Report
mBank Hipoteczny S.A.
for the first half of 2023

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 2023.

Selected financial data		in PLN `000		in PLN `000	
		Period from 01.01.2023 to 30.06.2023	Period from 01.01.2022 to 30.06.2022	Period from 01.01.2023 to 30.06.2023	Period from 01.01.2022 to 30.06.2022
I.	Interest income	481 102	290 267	104 293	62 521
II.	Fee and commission income	130	227	28	49
III.	Net trading income	(1 160)	27 732	(251)	5 973
IV.	Operating result	33 831	26 641	7 334	5 738
V.	Profit before income tax	20 217	10 918	4 383	2 352
VI.	Net profit attributable to shareholders of mBank Hipoteczny S.A.	20 217	5 362	4 383	1 155
VII.	Net cash flows from operating activities	100 153	(225 275)	21 711	(48 522)
VIII.	Net cash flows from investing activities	(3 644)	(4 102)	(790)	(884)
IX.	Net cash flows from financing activities	(505 941)	115 599	(109 677)	24 899
X.	Total net cash flows	(409 432)	(113 778)	(88 756)	(24 507)
XI.	Basic earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	3,63	1,60	0,79	0,34

Selected financial data		in PLN `000			in EUR `000		
		as at			as at		
		30.06.2023	31.12.2022	30.06.2022	30.06.2023	31.12.2022	30.06.2022
I.	Total assets	10 172 579	13 177 225	13 155 317	2 285 819	2 809 703	2 810 605
II.	Amounts due to other banks	3 049 462	5 544 817	4 371 333	685 226	1 182 289	933 926
III.	Amounts due to customers	63	596	1 087	14	127	232
IV.	Equity attributable to shareholders of mBank Hipoteczny S.A.	744 930	883 687	1 193 639	167 389	188 423	255 018
V.	Share capital	220 000	336 000	336 000	49 435	71 643	71 786
VI.	Number of shares	3 078 011	3 360 000	3 360 000	3 078 011	3 360 000	3 360 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	242,02	263,00	355,25	54,38	56,08	75,90
VIII.	Total capital ratio (%)	22,35	15,71	18,68	22,35	15,71	18,68
IX.	Common Equity Tier 1 ratio	19,83	14,05	17,15	19,83	14,05	17,15

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 2023: EUR 1 = PLN 4.4503, 31 December 2022: EUR 1 = PLN 4.6899 and 30 June 2022: EUR 1 = PLN 4.6806.
- 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 2023 and 2023: EUR 1 = 4.6130 PLN and EUR 1 = PLN 4.6427 respectively.

mBank Hipoteczny S.A.

Condensed Financial Statements for the first half of 2023

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.

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Condensed income statement

	Note	Period			
		from 01.01.2023 to 30.06.2023		from 01.01.2022 to 30.06.2022	
		Continuing operations	Discontinuing operations	Continuing operations	Discontinuing operations
Interest income, including:	6	441 404	39 698	244 798	45 469
Interest income calculated using the effective interest rate method		430 058	37 528	225 964	42 368
Income similar to interest - financial assets measured at fair value through profit or loss		11 346	2 170	18 834	3 101
Interest expense	6	(370 827)	(33 183)	(196 814)	(38 549)
Net interest income		**70 577**	**6 515**	**47 984**	**6 920**
Fee and commission income	7	89	41	106	*121*
Fee and commission expenses	7	(3 125)	(1 129)	(2 299)	(2 544)
Net fee and commission income		**(3 036)**	**(1 088)**	**(2 193)**	**(2 423)**
Net trading income	8	(3 033)	1 873	30 157	(2 425)
Net income on modification		(1 562)	1 668	66	1 857
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss		-	1 073	-	(1 566)
Other operating income	10	8 435	118	491	
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	13	(5 161)	(2 536)	(3 630)	(8 576)
Overhead costs	11	(28 627)	(3 722)	(26 134)	(5 986)
Depreciation	11	(6 150)	(643)	(5 776)	(1 207)
Other operating expenses	12	(704)	(166)	(748)	(170)
Operating result		**30 739**	**3 092**	**40 217**	**(13 576)**
Taxes on the Bank balance sheet items		(11 770)	(1 844)	(12 291)	(3 432)
Profit before income tax		**18 969**	**1 248**	**27 926**	**(17 008)**
Income tax	25	(8 106)	(923)	(7 640)	2 084
Net profit /(loss)		**10 863**	**325**	**20 286**	**(14 924)**
Net profit /(loss)		**10 863**	**325**	**20 286**	**(14 924)**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	14	**3 078 011**	**3 078 011**	**3 360 000**	**3 360 000**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	14	**3,53**	**0,11**	**6,04**	**(4,44)**

Explanatory notes and selected explanatory data presented on pages 12 do 50 constitute an integral part of these condensed financial statements.

