mBank Hipoteczny S.A.

IFRS Condensed Financial Statements for the first half of 2018

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 2018.

Selected financial data		in PLN `000		in EUR `000	
		1 half of 2018 period from 01.01.2018 to 30.06.2018 unaudited	1 half of 2017 period from 01.01.2017 to 30.06.2017 unaudited	1 half of 2017 period from 01.01.2018 to 30.06.2018 unaudited	1 half of 2017 period from 01.01.2017 to 30.06.2017 unaudited
I.	Interest income	209 266	180 904	49 361	42 592
II.	Fee and commission income	1 595	899	376	212
III.	Net trading income	(1 006)	(3 425)	(237)	(806)
IV.	Operating result	37 343	28 219	8 808	6 644
V.	Profit before income tax	23 768	16 999	5 606	4 002
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	16 622	10 256	3 921	2 415
VII.	Net cash flows from operating activities	(292 068)	(929 409)	(68 892)	(218 818)
VIII.	Net cash flows from investing activities	(10 227)	(7 263)	(2 412)	(1 710)
IX.	Net cash flows from financing activities	381 249	740 098	89 928	174 247
X.	Total net cash flows	78 954	(196 574)	18 623	(46 281)
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	5.18	3.23	1.22	0.76

Selected financial data		in PLN `000			in EUR`000		
		as at			as at		
		30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
I.	Total assets	12 704 967	12 168 169	11 335 233	2 912 914	2 917 396	2 681 943
II.	Amounts due to other banks	3 353 225	3 830 026	3 881 459	768 806	918 273	918 362
III.	Amounts due to customers	3 270	4 131	11 141	750	990	2 636
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	1 060 471	1 056 401	1 036 551	243 138	253 279	245 250
V.	Share capital	321 000	321 000	321 000	73 597	76 962	75 949
VI.	Number of shares	3 210 000	3 210 000	3 210 000	3 210 000	3 210 000	3 210 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	330.36	329.10	322.91	75.74	78.90	76.40
VIII.	Total capital ratio (%)	15.22	15.79	15.82	15.22	15.79	15.82

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 2018: EUR 1 = PLN 4.3616, 31 December 2017: EUR 1 = PLN 4.1709 and 30 June 2017: EUR 1 = PLN 4.2265
- 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 2018 and 2017: EUR 1 = PLN 4.2395 and EUR 1 = PLN 4.2474 respectively.

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Condensed income statement

Total profit of mBank Hipoteczny S.A. for the first half of 2018 and the first half of 2017 relates to the result of continued operations.

	Note	Period from 01.01.2018 to 30.06.2018 unaudited	Period from 01.01.2017 to 30.06.2017 unaudited
Interest income, including:	5	209 266	180 904
Interest income on financial assets measured at amortised cost		*178 062*	*n/a*
Interest income on financial assets measured at fair value through other comprehensive income		*11 013*	*n/a*
Income similar to interest - financial assets measured at fair value through profit or loss		*20 191*	*n/a*
Interest expense	5	(125 962)	(108 679)
Net interest income		**83 304**	**72 225**
Fee and commission income	6	1 595	899
Fee and commission expenses	6	(2 595)	(4 018)
Net fee and commission income		**(1 000)**	**(3 119)**
Net trading income, including:	7	(1 006)	(3 425)
Foreign exchange result		*883*	*(3 098)*
Gains or losses on financial assets and liabilities held for trading		*611*	*535*
Gains or losses from hedge accounting		*(2 500)*	*(862)*
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		(1 961)	n/a
Gains less losses from debt securities measured at fair value through other comprehensive income		149	n/a
Other operating income	8	604	499
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	9	(8 410)	(1 742)
Overhead costs	10	(31 605)	(34 118)
Amortisation and depreciation		(1 726)	(1 563)
Other operating expenses	11	(1 006)	(538)
Operating result		**37 343**	**28 219**
Taxes on the Bank balance sheet items		(13 575)	(11 220)
Profit before income tax		**23 768**	**16 999**
Income tax	24	(7 146)	(6 743)
Net profit		**16 622**	**10 256**

Net profit attributable to shareholders of the mBank Hipoteczny S.A.		**16 622**	**10 256**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	12	**3 210 000**	**3 172 210**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	12	**5.18**	**3.23**

Explanatory notes and selected explanatory data presented on pages 10 to 65 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Condensed statement of comprehensive income

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Net profit	**16 622**	**10 256**
Other comprehensive income net of tax including:	**819**	**2 669**
Items that may be reclassified to the income statement		
Change in valuation of available for sale financial assets (gross)	*n/a*	3 289
Deferred tax on available for sale financial assets	*n/a*	(625)
Change in valuation of available for sale financial assets (net)	*n/a*	2 664
Debt instruments at fair value through other comprehensive income (net)	819	*n/a*
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	**17 441**	**12 925**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.	**17 441**	**12 925**

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IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Condensed statement of financial position

ASSETS	Note	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Cash and balances with the Central Bank		524	1 351	46 753
Loans and advances to banks	15	n/a	18 737	9 927
Financial assets held for trading and derivatives held for hedges	13	30 454	48 973	40 568
Loans and advances to customers	14	n/a	10 766 911	10 173 290
Non-trading financial assets mandatorily at fair value through profit or loss, including:	14	217 700	*n/a*	*n/a*
Loans and advances to customers		*217 700*	*n/a*	*n/a*
Investment securities available for sale	16	n/a	1 277 127	1 025 279
Financial assets at fair value through other comprehensive income	16	1 338 281	*n/a*	*n/a*
Financial assets at amortised cost, including:	15	11 057 350	*n/a*	*n/a*
Loans and advances to banks		*20 037*	*n/a*	*n/a*
Loans and advances to customers		*11 037 313*	*n/a*	*n/a*
Intangible assets	17	32 154	25 527	18 343
Tangible assets	18	7 784	8 295	8 253
Deferred income tax assets	24	12 267	10 572	5 761
Other assets	19	8 453	10 676	7 059
TOTAL ASSETS		**12 704 967**	**12 168 169**	**11 335 233**

LIABILITIES AND EQUITY				
L i a b i l i t i e s				
Financial liabilities held for trading and derivatives held for hedges	13	13 489	548	7 006
Financial liabilities measured at amortised cost, including:		11 598 254	11 077 766	10 251 959
Amounts due to banks		*3 353 225*	*3 830 026*	*3 881 459*
Amounts due to customers	20	*3 270*	*4 131*	*11 141*
Debt securities issued	21	*8 041 306*	*7 043 125*	*6 158 931*
Subordinated liabilities		*200 453*	*200 484*	*200 428*
Provisions	23	3 172	204	158
Current income tax liabilities		3 519	7 682	3 707
Other liabilities	22	26 062	25 568	35 852
TOTAL LIABILITIES		**11 644 496**	**11 111 768**	**10 298 682**
E q u i t y				
Share capital:		**734 719**	**734 719**	**734 719**
- Registered share capital		321 000	321 000	321 000
- Share premium		413 719	413 719	413 719
Retained earnings:		**321 133**	**317 882**	**300 309**
- Profit from the previous years		304 511	290 053	290 053
- Profit for the current period		16 622	27 829	10 256
Other components of equity		**4 619**	**3 800**	**1 523**
TOTAL EQUITY		**1 060 471**	**1 056 401**	**1 036 551**
TOTAL LIABILITIES AND EQUITY		**12 704 967**	**12 168 169**	**11 335 233**
Total capital ratio (%)		**15.22**	**15.79**	**15.82**

Explanatory notes and selected explanatory data presented on pages 10 to 65 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Condensed statement of changes in equity

Changes in the period from 1 January 2018 to 30 June 2018 (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 financial assets at fair value through other comprehensive income	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2018	**321 000**	**413 719**	**245 253**	**44 800**	**27 829**	**-**	**3 798**	**2**	**1 056 401**
Effects of IFRS 9 implementation	-	-	-	-	(13 371)	-	-	-	(13 371)
Restated equity as at 1 January 2018	**321 000**	**413 719**	**245 253**	**44 800**	**14 458**	-	**3 798**	**2**	**1 043 030**
Net profit	-	-	-	-	-	16 622	-	-	16 622
Other comprehensive income (gross)	-	-	-	-	-	-	1 011		1 011
Deferred tax on other comprehensive income	-	-	-	-	-	-	(192)		(192)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**16 622**	**819**	**-**	**17 441**
Transfer to general banking risk reserve	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	27 829	-	(27 829)	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-	-
As at 30 June 2018	**321 000**	**413 719**	**273 082**	**44 800**	**(13 371)**	**16 622**	**4 617**	**2**	**1 060 471**

Changes in the period from 1 January 2017 to 31 December 2017

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of available-for sale financial assets	Actuarial gains and losses relating to 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	-	-	-	-	-	27 829	-	-	27 829
Other comprehensive income (gross)	-	-	-	-	-	-	6 131	(25)	6 106
Deferred tax on other comprehensive income	-	-	-	-	-	-	(1 165)	5	(1 160)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**27 829**	**4 966**	**(20)**	**32 775**
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 31 December 2017	**321 000**	**413 719**	**245 253**	**44 800**	**-**	**27 829**	**3 798**	**2**	**1 056 401**

Explanatory notes and selected explanatory data presented on pages 10 to 65 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Changes in the period from 1 January 2017 to 30 June 2017 (unaudited)

	Share capital		Retained earnings				Other components of equity		
	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 relating to post-employment benefits	Total
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**

Explanatory notes and selected explanatory data presented on pages 10 to 65 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Condensed statement of cash flows

	Period from 01.01.2018 to 30.06.2018 unaudited	Period from 01.01.2017 to 30.06.2017 unaudited
A. Cash flows from operating activities	**(292 068)**	**(929 409)**
Profit before income tax	**23 768**	**16 999**
Adjustments:	***(315 836)***	***(946 408)***
Income taxes paid	(10 060)	(3 570)
Amortisation	1 726	1 563
(Gains) losses on investing activities	(149)	-
Interest income (income statement)	(209 266)	(180 904)
Interest expense (income statement)	125 962	108 679
Interest received	194 638	176 325
Interest paid	(6 683)	(10 284)
Changes in cash and balances with the Central Bank	-	1
Changes in loans and advances to banks	-	6
Changes in assets and liabilities on derivative financial instruments	29 272	(3 162)
Changes in loans and advances to customers	(499 741)	(758 078)
Changes in investment securities	*n/a*	(119 544)
Changes in financial assets at fair value through other comprehensive income	*23 093*	n/a
Changes in other assets	2 223	330
Changes in amounts due to other banks	(30 931)	(137 443)
Changes in amounts due to customers	(861)	(25 265)
Changes in debt securities in issue	59 095	(4 234)
Changes in provisions	2 968	2
Changes in other liabilities	494	9 106
Result on disposal of intangible assets and tangible fixed assets	2	64
Other changes in intangible assets	2 382	-
Net cash generated from/(used in) operating activities	**(292 068)**	**(929 409)**
B. Cash flows from investing activities	**(10 227)**	**(7 263)**
Investing activity inflows	**-**	**24**
Due to the disposal of intangible assets and tangible fixed assets	-	24
Investing activity outflows	**10 227**	**7 287**
Due to the purchase of intangible assets and tangible fixed assets	10 227	7 287
Net cash generated from/(used in) investing activities	**(10 227)**	**(7 263)**
C. Cash flows from financing activities	**381 249**	**740 098**
Financing activity inflows	**2 139 614**	**1 233 679**
Due to the loans and advances from banks	560 520	700 000
Due to the issue of debt securities	1 571 760	407 620
Due to the issue of shares	-	119 927
Interest received from hedging derivative financial instruments	7 334	6 132
Financing activities outflows	**1 758 365**	**493 581**
Due to the repayment of loans and advances from banks	1 005 805	-
Due to the issue of debt securities	631 148	400 000
Interest paid on loans received, debt securities in issue and subordinated liabilities	121 412	93 581
Net cash generated from/(used in) financing activities	**381 249**	**740 098**
Net increase / decrease in cash and cash equivalents (A+B+C)	**78 954**	**(196 574)**
Cash and cash equivalents as at the beginning of the reporting period, including:	**143 573**	**253 254**
Cash and balances with the Central Bank	1 351	5 530
Loans and advances to banks	18 737	16 262
Investment securities with maturity of up to 3 months from the date of purchase	123 485	231 462
Cash and cash equivalents as at the end of the reporting period, including:	**222 527**	**56 680**
Cash and balances with the Central Bank	524	46 753
Loans and advances to banks	20 037	9 927
Investment securities with maturity of up to 3 months from the date of purchase	201 966	-

Explanatory notes and selected explanatory data presented on pages 10 to 65 constitute an integral part of these condensed financial statements.

