June 2017, it is not possible to estimate the overall impact of IFRS 9 implementation on the Bank's financial situation and own funds. In the Bank's opinion, disclosing quantitative data that would not reflect the potential impact of all aspects of IFRS 9 on the Bank's financial situation and own funds could have a negative impact on the informative value of the financial statement for its users. Nevertheless, taking into account the current regulations, changes in the requirements regarding classification and measurement and impairment of financial assets, would have moderately negative impact on the Bank's own funds. However, the impact of changes can be reliably estimated only in the consecutive periods.

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, approved by European Union on 22 September 2016, 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, approved by European Union on 22 September 2016, binding for annuals periods starting on or after 1 January 2018.

  IFRS 15 introduces new principles of revenue recognition. The core principle is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. According to a new IFRS 15 revenue is recognized when the customer obtains control of these goods or services. Depending on the fulfilment of certain conditions revenues are either recognized over time throughout the duration of the contract if a performance obligation is satisfied over time, or at a point in time when the customer obtains control of these goods or services.

  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.

Standards and interpretations not yet approved by the European Union:

- 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 starting 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 starting 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.

- Annual Improvements to IFRS Standards 2014-2016 Cycle, changing 3 standards (IFRS 1, IFRS 12, IAS 28), published by International Accounting Standards Board on 8 December 2016, binding for annuals periods starting on or after 1 January 2017 or on or after 1 January 2018.

  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 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.

  Amendments to IFRS 15 clarify the guidance on the identification of performance obligation, the accounting of licensing of intellectual property and principal versus agent considerations in the context of presenting income on gross or net basis. The practical expedients on transition were also added when applying a new standard.

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

- IFRS 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 operating lease assets and corresponding liability in the financial statements of the Bank as lessee. The Bank does not have any finance lease agreements.

- 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 significant impact on the financial statements in the period of its initial application.

- Amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, published by International Accounting Standards Board on 12 September 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 significant impact on the financial statements in the period of its initial application.

- Amendments to IAS 40, *Transfers of Investment Property*, published by International Accounting Standards Board on 8 December 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 significant impact on the financial statements in the period of its initial application.

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*, published by International Accounting Standards Board on 8 December 2016, binding for annuals periods starting on or after 1 January 2018.

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

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments, published by International Accounting Standards Board on 7 June 2017, binding for annuals periods starting on or after 1 January 2019.

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

- IFRS 17, Insurance contracts, published by International Accounting Standards Board on 18 May 2017, binding for annuals periods starting on or after 1 January 2021

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

2.25. Change of presentation in the condensed statement of financial position

In the first quarter of 2017, in the condensed statement of financial position the Bank changed the presentation of a hedge accounting difference concerning the fair value of hedged items so that the said adjustment was presented along with the hedged item in the line "Debt securities in issue", which is consistent with the provisions of IAS 39. The change of presentation was applied to all the comparative periods presented in the condensed financial statements.

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 are any evidence indicating possible to measure decrease of estimated future cash flows arising from granted loans and advances. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows (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. If the current value of estimated cash flows for the portfolio of loans with recognized individual impairment changed by +/- 10%, the estimated amount of loan impairment would decrease by PLN 19 409 thousand or increase by PLN 19 436 thousand respectively. This estimate was made for a portfolio of loans in the case of which impairment is recognized on the basis of an individual analysis of future cash flows from recoveries from collateral. 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.

Deferred tax assets

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.

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.

According to IAS 19 Bank used the Projected Unit Credit Method to measure the present value of the liabilities for the employee benefits. The basis to measure the provision for the deferred part of the variable remuneration for the entitled employees of the Bank is the amount of bonus, which Bank is obliged to pay based on the remuneration policy for persons having significant influence on the Bank's risk profile in mBank Hipoteczny S.A.

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.

By Resolution No. 13/2017 of the Supervisory Board dated 27 March 2017 an amended Policy of remuneration of persons who have a significant effect on the Bank's risk profile at mBank Hipoteczny S.A. was approved. This change consisted of setting a limit on the payment of variable remuneration so that if the amount of variable remuneration is equal to or lower than PLN 200 thousand, the Bank's Management Board may decide not to defer the variable remuneration for the following years and award the entire variable remuneration in the form of undeferred cash.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All 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.

Classification for forbearance exposures

In accordance with the Bank's forbearance policy presented under Note 3.1.5 in Financial Statements of mBank Hipoteczny S.A. for 2016, the Bank classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

4. Operating segments

Following the management approach information about segments is 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 was 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 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, 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. – 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);
- 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.

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.

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

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 two categories: 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 Bank calculates the interest and commission expense for loans to local government authorities on the basis of the portion of the average costs of other financing sources, attributable to that segment.

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.

Profit before tax for each operating segments of the Bank is presented with the reconciliation to the positon of the income statements, prepared for the purposes of the audited financial statements.

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

Period from 01.01.2017 to 30.06.2017 unaudited	Commercial loans	Retail loans	Other loans	Total
Interest income	81 888	93 004	6 012	180 904
Interest expense	(31 715)	(72 158)	(4 806)	(108 679)
Net interest income	**50 173**	**20 846**	**1 206**	**72 225**
Fee and commission income	840	55	4	899
Fee and commission expenses	(786)	(3 174)	(58)	(4 018)
Net impairment write-downs on loans and advances	(1 197)	(642)	97	(1 742)
Amortisation/depreciation and overhead costs, taxes on the Bank balance sheet items	(28 000)	(18 273)	(628)	(46 901)
Other income statement items	(2 068)	(1 349)	(47)	(3 464)
Segment result (before tax)	**18 962**	**(2 537)**	**574**	**16 999**

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

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, taxes on the Bank balance sheet items	(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**

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

30.06.2017 unaudited	Commercial loans	Retail loans	Other loans	Non-allocated assets items	Total
Loans and advances to customers	**4 464 490**	**5 364 423**	**333 806**	**-**	**10 162 719**
Other assets	**-**	**-**	**-**	**1 172 514**	**1 172 514**
Segment assets	**4 464 490**	**5 364 423**	**333 806**	**1 172 514**	**11 335 233**

31.12.2016	Commercial loans	Retail loans	Other loans	Non-allocated assets items	Total
Loans and advances to customers	**4 710 560**	**4 342 849**	**350 390**	**-**	**9 403 799**
Other assets	**-**	**-**	**-**	**1 245 700**	**1 245 700**
Segment assets	**4 710 560**	**4 342 849**	**350 390**	**1 245 700**	**10 649 499**

30.06.2016 unaudited	Kredyty komercyjne	Kredyty detaliczne	Pozostałe kredyty	Pozycja nieprzypisane aktywów	Razem
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**

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

5. Net interest income

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Interest income		
Loans and advances, including the unwind of discount relating to impairment write-down:	158 797	129 402
Investment securities	10 118	8 449
Cash and short-term deposits	560	482
Interest income on derivatives classified into banking book	7 206	6 004
Interest income on derivatives concluded under hedge accounting	4 223	3 538
Total interest income	**180 904**	**147 875**
Interest expense		
Due to the issue of debt securities	(68 480)	(59 975)
Due to settlements with banks	(34 984)	(22 088)
Due to subordinated loan	(5 187)	(5 180)
Due to settlements with customers	(28)	(542)
Total interest expense	**(108 679)**	**(87 785)**
Total net interest income	**72 225**	**60 090**

In the first half of 2017, interest income related to impaired financial assets amounted to PLN 3 365 thousand (in the first half of 2016: PLN 2 743 thousand).

6. Net fee and commission income

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Fee and commission income		
Credit-related fees and commissions	899	3 335
Commissions from bank accounts	-	203
Commissions from money transfers	-	20
Total fee and commission income	**899**	**3 558**
Fee and commission expenses		
Cost of servicing loan products	(1 966)	(343)
Costs related to the debt securities issue program (covered bonds and bonds)	(941)	(385)
Commission expense from loan received and stand-by credit line	(649)	(45)
Costs of real estate analyses and valuations related to the lending activity	(227)	(1 269)
Other	(235)	(149)
Total fee and commission expense	**(4 018)**	**(2 191)**
Total net fee and commission income	**(3 119)**	**1 367**

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

In the first half of 2017, the loan product servicing costs were expanded to cover outsourcing costs related to retail process servicing of PLN 1 033 thousand presented in the corresponding period of the previous year, in other material costs of PLN 676 thousand.