PLN (000's)

Condensed statement of comprehensive income

	Period	
	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Continuing operations		
Net profit	**10 863**	**20 286**
Other comprehensive income net of tax, including:	**7 324**	**(76 013)**
Items that may be reclassified to the income statement	**7 324**	**(76 013)**
Change in the valuation of debt financial instruments measured at fair value through other comprehensive income (net)	11 160	(18 858)
Net cash flow hedge	(3 836)	(57 155)
Items that will not be reclassified to the income statement	-	-
Actuarial gains and losses on post-employment benefits (net)	-	-
Total comprehensive income net of tax from continued operations	**18 187**	**(55 727)**
Discontinued operations		
Net profit from discontinued operations	**325**	**(14 924)**
Other comprehensive income net of tax	**-**	-
Total comprehensive income net of tax	**325**	**(14 924)**
Total net comprehensive income from continuing and discontinued operations	**18 512**	**(70 651)**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.	**18 512**	**(70 651)**

Explanatory notes and selected explanatory data presented on pages 12 do 50 constitute an integral part of these condensed financial statements

PLN (000's)

Condensed statement of financial position

ASSETS	Note	30.06.2023	31.12.2022
Cash and balances with the Central Bank		43 826	107 826
Financial assets held for trading and derivatives held for hedges	15	1 758	34 013
Non-trading financial assets mandatorily at fair value through profit or loss, including:	16	-	100 822
Loans and advances to customers	16	-	100 822
Changes in fair value of hedged items in portfolio hedging against interest rate risk		14 228	3 064
Financial assets at fair value through other comprehensive income	17	840 348	1 171 608
Financial assets at amortised cost, including:	18	9 145 240	11 537 672
Loans and advances to banks		*68 864*	*69 530*
Loans and advances to customers		*9 076 376*	*11 468 142*
Intangible assets	19	34 784	48 442
Tangible assets	20	27 576	27 844
Current income tax assets		20 507	30 281
Deferred income tax assets	25	36 266	81 863
Other assets	21	8 046	33 790
TOTAL ASSETS		**10 172 579**	**13 177 225**

LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	15	90 501	16 156
Financial liabilities measured at amortised cost, including:		9 316 496	12 249 798
Amounts due to banks	22	*3 049 462*	5 544 817
Amounts due to customers	22	*63*	596
Leasing liabilities		*21 483*	22 032
Debt securities issued	22	*6 145 084*	6 581 915
Subordinated liabilities		*100 404*	100 438
Provisions	23	774	12 487
Current income tax liabilities		-	-
Other liabilities	24	19 878	15 097
TOTAL LIABILITIES		**9 427 649**	**12 293 538**
Equity			
Share capital:		**727 362**	**884 631**
- Registered share capital		220 000	336 000
- Share premium		507 362	548 631
Retained earnings:		**114 322**	**103 134**
- Profit from the previous years		103 134	406 512
- Profit for the current period		11 188	(303 378)
Other components of equity		**(96 754)**	**(104 078)**
TOTAL EQUITY		**744 930**	**883 687**
TOTAL LIABILITIES AND EQUITY		**10 172 579**	**13 177 225**
Total capital ratio (%)		**22,35**	**15,71**
Common Equity Tier 1 ratio (%)		**19,83**	**14,05**

Explanatory notes and selected explanatory data presented on pages 12 do 50 constitute an integral part of these condensed financial statements.

Condensed Financial Statements for the first half of 2023 PLN (000's)

Condensed statement of changes in equity

Changes in equity from 1 January 2023 to 30 June 2023

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2023	**336 000**	**548 631**	**361 712**	**44 800**	**(303 378)**	**-**	**(29 930)**	**(74 152)**	**4**	**883 687**
Net profit	-	-	-	-	-	11 188	-	-	-	11 188
Other comprehensive income (gross)	-	-	-	-	-	-	13 778	(4 736)	-	9 042
Deferred tax on other comprehensive income	-	-	-	-	-	-	2 618	900	-	1 718
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**11 188**	**11 160**	**(3 836)**	**-**	**18 512**
Transfer to supplementary capital	(116 000)	(41 269)	-	-	-	-	-	-	-	(159 269)
As at 31 June 2023	**220 000**	**507 362**	**361 712**	**44 800**	**(303 378)**	**11 188**	**(18 770)**	**(77 988)**	**4**	**744 930**

Changes in equity from 1 January 2022 to 31 December 2022

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2022	**336 000**	**548 631**	**342 910**	**44 800**	**18 802**	**-**	**(22 652)**	**(4 237)**	**36**	**1 264 290**
Net profit	-	-	-	-	-	(303 378)	-	-	-	(303 378)
Other comprehensive income (gross)	-	-	-	-	-	-	(8 986)	(86 315)	(39)	(95 340)
Deferred tax on other comprehensive income	-	-	-	-	-	-	1 708	16 400	7	18 115
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(303 378)**	**(7 278)**	**(69 915)**	**(32)**	**(380 603)**
Transfer to supplementary capital	-	-	18 802	-	(18 802)	-	-	-	-	-
As at 31 December 2022	**336 000**	**548 631**	**361 712**	**44 800**	**-**	**(303 378)**	**(29 930)**	**(74 152)**	**4**	**883 687**