Explanatory notes to the standalone financial statements

1. Information on mBank Hipoteczny S.A.

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

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

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

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

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

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

Registered office of the Bank is located in Warsaw, at Lecha Kaczyńskiego Street No. 26.

The Bank was established for an indefinite period of time.

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

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

In the second half of 2017, the Bank discontinued granting housing mortgage loans to private individuals in cooperation with mBank S.A. (the so-called agency model). At present, within retail business line operates only a so-called pooling model consisting of purchasing receivables on account of housing mortgage loans from mBank S.A.

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.

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

As at June 30, 2018 the employment in the Bank was 162 FTEs and 169 persons (June 30, 2017: 214 FTEs; 222 persons).

Average employment in the first half 2018 was 172 persons, in the first half 2017 it was 225 persons.

These condensed financial statements were approved by the Management Board of mBank Hipoteczny S.A. on 3 August 2018.

2. Description of the relevant accounting policies

The most important accounting policies applied to the drafting of these consolidated financial statements are presented below. The accounting principles adopted by the Bank were applied on an ongoing basis for all periods presented in the financial statements, except for the accounting principles applied in connection with the implementation of IFRS 9 as of 1 January 2018, as described in detail under Note 2.26 Comparative data and changes in the presentation of data in the profit and loss account described in Note 2.25.

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 2018. These condensed financial statements are standalone financial statements.

Both as at 30 June 2018 and as at 30 June 2017, 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 2017.

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

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

In case of reclassification to the stage 3 of a financial asset or a group of similar financial assets, the interest income is calculated on the net value of financial assets and recognized using the interest rate at which the future cash flows were discounted for the purpose of valuation of impairment.

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

Interest income includes interest and commissions received or due on account of loans, inter-bank deposits or investment securities recognized in the calculation of the effective interest rate.

Interest income, including interest on loans, is recognized in the income statement and on the other side in the statement of financial position as part of receivables from banks or from other customers.

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

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

Interest expenses include paid and accrued interests as well as commissions settled over time using effective interest rate from received loans, other financial liabilities with deferred payment term, subordinated loans, debt securities issued and cash collateral.

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

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

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

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

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

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

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

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

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

2.5. Segment reporting

An operating segment is a component of the entity:

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

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

In accordance with IFRS 8, the Bank distinguished the following operating segments: „Corporate Banking Segment", „Retail Banking Segment", „Treasury Segment", described in detail in Note 4.

2.6. Financial assets/financial liabilities

The Bank classifies its financial assets to the following categories: financial assets valued at fair value through profit or loss, financial assets valued at fair value through other comprehensive income for which gains or losses may be reclassified subsequently to the income statement, financial assets valued at fair value through other comprehensive income for which gains or losses will not be reclassified subsequently to the income statement at derecognition and financial assets valued at amortized cost. Classification of the debt financial asset to the one of the above categories takes place at its initial recognition based on business model for managing financial assets and contractual cash flow characteristics. An equity instrument is classified as a financial asset at fair value through profit or loss unless at the time of initial recognition the group made an irrevocable election of specific equity investments to present subsequent fair value changes in other comprehensive income.

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

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

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

Standardised purchases and sales of financial assets at fair value through profit or loss and measured at fair value through other comprehensive income 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.

Financial instruments valued at fair value through profit or loss

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

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

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

As financial asset measured at fair value through profit or loss, the Bank classifies derivative financial instruments and financial assets (loans and advances granted by the Bank) of which contractual terms and conditions result in cash flows at a given time that are not merely a repayment of principal and interest on the principal outstanding (loans that do not meet the SPPI criterion in the category of assets with debtor's limited liability – non-recourse assets category).

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

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

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

Financial assets measured at amortized cost

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

Financial assets measured at fair value through other comprehensive income

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

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

Interest income and expense from financial assets measured at fair value through other comprehensive income are presented in net interest income. Gains and losses from sale of financial assets measured at fair value through other comprehensive income are presented as a result of investment securities.

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

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

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

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

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

<u>Modification of contractual terms for financial assets</u>

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

- substantial increase of the credit amount of more than 10%,
- substantial prolongation of the contractual maturity of more than 12 months,
- change of the currency – when the original contract does not provide for an unconditional conversion option,
- change of the borrower – only if the current borrower is exempted from the debt (not applicable if another borrower participates in the contract),
- change of the cash flow criterion from 'SPPI compliance',
- change of the financed asset.

In the event of substantial modification the deferred income and expense related to this assets is recognized in the income statement and the provision is released. At the same time there is re-recognition of financial assets in accordance with the requirements for initial recognition. Any other modifications of contractual terms that do not cause derecognition of financial assets are treated as not substantial modifications and the gain or loss on modification is recognized. The effect of all identified not substantial modifications of cash flows are treated as not related to credit risk. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and the effective loan exposure. Commissions received related to minor modification are settled over time using effective interest rate. All identified substantial modifications of cash flows are treated as related to credit risk. In case of substantial modification in stage 2, for which as a consequence, the exposure was moved to stage 1, the adjustment to fair value of the exposure at the initial recognition, adjusts the interest result in the subsequent periods.

Purchased or originated credit impaired financial assets (POCI assets)

POCI are financial assets measured at amortized cost that at initial recognition are credit impaired. POCI are also financial assets that are credit impaired at the moment of substantial modification. At the initial recognition POCI assets are recognized at fair value. The fair value of POCI assets at the initial recognition is calculated as present value of estimated future cash flows including credit risk discounted for the risk free rate. After the initial recognition POCI assets are measured at amortized cost. With respect to these financial assets the Bank uses credit adjusted effective interest rate in order to determine the amortized cost of financial asset and the interest income generated by these assets – CEIR. In case of POCI exposures the change of the expected credit losses relative to the estimated credit losses at the date of their initial recognition is recognized as an impairment loss. Its value can both reduce the gross value of POCI exposure and increase it in the event of a decrease of expected losses relative to its value at the date of initial recognition.

Reclassification of financial assets

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

Financial liabilities are not subject to reclassification by the Bank.

The accounting principles applied by the Bank until 31 December 2017 in the scope of classification and measurement of financial instruments are described in Note 2 of the IFRS Financial Statements of the mBank Hipoteczny S.A. for 2017, published on 2 March 2018.

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

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

Financial assets measured at amortized cost - how exposures are classified to stages

The transfer logic is an algorithm used to classify exposures to one of the four Stages: 1, 2, 3, POCI. Stage POCI contains assets identified as credit-impaired at initial recognition. Other loans and advances can be classified up to stage 1, 2 or 3. Stage 1 includes exposures for which provisions/write-downs are calculated on a 12-month basis. Stage 2 contains exposures for which, as at the reporting date, a significant deterioration in credit quality was identified compared to the date of their initial recognition – provisions/write-downs are calculated on a lifetime period. Stage 3 contains exposures identified as credit-impaired. Once the quantitative or qualitative criteria that were used to classify the exposure in Stage 2 at the reporting date are no longer met, (the client and the exposure assigned to him or her no longer meet any of the Transfer Logic qualitative criteria or quantitative criteria), the exposure will be moved from Stage 2 to Stage 1. The exposure may also be transferred from Stage 3 to Stage 2 and from Stage 3 to Stage 1 (when no longer credit-impaired).

Retail portfolio obtained in cooperation with mBank S.A.

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

Impairment

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

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

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

A credit exposure provides indication of impairment where:

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

Significant deterrioration

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

Qualitative criteria

Qualitative criteria are:

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

Quantitative criteria

The quantitative criterion of the Transfer Logic is based on a significant deterioration in credit quality, which is assessed on the basis of a relative long-term change in Probability of Default (PD), specified for the exposure at the reporting date, relative to the long-term PD specified on initial recognition. Where a relative change in long-term PD exceeds "the transition threshold", the exposure is moved to Stage 2. Initial date re-recognition is determined for the exposures for which substantial modification of contractual terms took place. Each change of initial recognition date results in recalculation taking into account the new exposure characteristics, initial PD parameter at the new initial recognition date, against which the credit quality deterioration is examined.

Estimating expected credit losses (ECL)

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

Stage 1 are identical to those used to calculate a long-term credit loss in Stage 2 for t=1, where 't' stands for the first year of the forecast.

Use of macroeconomics scenarios in ECL estimation

The Bank is required to set an expected credit loss in a way which meets the expectations for various forward-looking macroeconomic scenarios in case of portfolio estimation of ECL. Therefore, the non-linearity factor (NLF) is set in order to adjust the value of an expected credit loss (calculated every month). The NLF factor is determined once a year. NLFs are used as scaling factors for individual ECLs (both 12-month and lifetime) that are determined at the level of individual exposures. NLFs are calculated based on results from 3 simulation calculations at the same reporting date, which result from relevant macroeconomic scenarios.

In particular, NLF is calculated as:

1. the probability-weighted average of the expected loss from 3 macroeconomic scenarios ('average estimation') comprising:
    a. baseline scenario,
    b. optimistic scenario,
    c. pessimistic scenario,
2. divided by the expected loss determined under baseline scenario (reference estimate).

Simulation calculations, whose results are used to calculate NLF, are carried out on the basis of the same input data on exposure characteristics, but involve different risk parameter vectors, if the macroeconomic expectations defined in the scenarios are such as to affect the value of these parameters.

Impairment corporate portfolio

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

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

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

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

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

- 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.

<u>Significant deterrioration</u>

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

Qualitative criteria are:

- where an amount is more than 30 days past due and exceeds PLN 3 000 (days past due, with an activation threshold – the number of days for which the longest overdue amount of the exposure concerned is greater than or equal to 31 days),
- occurrence of the Forborne flag (the client status shows that he or she is experiencing difficulties in repaying the loan commitment, as defined by the Bank).
- occurrence of the Watch flag (the Bank's internal process designed to identify corporate clients who are subject to increased monitoring in terms of changes in credit quality, in accordance with the Watch List classification rules adopted by the Bank).

<u>Estimating expected credit losses (ECL)</u>

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

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

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

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

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

The accounting principles applied by the Bank until 31 December 2017 regarding the impairment of financial assets are described under Note 2.8 of the IFRS Financial Statements of the mBank Hipoteczny S.A. for 2017.

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 government securities acquired for the purpose of short-term resale.

2.10. Derivative financial instruments and hedge accounting

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

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

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

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

The Bank holds the following derivative instruments in its portfolio:

Interest rate risk instruments:

- Interest Rate Swap (IRS) Contracts.

Foreign exchange risk instruments:

- FX SWAP contracts.

All transactions on derivative instruments are concluded with the objective to secure currency risk and interest rate risk. The Bank does not conduct commercial activity, all transactions on derivatives are classified in the banking portfolio.

2.11. Intangible assets

Initially the Bank recognises intangible assets at acquisition cost. Subsequently intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) less any accumulated amortization and any impairment losses. Accumulated amortization is accrued by the straight line method taking into account the expected period of economic useful life of the respective intangible assets. 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. Capitalised costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Expenses directly linked to the development of identifiable unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets.