7. Net trading income

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Foreign exchange result	**(3 098)**	**2 323**
Net exchange differences on translation	(15 644)	14 021
Valuation of foreign currency derivatives	12 546	(11 698)
Other net trading income and result on hedge accounting	**(327)**	**(299)**
Interest rate risk instruments	535	(297)
Hedge accounting, including:	(862)	(2)
- net profit on hedged items	11 345	(25 264)
- net profit on hedging instruments	(12 207)	25 262
Total net trading income	**(3 425)**	**2 024**

The result of the exchange item includes implemented and not implemented positive and negative exchange difference as well as profits and losses from the spot transaction and futures contracts. The result of interest instruments operations includes result of interest rates swap contracts that were not determined as securing 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.

Description of the hedging relation

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

Hedged items

The hedged items are fixed-interest rate mortgage covered bonds with the nominal value of EUR 196 900 thousand.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

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

The following tables present hedged items. The nominal value was presented in EUR thousands, while the liability amount measured at amortised cost, hedge accounting adjustments related to fair value of hedged items, the carrying amount of liability and change of fair value due to hedge accounting in PLN thousands.

As at 30.06.2017

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2017	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	Change of fair value due to hedge acounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	128 857	4 091	132 948	1 129
Mortgage covered bonds (EUR)	8 000	3.50%	2029-02-28	33 612	3 931	37 543	1 128
Mortgage covered bonds (EUR)	15 000	3.50%	2029-03-15	63 065	7 395	70 460	2 121
Mortgage covered bonds (EUR)	20 000	3.20%	2029-05-30	83 367	9 648	93 015	2 804
Mortgage covered bonds (EUR)	20 000	1.115%	2018-10-22	85 024	569	85 593	163
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	84 236	1 047	85 283	703
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	46 285	(559)	45 726	561
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	55 202	(2 688)	52 514	702
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	148 538	(5 493)	143 045	2 053
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	105 344	19	105 363	(19)
Total hedged items				**833 530**	**17 960**	**851 490**	**11 345**

As at 31.12.2016

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2016	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	Change of fair value due to hedge acounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	132 936	5 220	138 156	(192)
Mortgage covered bonds (EUR)	8 000	3.50%	2029-02-28	35 816	5 059	40 875	(1 733)
Mortgage covered bonds (EUR)	15 000	3.50%	2029-03-15	67 198	9 516	76 714	(3 264)
Mortgage covered bonds (EUR)	20 000	3.20%	2029-05-30	88 700	12 453	101 153	(4 393)
Mortgage covered bonds (EUR)	20 000	1.115%	2018-10-22	88 459	732	89 191	(155)
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	88 653	1 749	90 402	(1 607)
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	48 756	2	48 758	(1 857)
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	57 444	(1 986)	55 458	3 440
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	154 570	(3 440)	151 130	1 986
Total hedged items				**762 532**	**29 305**	**791 837**	**(7 775)**

As at 30.06.2016

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2016	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	Change of fair value due to hedge acounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	134 634	6 527	141 161	(1 499)
Mortgage covered bonds (EUR)	8 000	3.50%	2029-02-28	35 182	6 682	41 864	(3 357)
Mortgage covered bonds (EUR)	15 000	3.50%	2029-03-15	66 015	12 575	78 590	(6 323)
Mortgage covered bonds (EUR)	20 000	3.20%	2029-05-30	87 264	16 548	103 812	(8 489)
Mortgage covered bonds (EUR)	20 000	1.115%	2018-10-22	88 929	1 023	89 952	(446)
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	88 112	2 597	90 709	(2 454)
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	48 439	842	49 281	(2 696)
Total hedged items				**548 575**	**46 794**	**595 369**	**(25 264)**

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 30.06.2017

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	7 890	-	(1 549)
IRS (EUR)	8 000	2029-02-28	4 548	-	(1 277)
IRS (EUR)	15 000	2029-03-15	8 242	-	(2 379)
IRS (EUR)	20 000	2029-05-30	7 882	-	(2 954)
IRS (EUR)	20 000	2018-10-22	1 067	-	(165)
IRS (EUR)	20 000	2022-02-25	491	-	(614)
IRS (EUR)	11 000	2025-04-24	-	926	(542)
IRS (EUR)	13 000	2026-09-20	-	2 642	(683)
IRS (EUR)	35 000	2026-09-20	-	5 540	(2 024)
IRS (EUR)	24 900	2024-02-01	-	63	(20)
Total hedging items			**30 120**	**9 171**	**(12 207)**

As at 31.12.2016

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	8 498	-	(315)
IRS (EUR)	8 000	2029-02-28	6 454	-	1 820
IRS (EUR)	15 000	2029-03-15	11 804	-	3 434
IRS (EUR)	20 000	2029-05-30	12 268	-	4 714
IRS (EUR)	20 000	2018-10-22	761	-	202
IRS (EUR)	20 000	2022-02-25	1 600	-	1 789
IRS (EUR)	11 000	2025-04-24	-	70	1 979
IRS (EUR)	13 000	2026-09-20	-	2 274	(2 135)
IRS (EUR)	35 000	2026-09-20	-	4 373	(4 036)
Total hedging items			**41 385**	**6 717**	**7 452**

As at 30.06.2016

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilitiesa	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**

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 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Interest income on derivatives concluded under hedge accounting of fair value (Note 5)	4 223	3 538
Net profit on hedged items	11 345	(25 264)
Net profit on hedging instruments	(12 207)	25 262
Total net profit on hedge accounting of fair value	**3 361**	**3 536**

8. Other operating income

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Income from sales of services	234	372
Income from release of prior year provisions	204	-
Reversal of impairment write-downs on receivables (excluding loans)	7	907
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	21	10
Income from sales or liquidation tangible fixed assets and intangible assets	-	13
Compensations, penalties and fines recived	-	2
Other	33	509
Total other operating income	**499**	**1 813**

9. Net impairment losses on loans and advances

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 30.06.2016 unaudited
Net write-downs on loans and advances to customers	(1 710)	(10 338)
Net write-downs for contingent liability towards customers	(32)	(13)
Net impairment write-downs on loans and advances	**(1 742)**	**(10 351)**

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10. Overhead costs

	Period from 01.01.2017 to 30.06.2017 unaudited	**Period from 01.01.2016 to 30.06.2016** unaudited
Staff-related costs	(17 306)	(16 797)
Material costs, including:	(10 728)	(11 159)
- logistic cost	(4 422)	(4 038)
- IT cost	(3 118)	(2 285)
- marketing cost	(2 303)	(2 303)
- consulting services cost	(507)	(1 623)
- other overheads cost	(378)	(910)
Contribution and payments to the Bank Guarantee Fund	(5 152)	(1 603)
Taxes and fees	(756)	(1 457)
Contributions to the Social Benefits Fund	(176)	(175)
Total overhead costs	**(34 118)**	**(31 191)**

The amount "Logistic cost" consists of the property rent costs and leasing of the means of transport equals to PLN 1 963 thousand (in the first half of 2016: PLN 1 790 thousand).

Staff-related expenses

	Period from 01.01.2017 to 30.06.2017 unaudited	**Period from 01.01.2016 to 30.06.2016** unaudited
Wages and salaries	(13 730)	(13 331)
Social security expenses	(2 338)	(2 238)
Remuneration payment in the form of phantom shares settled in cash	(659)	(721)
Other employee benefits	(579)	(507)
Staff-related costs, total	**(17 306)**	**(16 797)**

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11. Other operating expenses

	Period from 01.01.2017 to 30.06.2017 unaudited	**Period from 01.01.2016 to 30.06.2016** unaudited
Costs of enforcement proceedings	(379)	(92)
Loss on sales or liquidation of tangible fixed assets and intangible assets	(64)	-
Loss on the sales of assets repossessed for debts (inventories) and costs of their maintenance	(3)	(381)
Compensations, penalties and fines paid	(3)	(4)
Cost of real estate valuation	(2)	(9)
Inventory write-downs	-	(1 717)
Provisions for disputes	-	(39)
Other	(87)	(30)
Total other operating expenses	**(538)**	**(2 272)**

12. Earnings per share

	Period from 01.01.2017 to 30.06.2017 unaudited	**Period from 01.01.2016 to 30.06.2016** unaudited
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	10 256	13 766
Weighted average number of ordinary shares	3 172 210	2 993 846
Basic net profit per share (in PLN per share)	**3.23**	**4.60**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted profit per share	10 256	13 766
Weighted average number of ordinary shares	3 172 210	2 993 846
Diluted earnings per share (in PLN per share)	**3.23**	**4.60**

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

Diluted profit is equal to base profit per single share, since there are no elements causing dilution.