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

<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 ability to complete and to use the generated intangible asset, the availability of adequate technical and financial resources to complete and to use the generated intangible asset and the ability to measure reliably the expenditure attributable to the generated intangible asset during its development.

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

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

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

2.12. Tangible fixed assets

Tangible fixed assets are carried at historical cost reduced by accumulated depreciation and accumulated impairment losses. Historical cost takes into account the expenses directly attached to the acquisition of the respective assets.

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

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

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

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

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

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

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

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

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

- Technical equipment and machinery	5 - 10 years,
- IT equipment	4 - 5 years,
- Equipment 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 of financial situation upon disposal of this item or when no future economic benefits resulting from its use or disposal are expected.

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

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

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

2.13. 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. Liabilities or assets for deferred corporate income tax are recognised in their full amount according to the balance sheet method in connection with the existence of temporary differences between the tax value of assets and liabilities and their carrying value. Temporary differences are differences between the carrying amount of an asset or liability and its tax value. Positive net differences are shown in liabilities as "Deferred income tax provision". Negative net differences are recognized as "Deferred income tax assets". Changes in the deferred income tax provision and deferred income tax assets in relation to the previous financial period are included in the item "Income tax".

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

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

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

2.16. 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.

2.17. Provisions

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

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

2.18. Post-employment employee benefits and other employee benefits

<u>Provision for retirement and similar benefits</u>

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.

<u>Phantom share-based benefits settled in cash</u>

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.

2.19. Issue of securities

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

2.20. Loans and advances received

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

2.21. Equity

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.

<u>Registered share capital</u>

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

<u>Share premium</u>

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

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

<u>Retained earnings</u>

Retained earnings include:

- other supplementary capital,
- general risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current period.

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

<u>Other components of equity</u>

Other components of equity result from:

- valuation of financial assets at fair value through other comprehensive income,
- actuarial gains and losses relating to post-employment benefits.

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.

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

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

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

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 2018.

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 16, *Leases*, published by the International Accounting Standards Board on 13 January 2016, approved by European Union on 31 October 2017, 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 lessor.

- Amendments to IFRS 9, Prepayment Features with Negative Compensation, published by the International Accounting Standards Board on 12 October 2017, approved by European Union on 22 March 2018, binding for annual periods starting on or after 1 January 2019.

  Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.

  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 their initial application.

Standards and interpretations not yet approved by the European Union:

- 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.

  IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances.

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

- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*, published by the International Accounting Standards Board on 12 October 2017, binding for annual periods starting on or after 1 January 2019.

  Amendments to IAS 28 clarify that an entity applies IFRS 9 'Financial Instruments' to other financial instruments in an associate or joint venture to which the equity method is not applied. These instruments include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. In amendments to IAS 28 it has been clarified that the requirements of IFRS 9 apply to long-term interests before an entity applies share of losses requirements from IAS28 and in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

  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 their initial application.

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

  IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.

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

- Annual Improvements to IFRS Standards 2015-2017 Cycle, published by the International Accounting Standards Board on 12 December 2017, binding for annual periods starting on or after 1 January 2019.

  The improvements to the following standards were implemented during the cycle: IFRS 3 in terms of clarifying that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business, IFRS 11 in terms of clarifying that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business, IAS 12 in terms of clarifying that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises, IAS 23 in terms of clarifying that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

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

- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*, published by the International Accounting Standards Board on 7 February 2018, binding for annual periods starting on or after 1 January 2019.

  Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

  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 their initial application.

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) effective for financial years beginning on or after 1 January 2020.

2.25. Change of presentation in the income statement

In 2018, the Bank changed the method of presentation of foreign exchange differences of impairment write-downs on loans and advances in the income statement. Starting from January 2018, the Bank presents them under profit or loss from exchange item "Net exchange differences on translation", which is consistent with mBank Group's policy. In previous reporting periods, foreign exchange differences on account of allowances on loans and advances were presented under "Net impairment write-downs on loans and advances". Due to the lack of technical possibility to separate foreign exchange differences from allowances on loans and advances granted for previous periods, the Bank did not apply retrospective restatement of data for comparable periods presented in these financial statements. The amount of exchange differences for the first half of 2018 due to write-downs and adjustment to fair value for granted loans and advances amounted to PLN (3 743) thousand.

2.26. Implementation of IFRS 9

On 24 July 2014 the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard – IFRS 9, Financial instruments effective for annual periods beginning on or after 1 January 2018, which replaces the existing International Accounting Standard 39 „Financial instruments recognition and measurement". The European Commission adopted IFRS 9 as published by the IASB on 24 July 2014 in the Resolution No. 2016/2067 issued on 22 November 2016.

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.

The Bank decided to use the provisions of IFRS 9 allowing exemption from the obligation to transform comparative data for prior periods in relation to changes resulting from classification and measurement and impairment. At the same time the Bank introduced changes to the financial statements to adjust the presentation of financial data to the new categories introduced by IFRS 9.

As at 1 January 2018, differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 were recognized as a part of undistributed financial result from previous years in the Bank's equity.

Impact of IFRS 9 on the Bank's financial situation and own funds

Quantitative impact of IFRS 9 on the Bank's financial situation and own funds

As at 1 January 2018, changes in the requirements regarding classification and measurement and impairment of financial assets, had moderately negative impact on the Bank's financial position and own funds.

In the tables below has been presented the impact resulting from changes in the classification and measurement of financial assets in connection with the implementation of IFRS9 as at 1 January 2018.

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Restatement of statement of financial position of mBank Hipoteczny S.A. as at 31 December 2017 in connection with the implementation of IFRS 9

ASSETS	31.12.2017 in accordance with IAS 39	ASSETS	Reclassification	IFRS 9 implementation	01.01.2018 in accordance with IFRS 9
Cash and balances with the Central Bank	1 351	Cash and balances with the Central Bank	1 351	-	1 351
Loans and advances to banks	18 737	Financial assets at amortised cost - loans and advances to banks	18 737	-	18 737
Derivative financial instruments	48 973	Financial assets held for trading and derivatives held for hedges	48 973	-	48 973
Loans and advances to customers	10 766 911	Financial assets at amortised cost - loans and advances to customers	10 544 526	(10 896)	10 533 630
		Non-trading financial assets mandatorily at fair value through profit or loss	222 385	(2 258)	220 127
Investment securities available for sale	1 277 127	Financial assets at fair value through other comprehensive income	1 277 127	-	1 277 127
Intangible assets	25 527	Intangible assets	25 527	-	25 527
Tangible fixed assets	8 295	Tangible fixed assets	8 295	-	8 295
Deferred income tax assets	10 572	Deferred income tax assets	10 572	3 136	13 708
Other assets	10 676	Other assets	10 676	-	10 676
TOTAL ASSETS	**12 168 169**	**TOTAL ASSETS**	**12 168 169**	**(10 018)**	**12 158 151**
LIABILITIES AND EQUITY					
Liabilities					
Amounts due to other banks	3 830 026	Financial liabilities measured at amortised cost - Amounts due to banks	3 830 026	-	3 830 026
Derivative financial instruments	548	Financial liabilities held for trading and derivatives held for hedges	548	-	548
Amounts due to customers	4 131	Financial liabilities measured at amortised cost - amounts due to customers	4 131	-	4 131
Debt securities in issue	7 043 125	Financial liabilities measured at amortised cost - debt securities issued	7 043 125	-	7 043 125
Subordinated liabilities	200 484	Subordinated liabilities	200 484	-	200 484
Current income tax liabilities	7 682	Current income tax liabilities	7 682	-	7 682
Provisions	204	Provisions	204	3 353	3 557
Other liabilities	25 568	Other liabilities	25 568	-	25 568
TOTAL LIABILITIES	**11 111 768**	**TOTAL LIABILITIES**	**11 111 768**	**3 353**	**11 115 121**
Equity					
Share capital:	**734 719**	**Share capital:**	**734 719**	-	**734 719**
- Registered share capital	321 000	- Registered share capital	321 000	-	321 000
- Share premium	413 719	- Share premium	413 719	-	413 719
Retained earnings:	**317 882**	**Retained earnings:**	**317 882**	**(13 371)**	**304 511**
- Profit from the previous years	290 053	- Profit from the previous years	290 053	(13 371)	276 682
- Profit for the current period	27 829	- Profit for the current period	27 829	-	27 829
Other components of equity	**3 800**	**Other components of equity**	**3 800**	-	**3 800**
TOTAL EQUITY	**1 056 401**	**TOTAL EQUITY**	**1 056 401**	**(13 371)**	**1 043 030**
TOTAL LIABILITIES AND EQUITY	**12 168 169**	**TOTAL LIABILITIES AND EQUITY**	**12 168 169**	**(10 018)**	**12 158 151**

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

Measurement category	Loss allowance under IAS 39 /Provisions IAS 37	Impairment	Loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)			
Loans and advances to customers	69 004	23 940	92 944
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9) - TOTAL	69 004	23 940	92 944
Loans and receivables (IAS 39)/Non-trading financial assets mandatorily at fair value through profit or loss (IFRS 9)			
Loans and advances to customers	44 740	(44 740)	-
Loans and receivables (IAS 39)/Non-trading financial assets mandatorily at fair value through profit or loss - TOTAL	44 740	(44 740)	-
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)			
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)	61	3 353	3 414
Provisions (IAS 37)/Loss allowance for expected credit losses (IFRS 9) - TOTAL	61	3 353	3 414
TOTAL	**113 805**	**(17 447)**	**96 358**

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Classification and measurement of financial instruments

The comparison of the category of valuation and balance sheet value of financial assets and liabilities as at January 1, 2018 in accordance with IAS 39 and IFRS 9 is as follows:

The item of the financial report for 2017 Assets	Valuation category according to IAS 39	01.01.2018	Valuation category according to IFRS 9	01.01.2018
Cash and balances with the Central Bank	Amortised cost (loans and advances)	1 351	Amortised cost	1 351
Loans and advances to banks	Amortised cost (loans and advances)	18 737	Amortised cost	18 737
Derivative financial instruments	Fair value through profit or loss	48 973	Fair value through profit or loss	48 973
Loans and advances to customers	Amortised cost (loans and advances)	10 753 757	Amortised cost	10 533 630
Loans and advances to customers	Amortised cost (loans and advances)		Fair value through profit or loss	220 127
Investment securities available for sale	Fair value through other comprehensive income	1 277 127	Fair value through other comprehensive income	1 277 127
TOTAL ASSETS		**12 099 945**	**TOTAL ASSETS**	**12 099 945**

The item of the financial report for 2017 Liabilities	Valuation category according to IAS 39	01.01.2018	Valuation category according to IFRS 9	01.01.2018
Amounts due to other banks	Amortised cost	3 830 026	Amortised cost	3 830 026
Derivative financial instruments	Fair value through profit or loss	548	Fair value through profit or loss	548
Amounts due to customers	Amortised cost	4 131	Amortised cost	4 131
Debt securities in issue	Amortised cost	7 043 125	Amortised cost	7 043 125
Subordinated liabilities	Amortised cost	200 484	Amortised cost	200 484
Provisions for off balance sheet credit facilities	IAS 37	3 414	IFRS 9	3 414
TOTAL LIABILITIES		**11 081 728**	**TOTAL LIABILITIES**	**11 081 728**

Restatement of statement of financial position of mBank Hipoteczny S.A. as at 31 December 2017 in connection with the implementation of IFRS 9 - Assets

ASSETS	01.01.2018	31.12.2017	Change
Cash and balances with the Central Bank	1 351	1 351	-
Financial assets held for trading and derivatives held for hedges	48 973	48 973	-
Loans and advances to banks	*n/a*	18 737	(18 737)
Non-trading financial assets mandatorily at fair value through profit or loss, including:	220 127	*n/a*	220 127
Loans and advances to customers	*220 127*	*n/a*	*220 127*
Investment securities	*n/a*	1 277 127	(1 277 127)
Financial assets at fair value through other comprehensive income	1 277 127	*n/a*	1 277 127
Financial assets at amortised cost, including:	10 552 367	*n/a*	10 552 367
Loans and advances to banks	*18 737*	*n/a*	*18 737*
Loans and advances to customers	*10 533 630*	*n/a*	*10 533 630*
Loans and advances to customers	*n/a*	10 766 911	(10 766 911)
Intangible assets	25 527	25 527	-
Tangible assets	8 295	8 295	-
Deferred income tax assets	13 708	10 572	3 136
Other assets	10 676	10 676	-
TOTAL ASSETS	**12 158 151**	**12 168 169**	**(10 018)**

IFRS Condensed Financial Statements for the first half of 2018 PLN (000's)

Restatement of statement of financial position of mBank Hipoteczny S.A. as at 31 December 2017 in connection with the implementation of IFRS 9 – Liabilities and equity

LIABILITIES AND EQUITY			
L i a b i l i t i e s			
Financial liabilities held for trading and derivatives held for hedges	548	548	-
Financial liabilities measured at amortised cost, including:	11 077 766	n/a	11 077 766
Amounts due to banks	*3 830 026*	*n/a*	*3 830 026*
Amounts due to customers	*4 131*	*n/a*	*4 131*
Debt securities issued	*7 043 125*	*n/a*	*7 043 125*
Subordinated liabilities	*200 484*	*n/a*	*200 484*
Amounts due to the other banks	*n/a*	3 830 026	(3 830 026)
Amounts due to customers	*n/a*	4 131	(4 131)
Debt securities in issue	*n/a*	7 043 125	(7 043 125)
Subordinated liabilities	*n/a*	200 484	(200 484)
Current income tax liabilities	7 682	7 682	-
Provisions	3 557	204	3 353
Other liabilities	25 568	25 568	-
TOTAL LIABILITIES	**11 115 121**	**11 111 768**	**3 353**
E q u i t y			
Share capital:	**734 719**	**734 719**	**-**
- Registered share capital	321 000	321 000	-
- Share premium	413 719	413 719	-
Retained earnings:	**304 511**	**317 882**	**(13 371)**
- Profit from the previous years	276 682	290 053	(13 371)
- Profit for the current period	27 829	27 829	-
Other components of equity	**3 800**	**3 800**	**-**
TOTAL EQUITY	**1 043 030**	**1 056 401**	**(13 371)**
TOTAL LIABILITIES AND EQUITY	**12 158 151**	**12 168 169**	**(10 018)**

Financial assets

As at 1 January 2018, as a result of the implementation of IFRS 9, the Bank changed the classification and measurement method for 25 corporate loans measured at amortized cost in accordance with IAS 39 at fair value through profit or loss in accordance with IFRS 9 in connection with non-compliance the SPPI criteria in category non-recourse assets.

The impact of the valuation method change of the above loans from amortized cost to the fair value was negative and amounted to PLN 2 258 thousand excluding deferred tax effect.

As at 1 January 2018 Bank did not identify financial assets which were designated as measured at fair value through profit or loss in order to eliminate "accounting mismatch".

Financial liabilities

As a result of implementing IFRS 9, the Bank did not change the classification of financial liabilities in comparison to the requirements in IAS 39, which could have a significant impact on the financial position and profit or loss of the Bank.

Impairment

The implementation of the new impairment model based on the concept of ECL resulted in the moderate increase of the Bank's loss allowance, particularly with regard to exposures allocated to Stage 2. Contrary to IAS 39, IFRS 9 does not require the entities to identify the impairment trigger in order to estimate lifetime credit losses in Stage 2. Instead, the Bank is obliged to constantly estimate the level of credit losses since the initial recognition of a given asset until its derecognition. In the event of significant increase in credit risk since the initial recognition of the asset, the Bank will be obliged to calculate lifetime expected credit losses – Stage 2. Such an approach resulted in the earlier recognition of credit losses which causes an increase in loss allowance and therefore also affect profit or loss. With regard to exposures classified to Stage 1 the

Bank did not identify the change in the level of impairment allowances. With regard to exposures classified to Stage 3, the increase in the level of impairment allowances is related to taking into the designated level of impairment allowances, in accordance with the requirements of the IFRS 9, additional scenarios regarding expected recoveries.

The total effect of the above changes on the category "Financial assets at amortized cost" was negative and amounted to PLN 10 896 thousand. In addition, these changes also influenced the increase in provisions for off-balance sheet liabilities presented in the category "Provisions" in the amount of PLN 3 353 thousand.

As a result, the total negative impact of the implementation of IFRS 9 in the amount of PLN 16 507 thousand and the tax effect resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 3 136 thousand caused a decrease in the retained earnings by PLN 13 371 thousand.

Impact of IFRS 9 on capital adequacy

The total fully-loaded impact of IFRS 9 calculated as on 1 January 2018 is insignificant of the Bank TCR and Tier1 ratio and was below 1 base point.

The Bank decided, for the purpose of capital adequacy calculation, including calculation of own funds, based on the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013 in light of Article 1 paragraph 9 of the Regulation, not to apply the transitional arrangements that would mitigate the impact on capital resulting from the introduction of IFRS9.

The data as at 31 December 2017 and 30 June 2017 is comparable with the current accounting period and therefore has not been adjusted.

Hedge accounting

In accordance with IFRS 9, only on the date of implementation of IFRS 9 the Bank could make a decision consisting a part of its accounting policy to continue to apply hedge accounting requirements under IAS 39, in place of the requirements of IFRS 9.

IFRS 9 requires the Bank to ensure consistency of relevant hedging relationships with Bank's risk management strategy and objectives. IFRS 9 introduces new provisions regarding, among others, the assessment of the effectiveness of hedging relationship and the mechanism of restoring the balance of hedging relationship (hedging relationship rebalancing), as well as abolishes the possibility to discontinue using hedge accounting through Bank's subjective decision (i.e. in the absence of premises for discontinuing the use of hedge accounting, as specified in the Standard).

As at the date of implementation of the standard, the Bank decided to continue to apply hedge accounting requirements in accordance with IAS 39.

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.

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to establish whether the impairment should be reported in the income statement, the Bank assesses whether there are any evidence indicating possible to measure decrease of estimated future cash flows arising from granted loans and advances. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows, discounted according to original effective interest rate of a given element of financial assets. If the current value of estimated cash flows for the portfolio of loans with recognized individual impairment changed by +/- 10%, the estimated amount of loan impairment would decrease by PLN 12 819 thousand or increase by PLN 21 634 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 (stage 3). The principles for measuring impairment are described in Note 2.8.

Impairment of non-financial assets - inventories

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 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 recognizes a deferred income tax asset if there is sufficient assurance that future taxable profits will be generated, allowing its use.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced by the extent no longer probable for sufficient taxable profit to be available and allowing all or part of the deferred tax asset to be utilised.

In deferred tax the Bank capitalises write-offs for loan losses not recognized as tax-deductible cost, in part attributable to equity, which according to tax regulations may, in the future, become a tax-deductible cost in a form of a write-off for loan losses, after meeting the statutory requirements regarding the receivable becoming overdue or plausibly uncollectible, or as the cost of uncollectible capital after documenting the uncollectibility of receivables. Write-offs for credit losses, which according to the CIT Act will not become a tax cost, were excluded from the calculation of income tax.

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.

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 2017, the Bank classifies exposure / customers which are subject to the forbearance policy on the basis of professional judgment.

4. Operating segments

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

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

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

As of 22 July 2017, the sales process of retail loans has been transferred to mBank, but the Bank still has a retail loan portfolio which is to be extended within the framework of regular pooling transactions.

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

In 2018, the Bank withdrew from the existing product segmentation due to adapting to the rules of presentation of segment results in the mBank Group. The data presentation method introduced is consistent with Bank's business profile and facilitates the receipt of management information by the users of statements. Moreover, the dynamic growth of the portfolio of retail mortgage loans, as the second major area of Bank's credit activity, resulted in a need to allocate internal interest expenses, set business objectives and settle segment results. The Bank introduced segmentation of the result into three business segments, which were distinguished from the point of view of specific customer groups and products according to uniform transaction characteristics:

1. The Corporate Banking Segment – is a segment of the Bank's business that includes the following loans:
   - for refinancing — loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A.,
   - to housing developers — loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent),
   - loans to commercial developers — loans for the financing of commercial real estate projects that are consistent with the Bank's credit policy,
   - historically to local government units — loans to local government units (municipalities, districts, provinces) as well as loans secured by local government units (commercial companies established by local governments, public health care institutions);
2. The Retail Banking Segment – is a segment of the Bank's business that includes the loans to natural persons, those that may form a basis for the issue of mortgage bonds:
   - loans granted for housing purposes in PLN, the sale of which was under an agency agreement with mBank S.A. – agency model,
   - loans in PLN, secured with a mortgage on a housing property, acquired from mBank S.A. – pooling,

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- loans to natural persons granted not in cooperation with mBank S.A. The Bank discontinued the sales in this segment in 2004.

3. Treasury Segment – a segment of Bank's activities, comprising financing acquisition, in particular issuance of mortgage bonds, liquidity management, and Bank's interest rate and currency risk management.

The basic and sole division is the division into segments of Bank's activities. Due to the fact that the Bank operates only in the Republic of Poland, it does not apply geographical segmentation. There are no inter-segment transactions in the Bank. On the basis of the above adopted segmentation, the gross result of particular segments of activities is determined, considering all items of the profit and loss account.

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 (excluding the Treasury segment which finances other segments in the Mortgage Bank and by assumption is not expected to generate a positive financial result). 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.

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 segmentation of assets and profit and loss has been made using the information that Bank uses for controlling and management purposes. Assets and liabilities, income and costs attributable to these assets have been assigned to individual segments of the Bank. The Treasury segment includes assets and liabilities related to hedging derivatives and liabilities on account of external financing. The segment results include all profit and loss positions.

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 01.01.2018 to 30.06.2018	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	**49 284**	**37 851**	**(3 831)**	**83 304**
Net fee and commission income	**1 154**	**(846)**	**(1 308)**	**(1 000)**
Other operating income/expenses	(280)	202	(175)	(253)
Net trading income	-	-	(1 006)	(1 006)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(1 961)	-	-	(1 961)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(6 739)	(1 671)	-	(8 410)
Overhead costs	(14 309)	(13 181)	(4 115)	(31 605)
Depreciation	(781)	(781)	(164)	(1 726)
Tax on the Bank's balance sheet items	(6 954)	(6 621)	-	(13 575)
Segment result (gross)	**19 414**	**14 953**	**(10 599)**	**23 768**

Period from 01.01.2017 to 30.06.2017	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	**45 593**	**28 163**	**(1 531)**	**72 225**
Net fee and commission income	**816**	**(2 290)**	**(1 645)**	**(3 119)**
Other operating income/expenses	(223)	184	-	(39)
Net trading income	-	-	(3 425)	(3 425)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(1 193)	(549)	-	(1 742)
Overhead costs	(18 916)	(15 203)	-	(34 118)
Depreciation	(875)	(688)	-	(1 563)
Tax on the Bank's balance sheet items	(5 868)	(5 352)	-	(11 220)
Segment result (gross)	**19 334**	**4 265**	**(6 601)**	**16 999**

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

	Corporate Banking		
	30.06.2018	31.12.2017	30.06.2017
Segment Assets	5 140 082	4 900 195	4 772 891
Segment Liabilities	32 726	33 393	29 821

	Retail Banking		
	30.06.2018	31.12.2017	30.06.2017
Segment Assets	6 073 907	5 853 706	5 389 828
Segment Liabilities	27	61	9 896

	Treasure Segment		
	30.06.2018	31.12.2017	30.06.2017
Segment Assets	1 430 320	1 359 198	1 133 098
Segment Liabilities	11 611 743	11 078 314	10 258 965

	30.06.2018	31.12.2017	30.06.2017
Other assets not allocated to segments	60 658	55 070	39 416

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

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5. Net interest income

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Interest income		
Interest income of financial assets at amortised cost, including:	**178 062**	***n/a***
- Loans and advances	*177 716*	*n/a*
- Cash and short-term placements	*346*	*560*
Interest income on financial assets at fair value through other comprehensive income	**11 013**	***n/a***
Investment securities	*n/a*	10 118
Income similar to interest on financial assets at fair value through profit or loss, including:	**4 268**	***n/a***
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	*4 268*	n/a
- Loans and advances	*4 268*	*n/a*
Loans and advances, including the unwind of discount relating to impairment write-down	*n/a*	158 797
Interest income on derivatives classified into banking book	8 114	7 206
Interest income on derivatives concluded under hedge accounting	7 809	4 223
Total interest income	**209 266**	**180 904**
Interest expense		
Due to the issue of debt securities	(77 011)	(68 480)
Due to settlements with banks	(43 718)	(34 984)
Due to subordinated loan	(5 170)	(5 187)
Due to settlements with customers	(63)	(28)
Total interest expense	**(125 962)**	**(108 679)**
Total net interest income	**83 304**	**72 225**

In the first half of 2018, interest income related to impaired financial assets amounted to PLN 5 368 thousand (in the first half of 2017: PLN 3 365 thousand).