Weighted average of number of ordinary shares during a period is a number of ordinary shares at the beginning of a given period, adjusted by the number of ordinary shares purchased or issued during this period weighted with an indicator that reflects period of the occurrence of these shares. The indicator reflecting the period of occurrence of particular shares is a number of days for which specified shares occur to the total number of days in a given period.

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

13. Loans and advances to banks

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Current accounts	9 927	16 258	435
Other receivables	-	4	7
Recognised in cash equivalents	**9 927**	**16 262**	**442**
Amounts (gross) due from other banks, in total	**9 927**	**16 262**	**442**
Amounts (net) due from other banks, in total	**9 927**	**16 262**	**442**
Short-term amounts due from other banks (up to 1 year)	9 927	16 262	442

All receivables were receivables from Polish banks.

14. Derivative financial instruments

	30.06.2017 unaudited		31.12.2016		30.06.2016 unaudited	
	assets	liabilities	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading, classified into banking book	10 408	6 089	3 775	9 459	1 655	11 680
Derivatives financial instruments held for hedging	30 120	9 171	41 385	6 717	50 291	-
Net-off effect	40	(8 254)	-	(6 541)	-	-
Total derivative financial instruments assets/liabilities	**40 568**	**7 006**	**45 160**	**9 635**	**51 946**	**11 680**

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 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

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Loans and advances to corporate customers	**4 709 503**	**4 957 222**	**4 870 235**
Loans and advances to individual ccustomers	**5 423 318**	**4 407 440**	**3 473 896**
Loans and advances to the public sector	**132 637**	**140 490**	**153 742**
Other receivables	**10 571**	**7 706**	**-**
Loans and advances from customers (gross)	**10 276 029**	**9 512 858**	**8 497 873**
Write-downs on receivables (negative amount)	(102 739)	(101 353)	(106 830)
Loans and advances from customers (net)	**10 173 290**	**9 411 505**	**8 391 043**
Short-term (up to 1 year)	705 353	683 724	705 199
Long-term (over 1 year)	9 467 937	8 727 781	7 685 844

The item "Other receivables" comprises cash collateral (Initial margin) provided by the Bank for derivative transactions with the central clearing chamber.

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

- as at 30 June 2017 – PLN 5 367 050 thousand,
- as at 31 December 2016 – PLN 4 344 866 thousand,
- as at 30 June 2016 – PLN 3 406 520 thousand.

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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 244 204 thousand,
- as at 31 December 2015 – PLN 261 375 thousand,
- as at 30 June 2015 – PLN 267 077 thousand.

Movements in Impairment write-downs on loans and advances

	Impairment write-downs as at 01.01.2017	Write-downs created	Release of write-downs	Receivables written-off	Write-downs transfer	Impairment write-downs as at 30.06.2017 unaudited
Corporate customers	(97 309)	(9 713)	8 514	324	-	(98 184)
Individual customers	(4 002)	(2 949)	2 436	-	-	(4 515)
Public sector customers	(42)	-	2	-	-	(40)
Total movements in impairment write-downs on loans and advances	(101 353)	(12 662)	10 952	324	-	(102 739)

	Impairment write-downs as at 01.01.2016	Write-downs created	Release of write-downs	Receivables written-off	Write-downs transfer	Impairment write-downs as at 31.12.2016
Corporate customers	(94 546)	(40 965)	20 784	17 413	5	(97 309)
Individual customers	(2 799)	(4 563)	3 185	175	-	(4 002)
Public sector customers	(44)	-	7	-	(5)	(42)
Total movements in impairment write-downs on loans and advances	(97 389)	(45 528)	23 976	17 588	-	(101 353)

	Impairment write-downs as at 01.01.2016	Write-downs created	Release 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)

16. Investment securities

30.06.2017 unaudited	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**913 820**	**111 459**	**1 025 279**
Issued by government	913 820	111 459	1 025 279
- government bonds	913 820	111 459	1 025 279
Total debt securities	**913 820**	**111 459**	**1 025 279**
Short-term (up to 1 year)	420 560	1 025	421 585
Long-term (over 1 year)	493 260	110 434	603 694
Based on fixed interest rate	469 778	1 025	470 803
Based on floating interest rate	444 042	110 434	554 476

IFRS Condensed Financial Statements for the first half of 2017 PLN (000's)

31.12.2016	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**1 043 374**	**90 675**	**1 134 049**
Issued by government	811 912	90 675	902 587
- government bonds	811 912	90 675	902 587
Issued by central bank	231 462	-	231 462
- money bills	231 462	-	231 462
Total debt securities	**1 043 374**	**90 675**	**1 134 049**
Short-term (up to 1 year)	357 323	1 008	358 331
Long-term (over 1 year)	686 051	89 667	775 718
Based on fixed interest rate	649 846	-	649 846
Based on floating interest rate	393 528	90 675	484 203

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
- 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

Pledged assets are not subject to resale and further pledge.

17. Intangible assets

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Concessions, patents, licences and similar assets, including:	4 540	4 842	5 395
- computer software	4 540	4 842	5 395
Intangible assets under development	13 803	8 515	4 831
Intangible assets, total	**18 343**	**13 357**	**10 226**

18. Tangible fixed assets

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Technical equipment and machinery	5 576	5 653	5 253
Vehicles	44	116	354
Fixed assets under construction	1 641	679	163
Other fixed assets	992	1 155	1 174
Tangible fixed assets, total	**8 253**	**7 603**	**6 944**

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19. Other assets

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Other, including:	**7 059**	**7 389**	**10 232**
- inventories	3 432	3 432	3 432
- other prepayments	1 961	1 255	1 015
- receivables from agency model valuation	651	1 431	2 447
- income receivable	540	410	2 060
- debtors	432	822	1 165
- other	43	39	113
Total other assets	**7 059**	**7 389**	**10 232**
Short-term (up to 1 year)	7 059	7 389	10 232

20. Amounts due to clients

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Corporate customers:	**10 983**	**36 227**	**295 132**
Cash in current accounts	-	-	284 426
Term deposits (including overnight deposits)	-	-	7 247
Other liabilities (in respect of):	10 983	36 227	3 459
- cash collateral	846	747	718
- other	10 137	35 480	2 741
Individual customers:	**124**	**132**	**129**
Other liabilities (in respect of):	124	132	129
- cash collateral	65	65	65
- other	59	67	64
Public sector clients:	**34**	**35**	**35**
Other liabilities (in respect of):	34	35	35
- other	34	35	35
Total amounts due to customers	**11 141**	**36 394**	**295 296**
Short-term (up to 1 year)	10 307	35 585	294 529
Long-term (over 1 year)	834	809	767

On October 9, 2016 came into force the law of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee system and a forced restructuring, which amended the law on mortgage bonds and mortgage banks in a way that results in the inability of mortgage banks to run bank accounts used for processing investment projects implemented using loans granted and accepting term deposits by mortgage banks. Accordingly, the Bank's Management Board on 12 July 2016 with Resolution No. 85/2016 decided to transfer existing customer service bank in the conduct of accounts, proprietary and closed escrow accounts to mBank by common offering customers products of mBank S.A. meet the requirements set functionality. In December 2016 on the basis of the decision of the Chairman of the Management Board remaining, not transferred to escrow accounts, have been closed.

In the above table under "other" position as of June 30,2017 and as of December 31, 2016 have been presented main measures that have not yet been settled after the close of escrow accounts and remained in a suspense account until the submission by the owner of the account balances, appropriate disposal.

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 or 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".

Principles for the admissible amount of the substitute collateral

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.