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6. Net fee and commission income

	Period from 01.01.2018 to 30.06.2018 unaudited	Period from 01.01.2017 to 30.06.2017 unaudited
Fee and commission income		
Credit-related fees and commissions	1 595	899
Total fee and commission income	**1 595**	**899**
Fee and commission expenses		
Cost of servicing loan products	(885)	(1 966)
Commission expense from loan received and stand-by credit line	(695)	(649)
Costs related to the debt securities issue program (covered bonds and bonds)	(572)	(941)
Costs of real estate analyses and valuations related to the lending activity	(185)	(227)
Other	(258)	(235)
Total fee and commission expense	**(2 595)**	**(4 018)**
Total net fee and commission income	**(1 000)**	**(3 119)**

7. Net trading income

	Period from 01.01.2018 to 30.06.2018 unaudited	Period from 01.01.2017 to 30.06.2017 unaudited
Foreign exchange result	**883**	**(3 098)**
Net exchange differences on translation	28 457	(15 644)
Valuation of foreign currency derivatives	(27 574)	12 546
Other net trading income and result on hedge accounting	**(1 889)**	**(327)**
Interest rate risk instruments	611	535
Hedge accounting, including:	(2 500)	(862)
- net profit on hedged items	(19 428)	11 345
- net profit on hedging instruments	16 928	(12 207)
Total net trading income	**(1 006)**	**(3 425)**

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 596 900 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 hedged liabilities and valuation of hedging instruments is recognised in the income statement in the result of trade activity excluding profits and interest costs of the interest element of valuation of hedging instruments that are presented in the Interest incomes/costs on derivative instruments item included in the scope of hedging 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 30.06.2018

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2018	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	133 380	3 270	136 650	285
Mortgage covered bonds (EUR)	8 000	3.50%	2029-02-28	34 747	4 179	38 926	(238)
Mortgage covered bonds (EUR)	15 000	3.50%	2029-03-15	65 181	7 865	73 046	(450)
Mortgage covered bonds (EUR)	20 000	3.20%	2029-05-30	86 174	10 326	96 500	(610)
Mortgage covered bonds (EUR)	20 000	1.115%	2018-10-22	87 863	160	88 023	214
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	87 081	1 322	88 403	(327)
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	47 813	(127)	47 686	(282)
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	153 541	(4 301)	149 240	(705)
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	57 010	(2 202)	54 808	(265)
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	108 766	740	109 506	(601)
Mortgage covered bonds (EUR)	100 000	0.612%	2022-06-22	435 313	1 706	437 019	(2 151)
Mortgage covered bonds (EUR)	300 000	1.073%	2025-03-05	1 307 346	14 298	1 321 644	(14 298)
Total hedged items				**2 604 215**	**37 236**	**2 641 451**	**(19 428)**

As at 31.12.2017

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2017	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	125 615	3 556	129 171	1 664
Mortgage covered bonds (EUR)	8 000	3.50%	2029-02-28	33 773	3 940	37 713	1 118
Mortgage covered bonds (EUR)	15 000	3.50%	2029-03-15	63 363	7 416		2 100
Mortgage covered bonds (EUR)	20 000	3.20%	2029-05-30	83 638	9 716		2 737
Mortgage covered bonds (EUR)	20 000	1.115%	2018-10-22	83 503	374	83 877	358
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	83 663	996	84 659	754
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	45 988	(409)	45 579	411
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	145 920	(5 006)	140 914	1 566
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	54 179	(2 468)	51 711	482
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	104 470	139	104 609	(139)
Mortgage covered bonds (EUR)	100 000	0.612%	2022-06-22	416 505	(445)	416 060	445
Total hedged items				**1 240 617**	**17 809**	**1 094 293**	**11 496**

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	1.183%	2026-09-20	55 202	(2 688)	52 514	702
Mortgage covered bonds (EUR)	35 000	1.18%	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**

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 30.06.2018

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	6 566	-	(539)
IRS (EUR)	8 000	2029-02-28	4 727	-	187
IRS (EUR)	15 000	2029-03-15	8 594	-	352
IRS (EUR)	20 000	2029-05-30	8 507	-	473
IRS (EUR)	20 000	2018-10-22	721	-	(207)
IRS (EUR)	20 000	2022-02-25	928	-	373
IRS (EUR)	11 000	2025-04-24	-	(421)	295
IRS (EUR)	35 000	2026-09-20	-	(3 958)	776
IRS (EUR)	13 000	2026-09-20	-	(2 056)	294
IRS (EUR)	24 900	2024-02-01	780	-	650
IRS (EUR)	100 000	2022-06-22	83	-	2 131
IRS (EUR)	300 000	2025-03-05	8 400	-	12 143
Total hedging items			**39 306**	**(6 435)**	**16 928**

As at 31.12.2017

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	6 074	-	(2 415)
IRS (EUR)	8 000	2029-02-28	5 114	-	(1 298)
IRS (EUR)	15 000	2029-03-15	9 325	-	(2 399)
IRS (EUR)	20 000	2029-05-30	9 372	-	(2 809)
IRS (EUR)	20 000	2018-10-22	441	-	(324)
IRS (EUR)	20 000	2022-02-25	1 021	-	(565)
IRS (EUR)	11 000	2025-04-24	-	(421)	(336)
IRS (EUR)	13 000	2026-09-20	-	(2 690)	(421)
IRS (EUR)	35 000	2026-09-20	-	(5 653)	(1 433)
IRS (EUR)	24 900	2024-02-01	603	-	148
IRS (EUR)	100 000	2022-06-22	-	(1 674)	(960)
Total hedging items			**31 950**	**(10 438)**	**(12 812)**

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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)**

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

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Interest income on derivatives concluded under hedge accounting of fair value (Note 5)	7 809	4 223
Net profit on hedged items	(19 428)	11 345
Net profit on hedging instruments	16 928	(12 207)
Total net profit on hedge accounting of fair value	**5 309**	**3 361**

8. Other operating income

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Income from release of prior year provisions	482	204
Income from sales of services	75	234
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	10	21
Reversal of impairment write-downs on receivables (excluding loans)	-	7
Other	37	33
Total other operating income	**604**	**499**

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9. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

the period	from 01.01.2018 to 30.06.2018	from 01.01.2017 to 30.06.2017
Financial assets at amortised cost, including:	**(8 830)**	**(1 710)**
- Loans and advances	**(8 830)**	**(1 710)**
Stage 1	375	*n/a*
Stage 2	(905)	*n/a*
Stage 3	(8 672)	*n/a*
POCI	372	*n/a*
Commitments and guarantees given	**420**	**(32)**
Stage 1	(222)	*n/a*
Stage 2	642	*n/a*
Stage 3	-	*n/a*
POCI	-	*n/a*
Net impairment losses on financial assets not measured at fair value through profit or loss	**(8 410)**	**(1 742)**

10. Overhead costs

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Staff-related costs	(14 846)	(17 306)
Material costs, including:	(10 727)	(10 728)
- logistic cost	(4 329)	(4 422)
- IT cost	(3 687)	(3 118)
- marketing cost	(1 552)	(2 303)
- consulting services cost	(849)	(507)
- other overheads cost	(310)	(378)
Contributions and transfers to the Bank Guarantee Fund	(5 274)	(5 152)
Taxes and fees	(601)	(756)
Contributions to the Social Benefits Fund	(157)	(176)
Total overhead costs	**(31 605)**	**(34 118)**

The amount "Logistic cost" consists of the property rent costs and leasing of the means of transport equals to PLN 1 866 thousand (in the first half of 2017: PLN 1 963 thousand).

Staff-related expenses

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Wages and salaries	(12 058)	(13 730)
Social security expenses	(2 080)	(2 338)
Remuneration payment in the form of phantom shares settled in cash	(282)	(659)
Other employee benefits	(426)	(579)
Staff-related costs, total	**(14 846)**	**(17 306)**

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In the first half of June 2018, the Bank underwent Social Insurance Institution's (ZUS) audit covering years 2015, 2016 and 2017 within:

- correctness and reliability of the calculation of social security contributions and other contributions, which ZUS is obliged to collect and to report for social insurance,
- determination of entitlements and payment of benefits due on account of social insurance,
- correctness and timeliness of the preparation of pension provision applications,
- issuing certificates or reporting data for social security purposes.

On July 31, 2018, the Bank received a report with the results of the audit. The report does not contain any recommendations and reservations.

11. Other operating expenses

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Costs of enforcement proceedings	(134)	(379)
Inventory write-downs	(437)	-
Compensations, penalties and fines paid	(28)	(3)
Investments write-off	(24)	-
Donations	(9)	-
Loss on sales or liquidation of tangible fixed assets and intangible assets	(2)	(64)
Loss on the sales of assets repossessed for debts (inventories) and costs of their maintenance	(2)	(3)
Cost of real estate valuation	-	(2)
Other	(370)	(87)
Total other operating expenses	**(1 006)**	**(538)**

12. Earnings per share

	Period from 01.01.2018 to 30.06.2018 unaudited	**Period from 01.01.2017 to 30.06.2017** unaudited
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	16 622	10 256
Weighted average number of ordinary shares	3 210 000	3 172 210
Basic net profit per share (in PLN per share)	**5.18**	**3.23**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted earnings per share	16 622	10 256
Weighted average number of ordinary shares	3 210 000	3 172 210
Diluted earnings per share (in PLN per share)	**5.18**	**3.23**

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.

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13. Financial assets and liabilities held for trading and derivatives held for hedges

	30.06.2018 unaudited		31.12.2017		30.06.2017 unaudited	
	assets	liabilities	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading classified into banking book	412	12 411	17 626	-	10 408	6 089
Derivatives held for hedging	39 306	6 435	31 950	10 438	30 120	9 171
Offsetting effect	(9 264)	(5 357)	(603)	(9 890)	40	(8 254)
Total derivative financial instruments assets/liabilities	**30 454**	**13 489**	**48 973**	**548**	**40 568**	**7 006**

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.