Principles for the statutory over-collateralisation of covered bonds

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 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.

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.

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The tables below show data related to the issuance of covered bonds as of 30 June 2017, as of 31 December 2016 and as of 30 June 2016.

Data as at 30.06.2017	Mortgage covered bonds
1. Nominal value of covered bonds listed on the market	5 182 317
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)	7 589 659
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)	57 556
4. Level of collateral the covered bonds by receivables (2/1)	146.45%
5. Total covered bonds collateral level (2+3) / 1	147.56%
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	3 320 935
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	3 490 303

Permissible value of Substitute collateral as at 30.06.2017	Mortgage covered bonds
1. Cash invested in treasury bonds	110 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	52 444
3. Permissible value of Substitute collateral (1-2)	57 556

Data as at 31.12.2016	Mortgage covered bonds	Public sector covered bonds
1. Nominal value of covered bonds listed on the market	5 267 828	-
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)	7 297 062	322 753
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)	33 465	-
4. Level of collateral the covered bonds by receivables (2/1)	138.52%	-
5. Total covered bonds collateral level (2+3) / 1	139.16%	-
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	3 394 475	-
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	2 988 910	-

Permissible value of Substitute collateral as at 31.12.2016	Mortgage covered bonds
1. Cash invested in treasury bonds	90 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	56 535
3. Permissible value of Substitute collateral (1-2)	33 465

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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 (Surplus)	47 490	2 655
3. Permissible value of Substitute collateral (1-2)	42 510	3 345

The total nominal amount of the covered bonds in trading, both as of 30 June 2017 and as of 31 December 2016 and 30 June 2016 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 30.06.2017

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2017	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (PLN)	200 000	3.50%	Mortgage covered bonds register	2018-06-15	200 151	-	200 151
Mortgage covered bonds (EUR)	10 000	1.654%	Mortgage covered bonds register	2017-10-19	42 401	-	42 401
Mortgage covered bonds (PLN)	80 000	2.81%	Mortgage covered bonds register	2019-06-21	80 020	-	80 020
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage covered bonds register	2020-07-28	128 857	4 091	132 948
Mortgage covered bonds (EUR)	50 000	0.798%	Mortgage covered bonds register	2018-10-22	211 495	-	211 495
Mortgage covered bonds (EUR)	7 500	0.56%	Mortgage covered bonds register	2018-02-15	31 734	-	31 734
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage covered bonds register	2029-02-28	33 612	3 931	37 543
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage covered bonds register	2029-03-15	63 065	7 395	70 460
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage covered bonds register	2029-05-30	83 367	9 648	93 015
Mortgage covered bonds (PLN)	300 000	2.74%	Mortgage covered bonds register	2022-07-28	302 497	-	302 497
Mortgage covered bonds (PLN)	200 000	2.74%	Mortgage covered bonds register	2023-02-20	201 279	-	201 279
Mortgage covered bonds (EUR)	20 000	1.115%	Mortgage covered bonds register	2018-10-22	85 024	569	85 593
Mortgage covered bonds (EUR)	50 000	0.539%	Mortgage covered bonds register	2019-10-15	211 278	-	211 278
Mortgage covered bonds (PLN)	200 000	2.59%	Mortgage covered bonds register	2022-04-28	200 326	-	200 326
Mortgage covered bonds (EUR)	20 000	1.135%	Mortgage covered bonds register	2022-02-25	84 236	1 047	85 283
Mortgage covered bonds (PLN)	250 000	2.68%	Mortgage covered bonds register	2023-10-16	250 408	-	250 408
Mortgage covered bonds (EUR)	11 000	1.285%	Mortgage covered bonds register	2025-04-24	46 285	(559)	45 726
Mortgage covered bonds (EUR)	50 000	0.359%	Mortgage covered bonds register	2020-06-24	210 965	-	210 965
Mortgage covered bonds (PLN)	500 000	2.83%	Mortgage covered bonds register	2020-09-10	499 779	-	499 779
Mortgage covered bonds (PLN)	255 000	2.88%	Mortgage covered bonds register	2021-09-20	254 576	-	254 576
Mortgage covered bonds (PLN)	300 000	2.93%	Mortgage covered bonds register	2021-03-05	299 966	-	299 966
Mortgage covered bonds (EUR)	50 000	0.541%	Mortgage covered bonds register	2021-06-21	210 862	-	210 862
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	2020-04-28	50 162	-	50 162
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	2020-04-28	100 332	-	100 332
Mortgage covered bonds (EUR)	70 000	1.031%	Mortgage covered bonds register	2019-08-28	296 134	-	296 134
Mortgage covered bonds (EUR)	13 000	1.18%	Mortgage covered bonds register	2026-09-20	55 202	(2 688)	52 514
Mortgage covered bonds (EUR)	35 000	1.183%	Mortgage covered bonds register	2026-09-20	148 538	(5 493)	143 045
Mortgage covered bonds (PLN)	400 000	2.58%	Mortgage covered bonds register	2018-07-25	404 405	-	404 405
Mortgage covered bonds (EUR)	24 900	0.94%	Mortgage covered bonds register	2024-02-01	105 344	19	105 363
Mortgage covered bonds (PLN)	300 000	2.52%	Mortgage covered bonds register	2019-09-10	300 359	-	300 359
Bonds (PLN)	20 000	3.26%	no collateral	2019-01-16	20 280	-	20 280
Bonds (PLN)	60 000	3.18%	no collateral	2019-01-21	60 326	-	60 326
Short-term issues (with original maturity up to 1 year)							
Bonds (PLN)	10 000	2.26%	no collateral	2017-07-10	9 994	-	9 994
Bonds (PLN)	10 000	2.26%	no collateral	2017-07-14	9 992	-	9 992
Bonds (PLN)	10 000	2.26%	no collateral	2017-08-25	9 965	-	9 965
Bonds (PLN)	20 000	2.15%	no collateral	2017-07-17	19 981	-	19 981
Bonds (PLN)	50 000	2.15%	no collateral	2017-07-03	49 994	-	49 994
Bonds (PLN)	10 000	2.26%	no collateral	2017-10-06	9 938	-	9 938
Bonds (PLN)	60 000	2.13%	no collateral	2017-07-04	59 989	-	59 989
Bonds (PLN)	30 000	2.13%	no collateral	2017-07-12	29 980	-	29 980
Bonds (PLN)	40 000	2.26%	no collateral	2017-10-20	39 718	-	39 718
Bonds (PLN)	86 000	2.05%	no collateral	2017-07-05	85 980	-	85 980
Bonds (PLN)	45 000	2.13%	no collateral	2017-07-31	44 919	-	44 919
Bonds (PLN)	20 000	2.26%	no collateral	2017-11-03	19 841	-	19 841
Bonds (PLN)	30 000	2.05%	no collateral	2017-07-10	29 984	-	29 984
Bonds (PLN)	81 000	2.28%	no collateral	2018-01-11	79 996	-	79 996
Bonds (PLN)	25 000	2.26%	no collateral	2017-11-17	24 779	-	24 779
Bonds (PLN)	120 000	2.13%	no collateral	2017-09-08	119 501	-	119 501
Bonds (PLN)	40 000	2.08%	no collateral	2017-08-11	39 903	-	39 903
Bonds (PLN)	20 000	2.26%	no collateral	2017-12-06	19 799	-	19 799
Bonds (PLN)	30 000	2.26%	no collateral	2017-12-13	29 686	-	29 686
Bonds (PLN)	20 000	2.26%	no collateral	2017-12-19	19 783	-	19 783
Bonds (PLN)	20 000	2.13%	no collateral	2017-09-19	19 904	-	19 904
Bonds (PLN)	20 000	2.26%	no collateral	2017-12-21	19 780	-	19 780
Bonds (PLN)	20 000	2.13%	no collateral	2017-09-19	19 904	-	19 904
Bonds (PLN)	40 000	2.26%	no collateral	2017-12-21	39 561	-	39 561
Bonds (PLN)	15 000	2.26%	no collateral	2017-12-21	14 835	-	14 835
Debt securities in issue (carrying value)					**6 140 971**	**17 960**	**6 158 931**