14. Non-trading financial assets mandatorily at fair value through profit or loss

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Loans and advances	**217 700**	***n/a***	***n/a***
- Individual customers	-	*n/a*	*n/a*
- Corporate customers	217 700	*n/a*	*n/a*
- Public sector customers	-	*n/a*	*n/a*
Total non-trading financial assets mandatorily at fair value through profit or loss	**217 700**	***n/a***	***n/a***

15. Financial liabilities measured at amortised cost

30.06.2018	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	20 037	20 037	-	-	-	-	-	-	-
Loans and advances to customers	**11 037 313**	**9 734 756**	**1 096 101**	**283 437**	**8 737**	**(8 904)**	**(11 394)**	**(74 125)**	**8 705**
Financial institutions	41 024	41 024	-	-	-	-	-	-	-
Individual customers	6 094 102	5 121 808	973 313	16 051	12	(1 626)	(8 670)	(6 786)	-
Corporate customers	4 784 083	4 458 517	118 973	266 408	8 725	(7 244)	(2 714)	(67 287)	8 705
Public sector customers	118 104	113 407	3 815	978	-	(34)	(10)	(52)	-
Financial assets at amortised cost, total	**11 057 350**	**9 754 793**	**1 096 101**	**283 437**	**8 737**	**(8 904)**	**(11 394)**	**(74 125)**	**8 705**

Short-term (up to 1 year)	720 566
Long-term (over 1 year)	10 336 784

The following notes presents the value of loans and advances to banks and customers according to IAS 39, as at December 31, 2017 and as at June 30, 2017.

Loans and advances to banks

	31.12.2017	30.06.2017 unaudited
Current accounts	18 737	9 927
Recognised in cash equivalents	**18 737**	**9 927**
Amounts (gross) due from banks, in total	**18 737**	**9 927**
Amounts (net) due from banks, in total	**18 737**	**9 927**

Short-term amounts due from other banks (up to 1 year)	18 737	9 927

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Loans and advances to customers

	31.12.2017	30.06.2017 unaudited
Loans and advances to corporate customers	**4 857 610**	**4 709 503**
Loans and advances to individual customers	**5 885 170**	**5 423 318**
Loans and advances to the public sector	**124 865**	**132 637**
Other receivables	**13 010**	**10 571**
Loans and advances from customers (gross)	**10 880 655**	**10 276 029**
Write-downs on receivables (negative amount)	(113 744)	(102 739)
Loans and advances from customers (net)	**10 766 911**	**10 173 290**

Short-term (up to 1 year)	708 128	705 353
Long-term (over 1 year)	10 058 783	9 467 937

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

Movements in impairment write-downs on loans and advances

The following note presents movements in impairment write-downs on loans and advances according to IAS 39, as at December 31, 2017 and as at June 30, 2017.

	Impairment write-downs as at 01.01.2017	Write-downs created	Reversal of write-downs	Receivables written-off	Impairment write-downs as at 31.12.2017
Corporate customers	(97 309)	(31 584)	14 277	7 827	(106 789)
Individual customers	(4 002)	(8 115)	5 200	-	(6 917)
Public sector customers	(42)	-	4	-	(38)
Total movements in impairment write-downs on loans and advances	(101 353)	(39 699)	19 481	7 827	(113 744)

	Impairment write-downs as at 01.01.2017	Write-downs created	Reversal of write-downs	Receivables written-off	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)

16. Financial assets at fair value through other comprehensive income

30.06.2018	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Debt securities	**1 338 281**	**1 338 281**	-	-	-	-	-	-	-
- Central banks	201 967	201 967	-	-	-	-	-	-	-
- General governments, including:	1 136 314	1 136 314	-	-	-	-	-	-	-
pledged securities	*343 473*	*343 473*	-	-	-	-	-	-	-
Total financial assets at fair value through other comprehensive income	**1 338 281**	**1 338 281**	-	-	-	-	-	-	-

Short-term (up to 1 year)	517 416
Long-term (over 1 year)	820 865

Based on fixed interest rate	752 185
Based on floating interest rate	586 096

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The notes below present the carrying amount of investment securities in accordance with IAS 39 as at 31 December 2017 and as at 30 June 2017.

31.12.2017	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities:	**1 095 780**	**181 347**	**1 277 127**
Issued by government	972 295	181 347	1 153 642
- government bonds	972 295	181 347	1 153 642
Issued by central bank	123 485	-	123 485
- central bank's money bills	123 485	-	123 485
Total debt securities	**1 095 780**	**181 347**	**1 277 127**
Short-term (up to 1 year)	541 596	1 033	542 629
Long-term (over 1 year)	554 184	180 314	734 498
Based on fixed interest rate	591 251	-	591 251
Based on floating interest rate	504 529	181 347	685 876

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

Pledged assets are not subject to resale and further pledge.

17. Intangible assets

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Concessions, patents, licences and similar assets, including:	8 912	5 882	4 540
- computer software	8 912	5 882	4 540
Intangible assets under development	23 242	19 645	13 803
Intangible assets, total	**32 154**	**25 527**	**18 343**

18. Tangible fixed assets

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Technical equipment and machinery	5 352	5 714	5 576
Vehicles	8	8	44
Fixed assets under construction	474	501	1 641
Other fixed assets	1 950	2 072	992
Tangible fixed assets, total	**7 784**	**8 295**	**8 253**

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19. Other assets

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Other, including:	**8 453**	**10 676**	**7 059**
- inventories	2 995	3 432	3 432
- other prepayments	3 497	3 150	1 961
- receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	1 167	3 210	651
- income receivable	341	410	540
- debtors	431	448	432
- other	22	26	43
Total other assets	**8 453**	**10 676**	**7 059**
Short-term (up to 1 year)	8 453	10 676	7 059

20. Financial liabilities measured at amortised cost – amounts due to customers

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Corporate customers:	**3 097**	**3 950**	**10 983**
Other liabilities (in respect of):	3 097	3 950	10 983
- cash collateral	451	446	846
- other	2 646	3 504	10 137
Individual customers:	**115**	**145**	**124**
Other liabilities (in respect of):	115	145	124
- cash collateral	49	65	65
- other	66	80	59
Public sector clients:	**58**	**36**	**34**
Other liabilities (in respect of):	58	36	34
- other	58	36	34
Total amounts due to customers	**3 270**	**4 131**	**11 141**
Short-term (up to 1 year)	2 847	3 696	10 307
Long-term (over 1 year)	423	435	834

21. Debt securities in issue

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

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

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

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

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

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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.

The tables below show data related to the issuance of covered bonds as of 30 June 2018, as of 31 December 2017 and as of 30 June 2017.

Data as at 30.06.2018	Mortgage covered bonds
1. Nominal value of covered bonds listed on the market	7 510 759
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)	9 124 678
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)	279 645
4. Level of collateral the covered bonds by receivables (2/1)	121.49%
5. Total covered bonds collateral level (2+3) / 1	125.21%
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	3 497 472
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	4 648 193

Permissible value of Substitute collateral as at 30.06.2018	Mortgage covered bonds
1. Cash invested in treasury bonds	340 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	60 355
3. Permissible value of Substitute collateral (1-2)	279 645

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Data as at 31.12.2017	Mortgage covered bonds
1. Nominal value of covered bonds listed on the market	6 438 802
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	8 591 745
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)	106 620
4. Level of collateral the covered bonds by receivables (2/1)	133.44%
5. Total covered bonds collateral level (2+3) / 1	135.09%
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	3 355 035
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	4 385 960

Permissible value of Substitute collateral as at 31.12.2017	Mortgage covered bonds
1. Cash invested in treasury bonds	180 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	73 380
3. Permissible value of Substitute collateral (1-2)	106 620

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

The total nominal amount of the covered bonds in trading, as of 30 June 2018 was listed on two markets under CATALYST: The Regulated Market of Securities BondSpot maintained by BondSpot S.A. and the regulated parallel stock exchange market of Warsaw Stock Exchange.

Foreign issuance issued in the first half of 2018 under the international mortgage bond issuance programme as at June 30, 2018 was listed on a regulated market operated by the Stock Exchange in Luxembourg.

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As at 30.06.2018

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2018	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)	80 000	2.78%	Mortgage covered bonds register	2019-06-21	80 043	-	80 043
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage covered bonds register	2020-07-28	133 380	3 270	136 650
Mortgage covered bonds (EUR)	50 000	0.802%	Mortgage covered bonds register	2018-10-22	218 377	-	218 377
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage covered bonds register	2029-02-28	34 747	4 179	38 925
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage covered bonds register	2029-03-15	65 181	7 865	73 046
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage covered bonds register	2029-05-30	86 174	10 326	96 500
Mortgage covered bonds (PLN)	300 000	2.74%	Mortgage covered bonds register	2022-07-28	302 691	-	302 691
Mortgage covered bonds (PLN)	200 000	2.74%	Mortgage covered bonds register	2023-02-20	201 392	-	201 392
Mortgage covered bonds (EUR)	20 000	1.115%	Mortgage covered bonds register	2018-10-22	87 863	160	88 023
Mortgage covered bonds (EUR)	50 000	0.541%	Mortgage covered bonds register	2019-10-15	218 170	-	218 170
Mortgage covered bonds (PLN)	200 000	2.56%	Mortgage covered bonds register	2022-04-28	200 401	-	200 401
Mortgage covered bonds (EUR)	20 000	1.135%	Mortgage covered bonds register	2022-02-25	87 081	1 322	88 403
Mortgage covered bonds (PLN)	250 000	2.65%	Mortgage covered bonds register	2023-10-16	250 569	-	250 569
Mortgage covered bonds (EUR)	11 000	1.285%	Mortgage covered bonds register	2025-04-24	47 813	(127)	47 686
Mortgage covered bonds (EUR)	50 000	0.559%	Mortgage covered bonds register	2020-06-24	217 843	-	217 843
Mortgage covered bonds (PLN)	500 000	2.80%	Mortgage covered bonds register	2020-09-10	500 099	-	500 099
Mortgage covered bonds (PLN)	255 000	2.85%	Mortgage covered bonds register	2021-09-20	254 719	-	254 719
Mortgage covered bonds (PLN)	300 000	2.90%	Mortgage covered bonds register	2021-03-05	300 131	-	300 131
Mortgage covered bonds (EUR)	50 000	0.547%	Mortgage covered bonds register	2021-06-21	217 742	-	217 742
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	2020-04-28	50 185	-	50 185
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	2020-04-28	100 375	-	100 375
Mortgage covered bonds (EUR)	35 000	1.183%	Mortgage covered bonds register	2026-09-20	153 541	(4 301)	149 240
Mortgage covered bonds (EUR)	13 000	1.18%	Mortgage covered bonds register	2026-09-20	57 010	(2 202)	54 808
Mortgage covered bonds (EUR)	24 900	0.94%	Mortgage covered bonds register	2024-02-01	108 766	740	109 506
Mortgage covered bonds (PLN)	500 000	2.45%	Mortgage covered bonds register	2022-09-10	499 416	-	499 416
Mortgage covered bonds (PLN)	1 000 000	2.52%	Mortgage covered bonds register	2023-09-15	998 009	-	998 009
Mortgage covered bonds (EUR)	100 000	0.612%	Mortgage covered bonds register	2022-06-22	435 313	1 706	437 019
Mortgage covered bonds (EUR)	300 000	1.073%	Mortgage covered bonds register	2025-03-05	1 307 346	14 298	1 321 644
Mortgage covered bonds (PLN)	208 000	2.28%	Mortgage covered bonds register	2024-06-10	207 719	-	207 719
Mortgage covered bonds (PLN)	51 100	2.28%	Mortgage covered bonds register	2024-06-10	50 882	-	50 882
Mortgage covered bonds (PLN)	40 000	2.28%	Mortgage covered bonds register	2024-06-10	39 946	-	39 946
Mortgage covered bonds (PLN)	900	2.28%	Mortgage covered bonds register	2024-06-10	899	-	899
Bonds (PLN)	20 000	3.26%	no collateral	2019-01-16	20 290	-	20 290
Bonds (PLN)	60 000	3.15%	no collateral	2019-01-21	60 355	-	60 355
Short-term issues (with original maturity up to 1 year)							
Bonds (PLN)	300 000	2.12%	no collateral	2019-06-27	299 859	-	299 859
Bonds (PLN)	20 000	2.30%	no collateral	2018-09-04	19 916	-	19 916
Bonds (PLN)	50 000	2.11%	no collateral	2018-07-06	49 985	-	49 985
Bonds (PLN)	30 000	2.11%	no collateral	2018-09-05	29 882	-	29 882
Bonds (PLN)	10 000	2.11%	no collateral	2018-09-06	9 960	-	9 960
Debt securities in issue (carrying value)					**8 004 070**	**37 236**	**8 041 306**