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As at 31.12.2016

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2016	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (PLN)	200 000	2.79%	Mortgage covered bonds register	2017-06-16	200 194	-	200 194
Mortgage covered bonds (PLN)	200 000	3.09%	Mortgage covered bonds register	2017-04-20	201 188	-	201 188
Mortgage covered bonds (PLN)	200 000	3.50%	Mortgage covered bonds register	2018-06-15	200 122	-	200 122
Mortgage covered bonds (EUR)	10 000	1.696%	Mortgage covered bonds register	2017-10-19	44 378	-	44 378
Mortgage covered bonds (PLN)	80 000	2.81%	Mortgage covered bonds register	2019-06-21	80 015	-	80 015
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage covered bonds register	2020-07-28	132 936	5 220	138 156
Mortgage covered bonds (EUR)	50 000	0.817%	Mortgage covered bonds register	2018-10-22	221 338	-	221 338
Mortgage covered bonds (EUR)	7 500	0.611%	Mortgage covered bonds register	2018-02-15	33 202	-	33 202
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage covered bonds register	2029-02-28	35 816	5 059	40 875
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage covered bonds register	2029-03-15	67 198	9 516	76 714
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage covered bonds register	2029-05-30	88 700	12 453	101 153
Mortgage covered bonds (PLN)	300 000	2.72%	Mortgage covered bonds register	2022-07-28	302 501	-	302 501
Mortgage covered bonds (PLN)	200 000	2.72%	Mortgage covered bonds register	2023-02-20	201 224	-	201 224
Mortgage covered bonds (EUR)	20 000	1.115%	Mortgage covered bonds register	2018-10-22	88 459	732	89 191
Mortgage covered bonds (EUR)	50 000	0.559%	Mortgage covered bonds register	2019-10-15	221 119	-	221 119
Mortgage covered bonds (PLN)	200 000	2.58%	Mortgage covered bonds register	2022-04-28	200 281	-	200 281
Mortgage covered bonds (EUR)	20 000	1.135%	Mortgage covered bonds register	2022-02-25	88 653	1 749	90 402
Mortgage covered bonds (PLN)	250 000	2.67%	Mortgage covered bonds register	2023-10-16	250 372	-	250 372
Mortgage covered bonds (EUR)	11 000	1.285%	Mortgage covered bonds register	2025-04-24	48 756	2	48 758
Mortgage covered bonds (EUR)	50 000	0.373%	Mortgage covered bonds register	2020-06-24	220 782	-	220 782
Mortgage covered bonds (PLN)	500 000	2.83%	Mortgage covered bonds register	2020-09-10	499 677	-	499 677
Mortgage covered bonds (PLN)	255 000	2.88%	Mortgage covered bonds register	2021-09-20	254 525	-	254 525
Mortgage covered bonds (PLN)	300 000	2.93%	Mortgage covered bonds register	2021-03-05	299 906	-	299 906
Mortgage covered bonds (EUR)	50 000	0.556%	Mortgage covered bonds register	2021-06-21	220 681	-	220 681
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	2020-04-28	50 879	-	50 879
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	2020-04-28	101 662	-	101 662
Mortgage covered bonds (EUR)	70 000	1.046%	Mortgage covered bonds register	2019-08-28	309 986	-	309 986
Mortgage covered bonds (EUR)	13 000	1.18%	Mortgage covered bonds register	2026-09-20	57 444	(1 986)	55 458
Mortgage covered bonds (EUR)	35 000	1.183%	Mortgage covered bonds register	2026-09-20	154 570	(3 440)	151 130
Mortgage covered bonds (PLN)	400 000	2.58%	Mortgage covered bonds register	2018-07-25	400 432	-	400 432
Bonds (PLN)	20 000	3.24%	no collateral	2019-01-16	20 275	-	20 275
Bonds (PLN)	60 000	3.17%	no collateral	2019-01-21	60 315	-	60 315
Short-term issues (with original maturity up to 1 year)							
Bonds (PLN)	40 000	2.20%	no collateral	2017-04-20	39 732	-	39 732
Bonds (PLN)	10 000	2.12%	no collateral	2017-01-10	9 995	-	9 995
Bonds (PLN)	86 000	2.09%	no collateral	2017-01-02	85 995	-	85 995
Bonds (PLN)	15 000	2.12%	no collateral	2017-02-03	14 971	-	14 971
Bonds (PLN)	80 000	2.13%	no collateral	2017-02-09	79 813	-	79 813
Bonds (PLN)	100 000	2.10%	no collateral	2017-01-04	99 982	-	99 982
Bonds (PLN)	17 000	2.13%	no collateral	2017-02-16	16 953	-	16 953
Bonds (PLN)	60 000	2.13%	no collateral	2017-03-02	59 784	-	59 784
Bonds (PLN)	200 000	2.13%	no collateral	2017-03-02	199 281	-	199 281
Bonds (PLN)	15 000	2.13%	no collateral	2017-03-13	14 936	-	14 936
Bonds (PLN)	15 000	2.13%	no collateral	2017-03-21	14 929	-	14 929
Bonds (PLN)	10 000	2.04%	no collateral	2017-02-17	9 973	-	9 973
Bonds (PLN)	30 000	2.13%	no collateral	2017-03-24	29 853	-	29 853
Bonds (PLN)	60 000	2.04%	no collateral	2017-02-21	59 824	-	59 824
Bonds (PLN)	20 000	2.15%	no collateral	2017-04-04	19 888	-	19 888
Bonds (PLN)	10 000	2.04%	no collateral	2017-02-21	9 971	-	9 971
Debt securities in issue (carrying value)					**6 123 466**	**29 305**	**6 152 771**

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Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2016	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (PLN)	200 000	2.73%	Mortgage covered bonds register	2017-06-16	200 104	-	200 104
Mortgage covered bonds (PLN)	200 000	3.03%	Mortgage covered bonds register	2017-04-20	201 077	-	201 077
Mortgage covered bonds (PLN)	200 000	3.44%	Mortgage covered bonds register	2018-06-15	200 030	-	200 030
Mortgage covered bonds (EUR)	10 000	1.762%	Mortgage covered bonds register	2017-10-19	44 389	-	44 389
Mortgage covered bonds (PLN)	100 000	3.44%	Mortgage covered bonds register	2016-11-15	100 407	-	100 407
Mortgage covered bonds (PLN)	150 000	3.53%	Public sector covered bonds register	2016-09-28	151 331	-	151 331
Mortgage covered bonds (PLN)	80 000	2.76%	Mortgage covered bonds register	2019-06-21	79 996	-	79 996
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage covered bonds register	2020-07-28	134 634	6 527	141 161
Mortgage covered bonds (EUR)	50 000	0.88%	Mortgage covered bonds register	2018-10-22	221 373	-	221 373
Mortgage covered bonds (EUR)	7 500	0.688%	Mortgage covered bonds register	2018-02-15	33 197	-	33 197
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage covered bonds register	2029-02-28	35 182	6 682	41 864
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage covered bonds register	2029-03-15	66 015	12 575	78 590
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage covered bonds register	2029-05-30	87 264	16 548	103 812
Mortgage covered bonds (PLN)	300 000	2.68%	Mortgage covered bonds register	2022-07-28	302 321	-	302 321
Mortgage covered bonds (PLN)	200 000	2.67%	Mortgage covered bonds register	2023-02-20	201 104	-	201 104
Mortgage covered bonds (EUR)	20 000	1.115%	Mortgage covered bonds register	2018-10-22	88 929	1 023	89 952
Mortgage covered bonds (EUR)	50 000	0.621%	Mortgage covered bonds register	2019-10-15	221 166	-	221 166
Mortgage covered bonds (PLN)	200 000	2.52%	Mortgage covered bonds register	2022-04-28	200 191	-	200 191
Mortgage covered bonds (EUR)	20 000	1.135%	Mortgage covered bonds register	2022-02-25	88 112	2 597	90 709
Mortgage covered bonds (PLN)	250 000	2.61%	Mortgage covered bonds register	2023-10-16	250 291	-	250 291
Mortgage covered bonds (EUR)	11 000	1.285%	Mortgage covered bonds register	2025-04-24	48 439	842	49 281
Mortgage covered bonds (EUR)	50 000	0.409%	Mortgage covered bonds register	2020-06-24	220 794	-	220 794
Mortgage covered bonds (PLN)	500 000	2.78%	Mortgage covered bonds register	2020-09-10	499 560	-	499 560
Mortgage covered bonds (PLN)	255 000	2.84%	Mortgage covered bonds register	2021-09-20	254 431	-	254 431
Mortgage covered bonds (PLN)	300 000	2.88%	Mortgage covered bonds register	2021-03-05	299 765	-	299 765
Mortgage covered bonds (EUR)	50 000	0.606%	Mortgage covered bonds register	2021-06-21	220 694	-	220 694
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	2020-04-28	50 132	-	50 132
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	2020-04-28	100 172	-	100 172
Bonds (PLN)	20 000	3.21%	no collateral	2019-01-16	20 263	-	20 263
Bonds (PLN)	60 000	3.12%	no collateral	2019-01-21	60 289	-	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	-	29 890
Bonds (PLN)	60 000	2.15%	no collateral	2016-12-22	59 375	-	59 375
Bonds (PLN)	30 000	2.14%	no collateral	2016-10-20	29 801	-	29 801
Bonds (PLN)	10 000	2.02%	no collateral	2016-07-11	9 994	-	9 994
Bonds (PLN)	6 000	2.14%	no collateral	2016-11-14	5 951	-	5 951
Bonds (PLN)	35 000	2.07%	no collateral	2016-08-12	34 914	-	34 914
Bonds (PLN)	191 600	2.07%	no collateral	2016-08-25	190 986	-	190 986
Bonds (PLN)	10 000	1.99%	no collateral	2016-07-29	9 984	-	9 984
Bonds (PLN)	10 000	2.08%	no collateral	2016-08-31	9 964	-	9 964
Bonds (PLN)	40 000	2.08%	no collateral	2016-09-06	39 843	-	39 843
Bonds (PLN)	20 000	1.95%	no collateral	2016-07-05	19 996	-	19 996
Bonds (PLN)	20 000	1.95%	no collateral	2016-07-18	19 981	-	19 981
Bonds (PLN)	15 000	2.08%	no collateral	2016-09-14	14 934	-	14 934
Bonds (PLN)	15 000	1.93%	no collateral	2016-07-01	15 000	-	15 000
Bonds (PLN)	10 000	2.00%	no collateral	2016-07-25	9 987	-	9 987
Bonds (PLN)	91 700	2.00%	no collateral	2016-08-02	91 535	-	91 535
Bonds (PLN)	14 000	1.92%	no collateral	2016-07-14	13 990	-	13 990
Debt securities in issue (carrying value)					**5 287 777**	**46 794**	**5 334 571**