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As at 31.12.2017

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2017	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	200 260	-	200 260
Mortgage covered bonds (PLN)	80 000	2.81%	Mortgage covered bonds register	2019-06-21	80 038	-	80 038
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage covered bonds register	2020-07-28	125 615	3 556	129 171
Mortgage covered bonds (EUR)	50 000	0.802%	Mortgage covered bonds register	2018-10-22	208 768	-	208 768
Mortgage covered bonds (EUR)	7 500	0.53%	Mortgage covered bonds register	2018-02-15	31 339	-	31 339
Mortgage covered bonds (EUR)	8 000	3.50%	Mortgage covered bonds register	2029-02-28	33 773	3 940	37 713
Mortgage covered bonds (EUR)	15 000	3.50%	Mortgage covered bonds register	2029-03-15	63 363	7 416	70 779
Mortgage covered bonds (EUR)	20 000	3.20%	Mortgage covered bonds register	2029-05-30	83 638	9 716	93 354
Mortgage covered bonds (PLN)	300 000	2.74%	Mortgage covered bonds register	2022-07-28	302 696	-	302 696
Mortgage covered bonds (PLN)	200 000	2.74%	Mortgage covered bonds register	2023-02-20	201 366	-	201 366
Mortgage covered bonds (EUR)	20 000	1.115%	Mortgage covered bonds register	2018-10-22	83 503	374	83 877
Mortgage covered bonds (EUR)	50 000	0.54%	Mortgage covered bonds register	2019-10-15	208 566	-	208 566
Mortgage covered bonds (PLN)	200 000	2.59%	Mortgage covered bonds register	2022-04-28	200 369	-	200 369
Mortgage covered bonds (EUR)	20 000	1.135%	Mortgage covered bonds register	2022-02-25	83 663	996	84 659
Mortgage covered bonds (PLN)	250 000	2.68%	Mortgage covered bonds register	2023-10-16	250 533	-	250 533
Mortgage covered bonds (EUR)	11 000	1.285%	Mortgage covered bonds register	2025-04-24	45 988	(409)	45 579
Mortgage covered bonds (EUR)	50 000	0.361%	Mortgage covered bonds register	2020-06-24	208 248	-	208 248
Mortgage covered bonds (PLN)	500 000	2.83%	Mortgage covered bonds register	2020-09-10	499 997	-	499 997
Mortgage covered bonds (PLN)	255 000	2.87%	Mortgage covered bonds register	2021-09-20	254 668	-	254 668
Mortgage covered bonds (PLN)	300 000	2.93%	Mortgage covered bonds register	2021-03-05	300 076	-	300 076
Mortgage covered bonds (EUR)	50 000	0.541%	Mortgage covered bonds register	2021-06-21	208 147	-	208 147
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	2020-04-28	50 909	-	50 909
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	2020-04-28	101 824	-	101 824
Mortgage covered bonds (EUR)	35 000	1.183%	Mortgage covered bonds register	2026-09-20	145 920	(5 006)	140 914
Mortgage covered bonds (EUR)	13 000	1.18%	Mortgage covered bonds register	2026-09-20	54 179	(2 468)	51 711
Mortgage covered bonds (EUR)	24 900	0.94%	Mortgage covered bonds register	2024-02-01	104 470	139	104 609
Mortgage covered bonds (PLN)	400 000	2.51%	Mortgage covered bonds register	2019-12-16	400 427	-	400 427
Mortgage covered bonds (PLN)	500 000	2.48%	Mortgage covered bonds register	2022-09-10	499 315	-	499 315
Mortgage covered bonds (PLN)	1 000 000	2.54%	Mortgage covered bonds register	2023-09-15	997 814	-	997 814
Mortgage covered bonds (EUR)	100 000	0.612%	Mortgage covered bonds register	2022-06-22	416 505	(445)	416 060
Bonds (PLN)	20 000	3.26%	no collateral	2019-01-16	20 289	-	20 289
Bonds (PLN)	60 000	3.18%	no collateral	2019-01-21	60 347	-	60 347
Short-term issues (with original maturity up to 1 year)							
Bonds (PLN)	81 000	2.28%	no collateral	2018-01-11	80 948	-	80 948
Bonds (PLN)	20 000	2.26%	no collateral	2018-01-10	19 988	-	19 988
Bonds (PLN)	10 000	2.26%	no collateral	2018-01-12	9 993	-	9 993
Bonds (PLN)	15 000	2.26%	no collateral	2018-02-05	14 966	-	14 966
Bonds (PLN)	20 000	2.30%	no collateral	2018-09-04	19 685	-	19 685
Bonds (PLN)	30 000	2.26%	no collateral	2018-03-05	29 880	-	29 880
Bonds (PLN)	88 500	2.15%	no collateral	2018-01-08	88 462	-	88 462
Bonds (PLN)	32 000	2.26%	no collateral	2018-03-08	31 865	-	31 865
Bonds (PLN)	10 000	2.03%	no collateral	2018-01-05	9 998	-	9 998
Bonds (PLN)	20 000	2.11%	no collateral	2018-04-27	19 862	-	19 862
Bonds (PLN)	20 000	2.03%	no collateral	2018-02-09	19 955	-	19 955
Bonds (PLN)	25 000	2.11%	no collateral	2018-05-17	24 798	-	24 798
Bonds (PLN)	50 000	2.11%	no collateral	2018-06-13	49 516	-	49 516
Bonds (PLN)	10 000	2.11%	no collateral	2018-06-13	9 903	-	9 903
Bonds (PLN)	20 000	2.02%	no collateral	2018-03-19	19 912	-	19 912
Bonds (PLN)	40 000	2.02%	no collateral	2018-03-21	39 819	-	39 819
Bonds (PLN)	9 200	2.02%	no collateral	2018-03-28	9 155	-	9 155
Debt securities in issue (carrying value)					**7 025 316**	**17 809**	**7 043 125**

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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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22. Other liabilities

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Other liabilities (due to)	**26 062**	**25 568**	**35 852**
- accrued expenses	19 251	19 295	29 359
- settlements due to tax from Bank balance sheet items	2 390	2 179	1 938
- provision for holiday equivalents	943	990	1 075
- liabilities due to income tax on salaries, Social Security contributions and VAT	711	752	862
- settlements with insurers	1 150	1 050	731
- other	1 617	1 302	1 887
Other liabilities, in total	**26 062**	**25 568**	**35 852**

23. Provisions

	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Provision (for)	**3 172**	**204**	**158**
- off-balance sheet contingent liabilities granted	3 029	61	87
- provisions for retirement and disability benefits	143	143	71
Provision, in total	**3 172**	**204**	**158**

24. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
As at the beginning of the period	**44 658**	**44 736**	**44 736**
Impact of the implementation of IFRS 9 on 1 January 2018	4 997	n/a	n/a
Restated opening balance	**49 655**	**n/a**	**n/a**
- Changes recognized in the income statement	3 518	322	(104)
- Changes recognized in other comprehensive income	50	(400)	(401)
As at the end of the period	**53 223**	**44 658**	**44 231**

Deferred income tax liabilities	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
As at the beginning of the period	**(34 086)**	**(36 092)**	**(36 092)**
Impact of the implementation of IFRS 9 on 1 January 2018	(1 861)	n/a	n/a
Restated opening balance	(35 947)	n/a	n/a
- Changes recognized in the income statement	(6 628)	2 766	(2 153)
- Changes recognized in other comprehensive income	(242)	(760)	(225)
- Other changes	1 861	-	-
As at the end of the period	**(40 956)**	**(34 086)**	**(38 470)**

Income tax	30.06.2018 unaudited	31.12.2017	30.06.2017 unaudited
Current income tax	(4 753)	(10 754)	(5 208)
Adjustments in respect of current income tax from previous years	717	722	722
Deferred income tax recognised in the income statement	(3 110)	3 088	(2 257)
Income tax recognised in the income statement	**(7 146)**	**(6 944)**	**(6 743)**
Recognised in other comprehensive income	(192)	(1 160)	(626)
Other changes	1 861	-	-
Total income tax	**(5 477)**	**(8 104)**	**(7 369)**

Starting from January 2018, as a result of amendments to the CIT Act, resulting in consequence from the transition to IFRS 9, after obtaining an individual interpretation regarding the recognition of write-offs for credit losses in tax-deductible costs, the Bank recognised in its current tax a part of the write-off which meets the conditions for recognition as a tax-deductible cost in accordance with the provisions of the tax law. The write-off attributable to capital not recognized in the current tax forms the basis for creating deferred income tax asset.

25. Fair value of assets and liabilities

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

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

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.

The Bank assumed that the fair value of short-term financial liabilities (less than 1 year) is equal to the balance sheet values of such items.

In addition, the Bank assumes that the estimated fair value of financial assets and financial liabilities longer than 1 year is based on discounted cash flows using appropriate interest rates.

Loans and advances to banks

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.

Receivables due to loans and advances granted to clients

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

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

Financial assets at fair value through other comprehensive income.

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.

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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:

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

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

The Bank assumed that the fair value of liabilities arising from received loans, other financial liabilities with deferred payment term, received subordinated loans, liabilities in respect of cash collateral and other liabilities due to customers is equal to their carrying value since these are liabilities with variable interest rates.

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 trenches 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 trenches 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.

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	30.06.2018 unaudited		31.12.2017		30.06.2017 unaudited	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost						
Cash and balances with the central bank	**524**	**524**	**1 351**	**1 351**	**46 753**	**46 753**
Amounts due from other banks	**20 037**	**20 037**	**18 737**	**18 737**	**9 927**	**9 927**
Loans and advances to customers, including:	**11 037 313**	**11 473 026**	**10 766 911**	**11 198 379**	**10 173 290**	**10 592 331**
Corporate customers	4 825 107	4 934 335	4 763 831	4 858 893	4 621 890	4 717 606
Individual customers	6 094 102	6 417 408	5 878 253	6 210 737	5 418 803	5 737 800
Public sector customers	118 104	121 283	124 827	128 749	132 597	136 925
Total financial assets	**11 057 874**	**11 493 587**	**10 786 999**	**11 218 467**	**10 229 970**	**10 649 011**
Financial liabilities at amortised cost						
Amounts due to other banks	**3 353 225**	**3 353 225**	**3 830 026**	**3 830 026**	**3 881 459**	**3 881 459**
Amounts due to customers, including:	**3 270**	**3 270**	**4 131**	**4 131**	**11 141**	**11 141**
Corporate customers	3 097	3 097	3 950	3 950	10 983	10 983
Individual customers	115	115	145	145	124	124
Public sector customers	58	58	36	36	34	34
Debt securities in issue	**8 041 306**	**8 059 879**	**7 043 125**	**7 090 832**	**6 158 931**	**6 213 095**
Subordinated liabilities	**200 453**	**200 453**	**200 484**	**200 484**	**200 428**	**200 428**
Total financial liabilities	**11 598 254**	**11 616 827**	**11 077 766**	**11 125 473**	**10 251 959**	**10 306 123**

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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 30 June 2018.