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Movements in debt securities in issue

	Period from 01.01.2017 to 30.06.2017 unaudited	Period from 01.01.2016 to 31.12.2016	Period from 01.01.2016 to 30.06.2016 unaudited
As at the beginning of the period	**6 152 771**	**4 186 432**	**4 186 432**
Increase (due to)	2 344 232	5 675 672	2 633 146
- issue	2 275 733	5 465 469	2 491 443
- accured interest, interest non-linearity adjustments, EIR commission	68 480	126 076	59 976
- exchange differences	-	70 831	56 416
- hedge accounting adjustments related to fair value of hedged items	19	13 296	25 311
Decrease (due to)	(2 338 072)	(3 709 333)	(1 485 007)
- redemption	(2 167 261)	(3 577 700)	(1 424 048)
- interest repayment, EIR commission	(66 315)	(126 112)	(60 912)
- exchange differences	(93 132)	-	-
- hedge accounting adjustments related to fair value of hedged items	(11 364)	(5 521)	(47)
As at the end of the period	**6 158 931**	**6 152 771**	**5 334 571**
Short-term (up to 1 year)	1 170 578	1 249 183	1 308 263
Long-term (over 1 year)	4 988 353	4 903 588	4 026 308
Fixed interest rate debt securities	1 869 690	1 710 257	1 351 798
Floating interest rate debt securities	4 289 241	4 442 514	3 982 773

22. Other liabilities and provisions

22.1. Other liabilities

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Other liabilities (due to)	**35 852**	**26 748**	**24 697**
- accrued expenses	29 359	20 423	16 412
- settlements due to tax from Bank's balance sheet positions	1 938	1 764	1 477
- provision for unused holiday	1 075	1 137	946
- liabilities due to income tax on salaries, Social Security contributions and VAT	862	927	1 037
- settlements with insurers	731	446	1 832
- creditors	-	1 763	-
- other	1 887	288	2 993
Other liabilities, in total	**35 852**	**26 748**	**24 697**

22.2. Provisions

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Provision (for)	**158**	**160**	**219**
- off-balance sheet contingent liabilities granted	87	54	31
- provisions for retirement and disability benefits	71	106	93
- provisions for legal proceedings	-	-	95
Provision, in total	**158**	**160**	**219**

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23. Assets and provisions for deferred income tax

Deferred income tax assets	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
As at the beginning of the period	**44 736**	**32 499**	**32 499**
- Changes recognized in the income statement	(104)	11 813	10 581
- Changes recognized in other comprehensive income	(401)	424	49
As at the end of the period	**44 231**	**44 736**	**43 129**

Deferred tax liabilities	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
As at the beginning of the period	**(36 092)**	**(25 286)**	**(25 286)**
- Changes recognized in the income statement	(2 153)	(10 850)	(7 357)
- Changes recognized in other comprehensive income	(225)	44	194
As at the end of the period	**(38 470)**	**(36 092)**	**(32 449)**

Income tax	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
Current income tax	(5 208)	(8 015)	(3 072)
Adjustments in respect of current income tax from previous years	722	296	227
Deferred income tax recognised in income statement	(2 257)	962	3 224
Income tax recognised in the income statement	**(6 743)**	**(6 757)**	**379**
Income tax recognised in other comprehensive income	(626)	469	243
Total income tax	**(7 369)**	**(6 288)**	**622**

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 of a given element of assets or liability,
- in the absence of a main market, for the most advantageous market for the given 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 or parameters observable in
the market.

The following sections present 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 assumed that the fair value of deposits of variable interest rates and deposits of fixed interest rates below 1 year is their carrying value. The Bank does not hold deposits opened for a period longer than 1 year.

<u>Receivables due to loans and advances granted to clients</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 margins for credit risk and real payment terms resulting from loan agreements. The level of credit margins has been determined on the basis of market quotations of credit margins median for Moody's rating system. Attribution of a credit margin to a given credit exposure took place as a result of mapping of the Moody's rating system with the internal rating system of the Bank. In order to reflect the fact that the majority of exposures of the Bank is secured while the median of market quotations is concentrated around unsecured issues, the Bank made adjustments in this respect.

Receivables due to loans and advances granted to clients are presented on the level 3 in the hierarchy of fair value.

Investment securities available for sale

During initial recognition in books the fair value of payment are reported. Costs of transaction are included in valuation of initial value using effective interest rate method.

On the balance sheet day, the Bank valuates debt security listed on stock exchange or for which there is an active market according to the fair value (current market price), the valuation is made on the basis of the closing price of the session.

Any increases or loss of values are accounted for the day of valuation, i.e. at the end of a month, separately for each type of securities. Securities in the Bank's portfolio of the same issuer, of the same series, and purchased in different periods and at different prices are sold by the Bank using the FIFO principle - outflow of securities takes place in the order of their purchase.

Financial instruments representing liabilities include the following:

- fund on current accounts,
- loans received,
- other financial liabilities with deferred payment term,
- subordinated loans received,
- deposits,
- liabilities due to issued by the Bank covered bonds and bonds.

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

The Bank assumed that the fair value of liabilities arising from funds on current accounts, received loans, other financial liabilities with deferred payment term, received subordinated loans is equal to their carrying value.

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

The Bank estimated fair value for issued covered bonds and unsecured corporate bonds of high rating using credit spread. For tranches subject to secondary trade issued so far it was assumed that the value of credit spread is the same as for issuing on the primary market with the same period until maturity. Clean price of particular tranches of covered bonds in trade was estimated taking into account the period remaining until maturity, value of expected credit spread for issuing on secondary market and quotations from swap curve.

Liabilities arising from issuing of debt securities are presented on the level 3 in the hierarchy of fair value.