30.06.2018	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				
Financial assets held for trading and derivatives held for hedges	**30 454**	**-**	**30 454**	**-**
Derivative financial instruments, including:	**30 454**	**-**	**30 454**	**-**
Derivative financial instruments held for trading:	**412**	**-**	**412**	**-**
- Interest rate derivatives	406	-	406	-
- Foreign exchange derivatives	6	-	6	-
Derivative financial instruments held for hedging:	**30 042**	**-**	**30 042**	**-**
- Derivatives designated as fair value hedges	30 042	-	30 042	-
Non-trading financial assets mandatorily at fair value through profit or loss	**217 700**	**-**	**-**	**217 700**
Loans and advances to custumers	**217 700**	**-**	**-**	**217 700**
- Individual customers	-	-	-	-
- Corporate customers	217 700	-	-	217 700
- Public sector customers	-	-	-	-
Financial assets at fair value through other comprehensive income	**1 338 281**	**1 136 314**	**201 967**	**-**
- Treasury bonds	1 136 314	1 136 314	-	-
- Money bills	201 967	-	201 967	-
TOTAL FINANCIAL ASSETS	**1 586 435**	**1 136 314**	**232 421**	**217 700**

30.06.2018	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, including:	**13 489**	**-**	**13 489**	**-**
Derivative financial instruments held for trading:	**12 405**	**-**	**12 405**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	12 405	-	12 405	-
Derivative financial instruments held for hedging:	**1 084**	**-**	**1 084**	**-**
- Derivatives designated as fair value hedges	1 084	-	1 084	-
TOTAL FINANCIAL LIABILITIES	**13 489**	**-**	**13 489**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 586 435**	**1 136 314**	**232 421**	**217 700**
TOTAL FINANCIAL LIABILITIES	**13 489**	**-**	**13 489**	**-**

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 2017.

31.12.2017	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:	**1 277 127**	**1 153 642**	**123 485**	**-**
- Treasury bonds	1 153 642	1 153 642	-	-
- Money bills	123 485	-	123 485	-
Derivative financial instruments, including:	**48 973**	**-**	**48 973**	**-**
- Interest-bearing instruments	33 326	-	33 326	-
- Foreign exchange instruments	15 647	-	15 647	-
TOTAL FINANCIAL ASSETS	**1 326 100**	**1 153 642**	**172 458**	**-**

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31.12.2017	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	**548**	**-**	**548**	**-**
- Interest-bearing instruments	548	-	548	-
- Foreign exchange instruments	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**548**	**-**	**548**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 326 100**	**1 153 642**	**172 458**	**-**
TOTAL FINANCIAL LIABILITIES	**548**	**-**	**548**	**-**

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 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:	**1 025 279**	**1 025 279**	**-**	**-**
- Treasury bonds	1 025 279	1 025 279	-	-
- Money bills	-	-	-	-
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 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 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**	**-**

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 2018 and comparative data for 6 months of 2017, as at 31 December 2017 and as at 30 June 2017 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 29 March 2018 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 2018, item 757).

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

The detailed description of the Bank's accounting policies is presented in Note 2 and 3 of these condensed consolidated financial statements for the first half of 2018. The accounting principles adopted by the Bank were applied on a continuous basis for all periods presented in the financial statements, except for:

- the accounting principles applied in connection with the implementation of IFRS 9 as of 1 January 2018. The main changes in the classification, measurement and principles for creating provisions for impairment of financial instruments introduced by IFRS 9 are presented under Note 2.26 Implementation of IFRS 9;
- changes in presentation in the income statement the foreign exchange differences on account of write-offs for granted loans and advances (described in note 2.25);
- changes in the presentation of operating segments described in detail in note 4. Segments of activities.

3. Seasonal or cyclical nature of the business

In the first half of 2018, 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

Implementation of IFRS 9

- From 1 January 2018, the Bank has implemented the International Financial Reporting Standard - IFRS 9: "Financial Instruments", whose impact on the statement of financial situation and the level of own funds of the Bank as at 1 January 2018 has been presented under Note 2.26.

Issuance and redemption of mortgage bonds

- On 26 April 2018, the Bank issued first mortgage bonds in the amount of EUR 300 000 thousand from the international mortgage bond issuance programme.
- On 22 June 2018, the Bank issued mortgage bonds in the total amount of PLN 300 000 thousand from the Polish mortgage bond issuance programme.
- In the first half of 2018, pursuant to the terms and conditions of the issuance, the Bank purchased two series of mortgage bonds in the amount of EUR 7 500 thousand and on 15 June 2018 in the amount of PLN 200 000 thousand.
- In the first half of 2018, on the secondary market the Bank purchased from mBank S.A. mortgage bonds of private placement in the total amount of PLN 400 000 thousand (PLN 250 000 thousand on 27 March 2018 and PLN 150 000 thousand on 27 April 2018) with the original maturity date of 16 December 2019.

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

The impact of the implementation as at 1 January 2018 of IFRS 9 on the statements of financial position of the Bank prepared as at 31 December 2017 has been presented under Note 2.26 of these condensed consolidated financial statements.

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 21 March 2018, the Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A., adopted the resolution on division of the 2017 net profit which does not provide for the payment of dividend for the year 2017.

8. Significant events after the end of the first half of 2018, which are not reflected in the condensed financial statements

On 12 July 2018, the Bank concluded a new subordinated loan agreement in the amount of PLN 100 million. The loan in question was granted by mBank S.A. Funds acquired with the loan will be allocated and used to increase Bank's own funds (Tier II). On 17 July 2018, the Bank applied to the Polish Financial Supervision Authority for approval to include the new loan in Tier II. Having obtained the PFSA's consent for the inclusion of the loan in Tier II, the Bank intends to repay the subordinated loan granted by mBank S.A. under the agreement of 16 October 2012 in the amount of PLN 100 million. On 17 July 2018, the Bank applied to the Polish Financial Supervision Authority for permission to early repay the loan, which currently consists own funds (Tier II).

9. Effect of changes in the structure of the entity in the first half of 2018, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

In the first half of 2018, 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 2018, 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. Neither there were also any material changes in contingent liabilities of nature other than credit liabilities.

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

In the first half of 2018, the Bank verified the valuation of real estate property taken over for inventories. As a result of the analysis of market parameters serving as the basis for estimating the value with residual method, in connection with the increase in construction costs and considering the condition of real estate, the Bank increased the amount of impairment allowance by PLN 437 thousand (Note 11).

In the first half of 2017, events as indicated above did not occur at the Bank.

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 2018, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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 2018, 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 2018, 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 2018, 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 connection with the implementation of IFRS 9 as of 1 January 2018, the Bank has appropriately changed the methods for determining the fair value of financial instruments, as described in detail under Note 2 "Description of relevant accounting policies".

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

In the first half of 2018, 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 2018, 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 2018, 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 quarterly report compared to the forecast

mBank Hipoteczny S.A. did not publish a performance forecast for the year 2018.

22. Registered share capital

The total number of ordinary shares as at 30 June 2018 was 3 210 000 shares (31 December 2017: 3 210 000 shares, 30 June 2017 – 3 210 000 shares) at PLN 100 nominal value each. All issued shares were fully paid up.

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REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 JUNE 2018							
Share type	**Type of privilege**	**Type of limitation**	**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**			

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 2018 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 2018, 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 2018, 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. In the presented reporting periods there were no significant cases brought by the Bank or against the Bank, nor has the Bank created any provisions for pending litigation.

25. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2018, 31 December 2017 and 30 June 2017.

	30.06.2018 unaudited	**31.12.2017**	**30.06.2017** unaudited
1. Off-balance sheet liabilities granted and received	**2 568 083**	**2 651 356**	**2 121 172**
Liabilities granted	**1 487 201**	**1 571 536**	**1 440 820**
Financial liabilities	1 487 201	1 571 536	1 440 820
Liabilities received:	**1 080 882**	**1 079 820**	**680 352**
Financial liabilities	1 080 882	1 079 820	680 352
2. Derivative financial instruments	**6 798 704**	**5 145 727**	**4 346 886**
1. Interest rate derivatives	5 943 038	2 776 680	2 564 396
2. Foreign exchange derivatives	855 666	2 369 047	1 782 490
Total off-balance sheet items	**9 366 787**	**7 797 083**	**6 468 058**

26. Transactions with related parties

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

All transactions between the Bank and related parties were typical and routine transactions, according to the Management board concluded on conditions that did not vary from the market conditions, and their nature and conditions resulted from current operational activity conducted by the Bank. Transactions with related parties concluded in the scope of ordinary operational activity cover loans, liabilities arising from the issue of debt securities and derivative transactions.

The values of the Bank's transactions with related entities are presented in the tables below. The amounts of transactions include assets, liabilities as at 30 June 2018, 31 December 2017 and 30 June 2017 and related costs and income in the periods from 1 January to 30 June 2018, 1 January to 31 December 2017 and from 1 January to 30 June 2017.

The total cost of remuneration of the members of the Bank's Supervisory Board and the members of the Management Board performing their functions from 1 January to 30 June 2018, recognized in the profit and loss account of the Bank in this period, amounted to PLN 1 875 thousand (in the period from 1 January to 30 June 2017: PLN 2 217 thousand). With respect to the Members of the Bank's Management Board, the remuneration cost also includes the cost of provision for remuneration under the incentive scheme.

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 2018, 31 December 2017 and 30 June 2017 and related costs and income in the periods from 1 January to 30 June 2018, 1 January to 31 December 2017 and from 1 January to 30 June 2017.

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
As at the end of the period	**30.06.2018** unaudited	**31.12.2017**	**30.06.2017** unaudited	**30.06.2018** unaudited	**31.12.2017**	**30.06.2017** unaudited	**30.06.2018** unaudited	**31.12.2017**	**30.06.2017** unaudited
Statement of finacial position									
Assets	-	54	3 557	50 531	65 010	50 745	-	-	-
Liabilities	-	169 606	220 864	4 131 192	4 873 131	5 304 979	1 089 643	1 041 983	844 599
Contingent liabilities									
Commitments received	-	-	-	1 080 882	1 079 820	680 352	-	-	-
Commitments granted	-	-	618	249	271	236	-	-	-
Derivatives (purchase, sales)									
IRS contracts	-	-	-	1 381 677	1 334 383	1 348 172	-	-	-
FX SWAP contracts	-	-	-	843 011	2 067 594	1 777 418	-	-	-

(PLN '000)	mBank Group companies*			mBank S.A.			Commerzbank Group companies**		
As at the end of the period	**30.06.2018** unaudited	**31.12.2017**	**30.06.2017** unaudited	**30.06.2018** unaudited	**31.12.2017**	**30.06.2017** unaudited	**30.06.2018** unaudited	**31.12.2017**	**30.06.2017** unaudited
Income statement									
Interest income	181	398	212	11 598	22 597	11 206	-	-	-
Interest expense	-	(2 044)	(1 598)	(56 670)	(113 496)	(51 150)	(3 069)	(5 258)	(2 402)
Fee and commission income	-	4	5	-	-	-	-	-	-
Fee and commission expenses	(104)	(1 530)	(1 055)	(1 652)	(3 125)	(1 705)	-	-	-
Net trading income	-	-	-	(23 674)	11 319	3 622	-	-	-
Other operating income	-	-	-	75	414	140	-	-	-
Other operating expenses	-	-	-	-	(3)	(2)	-	-	-
Overhead costs	(459)	(1 220)	(640)	(1 436)	(3 907)	(2 074)	-	-	-

* 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.

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

In the first half of 2018, 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.

Pursuant to the Resolution of the Supervisory Board No 21/2018 of 21 March 2018, Mr Frank Bock was appointed as a Chairman of the Supervisory Board.

29. Other information

- Selection of auditor for auditing the financial statements

On 2 March 2018, the Supervisory Board of mBank Hipoteczny S.A., by Resolution No. 19/2018, acting in accordance with the applicable regulations, the Bank selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa as the auditor to audit Bank's financial statements for the years 2018 to 2019, pursuant to § 26 point 8) of the Bank's Articles of Association.

- Profit distribution for 2017

On 21 March 2018, the Ordinary General Meeting of mBank Hipoteczny S.A. adopted a resolution regarding the distribution of net profit for 2017. Net profit earned by the Bank in 2017 in the amount of PLN 27 829 thousand was allocated in full to the Bank's reserve capital.

Signatures: Warsaw, 3 August 2018

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

....
The person responsible for bookkeeping
Milena Zwolińska-Grabowicz