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

Financial assets and liabilities	30.06.2017 unaudited		31.12.2016		30.06.2016 unaudited	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Cash and balances with the central bank	**46 753**	**46 753**	**5 530**	**5 530**	**121 426**	**121 426**
Amounts due from other banks	**9 927**	**9 927**	**16 262**	**16 262**	**442**	**442**
Loans and advances to customers, including:	**10 173 290**	**10 592 331**	**9 411 505**	**9 727 512**	**8 391 043**	**8 567 207**
Corporate customers	4 621 890	4 717 606	4 867 619	4 975 144	4 767 021	4 863 620
Individual customers	5 418 803	5 737 800	4 403 438	4 607 345	3 470 326	3 544 855
Public sector customers	132 597	136 925	140 448	145 023	153 696	158 732
Total financial assets	**10 229 970**	**10 649 011**	**9 433 297**	**9 749 304**	**8 512 911**	**8 689 075**
Financial liabilities						
Amounts due to other banks	**3 881 459**	**3 881 459**	**3 316 817**	**3 316 817**	**2 910 403**	**2 910 403**
Amounts due to customers, including:	**11 141**	**11 141**	**36 394**	**36 394**	**295 296**	**295 296**
Corporate customers	10 983	10 983	36 227	36 227	295 132	295 132
Individual customers	124	124	132	132	129	129
Public sector customers	**34**	**34**	**35**	**35**	**35**	**35**
Debt securities in issue	**6 158 931**	**6 213 095**	**6 152 771**	**6 185 089**	**5 334 571**	**5 333 746**
Subordinated liabilities	**200 428**	**200 428**	**200 484**	**200 484**	**200 452**	**200 452**
Total financial liabilities	**10 251 959**	**10 306 123**	**9 706 466**	**9 738 784**	**8 740 722**	**8 739 897**

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 2017.

30.06.2017	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:	**1 025 279**	**1 025 279**	**-**	**-**
- Treasury bonds	1 025 279	1 025 279	-	-
Derivative financial instruments, including:	**40 568**	**-**	**40 568**	**-**
- Interest-bearing instruments	30 160	-	30 160	-
- Foreign exchange instruments	10 408	-	10 408	-
TOTAL FINANCIAL ASSETS	**1 065 847**	**1 025 279**	**40 568**	**-**

30.06.2017	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	**7 006**	**-**	**7 006**	**-**
Interest-bearing instruments	1 856	-	1 856	-
Foreign exchange instruments	5 150	-	5 150	-
TOTAL FINANCIAL LIABILITIES	**7 006**	**-**	**7 006**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 065 847**	**1 025 279**	**40 568**	-
TOTAL FINANCIAL LIABILITIES	**7 006**	**-**	**7 006**	-

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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 2016.

31.12.2016	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:	**1 134 049**	**902 587**	**231 462**	**-**
- Treasury bonds	902 587	902 587	-	-
- Money bills	231 462	-	231 462	-
Derivative financial instruments, including:	**45 160**	**-**	**45 160**	**-**
- Interest-bearing instruments	41 997	-	41 997	-
- Foreign exchange instruments	3 163	-	3 163	-
TOTAL FINANCIAL ASSETS	**1 179 209**	**902 587**	**276 622**	**-**

31.12.2016	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments	**9 635**	**-**	**9 635**	**-**
Interest-bearing instruments	176	-	176	-
Foreign exchange instruments	9 459	-	9 459	-
TOTAL FINANCIAL LIABILITIES	**9 635**	**-**	**9 635**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 179 209**	**902 587**	**276 622**	-
TOTAL FINANCIAL LIABILITIES	**9 635**	**-**	**9 635**	-

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 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:	**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 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 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**	-

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 2017 and comparative data for 6 months of 2016, as at 31 December 2016 and as at 30 June 2016 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 for the first half of 2017. The accounting policies were applied consistently by the Bank over all periods presented in these financial statements.

3. Seasonal or cyclical nature of the business

In the first half of 2017, 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

- Costs of a contribution to the compulsory restructuring fund for 2017

According to the Act of 10 June 2016 on the Bank Guarantee Fund (BFG), a deposit guarantee system and compulsory restructuring, in connection with the BFG's letter of 19 January 2017 addressed to the Polish Banks Association (ZBP) and in connection with the BFG's letter of 20 April 2017 providing information about the amount of the Bank's contribution to the compulsory restructuring fund for 2017, in the first half of 2017 the Bank reported the full amount of the annual costs relating to a contribution to the compulsory restructuring fund for 2017 of PLN 5 152 thousand in its income statement.

- 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 first half of 2017 amounted to PLN 11 220 thousand (for the first half of 2016: PLN 6 448 thousand).

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 2017, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

6. Issues, redemption and repayment of debt 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 30 March 2017, the Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A., adopted the resolution on division of the 2016 net profit which does not provide for the payment of dividend for the year 2016.

8. Significant events after the end of the first half of 2017, which are not reflected in the condensed financial statements

- Approval of the prospectus

On 6 July 2017, mBank Hipoteczny S.A. gained the acceptance of the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg for a new base prospectus and the approval of the International Mortgage Bonds Issuance Programme totalling EUR 3 000 000 thousand.

- Agreements concluded with Commerzbank AG in connection with the planned international issue of mortgage bonds.

On 4 July 2017, mBank Hipoteczny S.A. signed an agreement with Commerzbank AG on the appointment of a process agent as part of the mortgage bonds issuance programme.

On 6 July 2017, mBank Hipoteczny S.A. signed a multilateral agreement on the mortgage bonds issuance programme with Commerzbank AG as the organizer and one of the five dealers of the programme.

- Acquisition of commercial loans granted by mBank S.A. by the Bank

On 6 July 2017, two agreements were concluded by and between mBank S.A. and mBank Hipoteczny S.A. on the transfer of commercial loans secured with a mortgage of EUR 8 488 thousand and EUR 12 791 thousand to mBank Hipoteczny S.A.

- Change in the Bank's liabilities

On 14 July and 20 July 2017, tranches of loans received from mBank S.A. of PLN 150 000 thousand repayable by 13 September 2024 and PLN 150 000 thousand repayable by 22 March 2023 respectively were drawn down.

- Change in the composition of the Supervisory Board

As from 12 July 2017 Mr Christoph Heins resigned as Member of the Supervisory Board.

On 14 July 2017, the Extraordinary General Meeting of mBank Hipoteczny S.A. appointed Mr Andreas Boeger and Mr Paweł Graniewski members of the Supervisory Board for its tenth term of office.

The composition of the Supervisory Board of mBank Hipoteczny S.A. for the date of publication of the condensed financial statements for the first half of 2017:

1. Cezary Kocik – Chairman of the Supervisory Board
2. Lidia Jabłonowska-Luba - Deputy Chairman of the Supervisory Board
3. Frank Bock – Member of the Supervisory Board
4. Andreas Boeger – Member of the Supervisory Board
5. Jakub Fast – Member of the Supervisory Board
6. Paweł Graniewski – Member of the Supervisory Board
7. Michał Popiołek – Member of the Supervisory Board
8. Mariusz Tokarski – Member of the Supervisory Board

9. Effect of changes in the structure of the entity in the first half of 2017, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

In the first half of 2017, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

10. Changes in contingent liabilities

In the first half of 2017, as well as in the comparative periods presented, there were no significant changes in contingent liabilities 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 2017, events as indicated above did not occur at the Bank.

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).

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 2017, the Bank reduced the amount of the impairment write-down of amounts due from sundry debtors by PLN 7 thousand (Note 8) due to the fact that a debtor paid the outstanding amount.

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.

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 2017, 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 2017, 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 2017, 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 2017, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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

In the first half of 2017, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

19. Corrections of errors from previous reporting periods

In the first half of 2017, as well as in the comparative periods presented, 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 2017, as well as in the comparative periods presented, 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 2017.

22. Registered share capital

The total number of ordinary shares as at 30 June 2017 was 3 210 000 shares (31 December 2016: 3 090 000 shares, 30 June 2016: 2 990 000 shares) at PLN 100 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 JUNE 2017							
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue at par value (PLN)	Means of covering share capital	Registration date	Right to dividend
registered	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registered	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registered	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registered	-	-	1 000 000	100 000 000	cash	08.01.2013	01.01.2013
registered	-	-	100 000	10 000 000	cash	30.12.2014	01.01.2015
registered	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
registered	-	-	100 000	10 000 000	cash	01.08.2016	01.01.2017
registered	-	-	120 000	12 000 000	cash	03.04.2017	01.01.2017
Total number of shares			**3 210 000**				
Total registered share capital				**321 000 000**			

On 8 February 2017, the Extraordinary General Meeting adopted a resolution on increasing the share capital and depriving a shareholder of pre-emptive rights to shares, pursuant to which the share capital of mBank Hipoteczny S.A. was increased by PLN 12 000 thousand, i.e. to PLN 321 000 thousand, by way of issuing 120 000 ordinary registered shares with a par value of PLN 100 each and an issue price of PLN 1 000 each. The new shares were offered for subscription to mBank S.A. by way of a private placement. The shares were paid up in full on 28 February 2017. On 3 April 2017, the registration court entered the increased share capital in the register of entrepreneurs.

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.

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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 2017 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 2017, 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 2017, 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. On 27 October 2016, the Bank received a claim lodged with the Regional Court in Warsaw, 20th Business Department, from a borrower for whom the Bank had terminated a loan agreement, requesting that the termination of the loan agreement be deemed invalid, and on 4 October 2016 the Bank received a claim from the same borrower, lodged with the Regional Court in Warsaw, 20th Business Department, requesting that the agreement on the registered pledge on the shares in the borrower's company be deemed invalid. In both cases the Bank submitted replies to the claims. Due to the fact that the District Court for the Capital City of Warsaw in Warsaw declared the borrower bankrupt, the Regional Court suspended both sets of proceedings.
2. On 15 February 2016, a private individual who was not a customer of the Bank filed a claim with the Regional Court in Warsaw, 17th Department of Competition and Consumer Protection, to declare the provisions of a mortgage loan agreement unlawful. The Bank submitted a reply to the claim. The date of the hearing has not been set.
3. A claim lodged by the Capital City of Warsaw against mBank Hipoteczny S.A. for the payment of (after the scope of the claim had been reduced) PLN 3 057 representing capitalised interest on a portion of the annual fee for 2012 for the perpetual usufruct of a property taken over by the Bank in the course of enforcement proceedings against the property (adjudication of the right of perpetual usufruct by the court) located in Warsaw at ul. Nałęczowska 33/35 is currently pending before a court of second instance – the Regional Court in Warsaw, 5th Appeals Department. Before the court of first instance, the case was resolved in favour of the Bank. On 24 February 2017, the District Court for Warsaw Mokotów dismissed the claim of the City of Warsaw. The City of Warsaw has filed an appeal. The Bank has filed a reply to the appeal, and the case is currently awaiting a date for an appeal hearing to be set.

25. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2017, 31 December 2016 and 30 June 2016

	30.06.2017 unaudited	31.12.2016	30.06.2016 unaudited
1. Off-balance sheet liabilities granted and received	**2 121 172**	**2 015 175**	**1 779 255**
Liabilities granted	**1 440 820**	**1 283 422**	**1 357 795**
Financial liabilities	1 440 820	1 283 422	1 357 795
Liabilities received:	**680 352**	**731 753**	**421 460**
Financial liabilities	680 352	731 753	421 460
2. Derivative financial instruments	**4 346 886**	**3 554 673**	**3 005 918**
1. Interest rate derivatives	2 564 396	1 821 856	1 397 524
2. Foreign exchange derivatives	1 782 490	1 732 817	1 608 394
Total off-balance sheet items	**6 468 058**	**5 569 848**	**4 785 173**

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.

<u>Agreements concluded in the first half of 2017 with mBank S.A.:</u>

1. On 29 May 2017, a loan agreement was concluded by and between mBank S.A. and mBank Hipoteczny S.A., for a loan of up to PLN 1 100 000 thousand. The loan is to be disbursed in tranches.

<u>Agreements concluded in the first half of 2017 with Commerzbank:</u>

In connection with the international programme of issuance of mortgage bonds of up to EUR 3 billion in total, the following agreements were signed:

1. On 28 February 2017, mBank Hipoteczny S.A. signed a Mandate letter with Commerzbank AG concerning the organization of a mortgage bonds issuance programme.
2. On 28 February 2017, mBank Hipoteczny S.A. signed a Mandate letter with Commerzbank AG concerning the Bank's participation in the mortgage bonds issuance programme as one of the dealers.

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 2017, 31 December 2016 and 30 June 2016 and related costs and income in the periods from 1 January to 30 June 2017, 1 January to 31 December 2016 and from 1 January to 30 June 2016.

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
As at the end of the period	**30.06.2017** unaudited	**31.12.2016**	**30.06.2016** unaudited	**30.06.2017** unaudited	**31.12.2016**	**30.06.2016** unaudited	**30.06.2017** unaudited	**31.12.2016**	**30.06.2016** unaudited
Statement of finacial position									
Assets	3 557	2 826	2 346	50 745	61 648	52 483	-	-	-
Liabilities	220 864	304 639	230 037	5 304 979	4 500 025	3 454 650	844 599	883 921	884 028
Off-balance sheet liabilities received and granted									
Liabilities received	-	-	-	680 352	731 753	421 460	-	-	-
Liabilities granded	618	598	809	236	304	30	-	-	-
Derivative instruments (purchase, sale)									
IRS contracts	-	-	-	1 348 172	1 397 152	1 397 524	-	-	-
FX SWAP contracts	-	-	-	1 777 418	1 722 198	1 589 812	-	-	-

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
Year ended	**30.06.2017** unaudited	**31.12.2016**	**30.06.2016** unaudited	**30.06.2017** unaudited	**31.12.2016**	**30.06.2016** unaudited	**30.06.2017** unaudited	**31.12.2016**	**30.06.2016** unaudited
Income statement									
Interest income	212	1 154	658	11 206	21 164	9 918	-	-	-
Interest expense	(1 598)	(3 139)	(307)	(51 150)	(51 564)	(31 495)	(2 402)	(5 434)	(2 780)
Fee and commission income	5	208	133	-	-	-	-	-	-
Fee and commission expenses	(1 055)	(1 083)	(19)	(1 705)	(1 381)	(395)	-	-	-
Net trading income	-	-	-	3 622	3 873	13 234	-	-	-
Other operating income	-	-	-	140	580	302	-	-	-
Other operating expenses	-	-		(2)	(9)	(9)	-	-	-
Overhead costs	(640)	(1 354)	(1 227)	(2 074)	(5 028)	(2 112)	-	-	-

* item mBank Group Companies include transactions with the following companies of mBank Group: mFinanse S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance, mLeasing

** item Commerzbank Group Companies include purchase transactions on secondary market of mortgage covered bonds by Comdirect Bank AG.

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

In the first half of 2017, 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 composition of the Supervisory Board of mBank Hipoteczny S.A.

As from 7 February 2017, Mr Dariusz Solski resigned as Member of the Supervisory Board. The vacant position on the Supervisory Board was filled on 8 February 2017 by the Extraordinary General Meeting – Mr Jakub Fast was appointed Member of the Supervisory Board.

As from 31 March 2017, Mr Hans Dieter Kemler resigned as Member of the Supervisory Board. As from 1 April 2017, the Supervisory Board appointed Mr Cezary Kocik Chairman, whereas on 29 May 2017 the Extraordinary General Meeting filled the vacant position on the Supervisory Board by appointing Mr Frank Bock.

The composition of the Supervisory Board of mBank Hipoteczny S.A. as at 30 June 2017:

1. Cezary Kocik – Chairman of the Supervisory Board;
2. Lidia Jabłonowska-Luba – Deputy Chair of the Supervisory Board;
3. Christoph Heins – Member of the Supervisory Board;
4. Frank Bock – Member of the Supervisory Board;
5. Michał Popiołek - Member of the Supervisory Board;
6. Jakub Fast – Member of the Supervisory Board;
7. Mariusz Tokarski – Member of the Supervisory Board.

- Change in the composition of the Management Board of mBank Hipoteczny S.A.

On 19 June 2017, Mr Marcin Romanowski resigned as Member of the Management Board. The resignation will take effect as of 20 September 2017.