Condensed Financial Statements for the first half of 2023 PLN (000's)

Changes in equity from 1 January 2022 to 30 June 2022

	Share capital		Retained earnings				Total comprehensive income net of tax			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Valuation of financial assets at fair value through other comprehensive income	Cash flow hedge	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2022	**336 000**	**548 631**	**342 910**	**44 800**	**18 802**	**-**	**(22 652)**	**(4 237)**	**36**	**1 264 290**
Net profit	-	-	-	-	-	5 362	-	-	-	5 362
Other comprehensive income (gross)	-	-	-	-	-	-	(23 281)	(70 562)	-	(93 843)
Deferred tax on other comprehensive income	-	-	-	-	-	-	4 423	13 407	-	17 830
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**5 362**	**(18 858)**	**(57 155)**	**-**	**(70 651)**
Transfer to supplementary capital	-	-	18 802	-	(18 802)	-	-	-	-	-
As at 31 June 2022	**336 000**	**548 631**	**361 712**	**44 800**	**-**	**5 362**	**(41 510)**	**(61 392)**	**36**	**1 193 639**

Explanatory notes and selected explanatory data presented on pages 12 do 50 constitute an integral part of these condensed financial statements

PLN (000's)

Condensed statement of cash flows

	Period	
	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
A. Cash flows from operating activities from continuing and discontinuing operations, including:	**100 153**	**(225 275)**
A.1. Cash flows from operating activities from continuing operations	**103 565**	**(217 794)**
A.2. Cash flows from operating activities from discontinuing operations	**(3 412)**	**(7 481)**
Profit before income tax	**20 217**	**10 918**
Adjustments:	**79 936**	**(236 193)**
Income tax paid	44 625	(7 943)
Depreciation	6 793	6 983
Foreign exchange (gains) losses related to financing activities	(174 165)	59 024
Interest income (income statement)	(481 102)	(290 267)
Interest expenses (income statement)	404 009	235 363
Interest received	325 438	240 924
Interest paid	(150 973)	(39 252)
Change in assets and liabilities on derivative financial instruments	92 318	(8 126)
Change in loans and advances to customers	2 628 276	(290 789)
Change in the balance of financial assets at fair value through other comprehensive income	12 236	(41 868)
Adjustments to intangible assets and property, plant and equipment	10 781	(560)
Change in other assets	25 748	(11 998)
Change in amounts due to banks	(2 514 643)	(7 656)
Change in amounts due to customers	(263)	(755)
Change in debt securities in issue	15 501	(96 073)
Change in subordinated liabilities	(442)	(219)
Change in provisions	(11 714)	7 141
Change in other liabilities	4 781	9 878
Redemption of capital in connection with demerger	(157 269)	-
Net cash from operating activities	**100 153**	**(225 275)**
B. Cash flows from investing activities from continuing and discontinuing operations, including:	**(3 644)**	**(4 102)**
B.1. Cash flows from investing activities from continuing operations	**(3 644)**	**(4 102)**
B.2. Cash flows from investing activities from discontinuing operations	**-**	**-**
Investing activity inflows	**111**	**128**
For the sale of intangible assets and tangible fixed assets	111	128
Investing activity outflows	**3 755**	**4 230**
Due to the purchase of intangible assets and tangible fixed assets	3 755	4 230
Net cash from investing activities	**(3 644)**	**(4 102)**
C. Cash flow from financing activites from continuing and discontinuing operations, including:	**(505 941)**	**115 599**
C.1. Cash flow from financing activites from continuing operations	**(509 353)**	**108 118**
C.2. Cash flow from financing activites from discontinuing operations	**3 412**	**7 481**
Financing activity inflows	**1 155 201**	**2 161 434**
Due to the loans received from banks	1 155 201	1 420 569
Due to the issue of debt securities	-	735 000
Interest received on derivative hedging financial instruments	-	5 865
Financing activities outflows	**1 661 142**	**2 045 835**
Due to the repayment of loans and advances from banks	1 174 497	1 045 041
Due to the issue of debt securities	260 000	859 116
Payments of leasing liabilities	1 586	1 245
Interest paid on loans received, debt securities in issue, subordinated loan	225 059	140 433
Net cash from financing activities	**(505 941)**	**115 599**
Net change in cash and cash equivalents, total (A+B+C)	**(409 432)**	**(113 778)**
Net change in cash and cash equivalents, total (A.1+B.1+C.1)	**(409 432)**	**(113 778)**

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Net change in cash and cash equivalents, total (A.2+B.2+C.2)	**-**	**-**
Cash and cash equivalents as at the beginning of the reporting period	**577 051**	**267 326**
Cash and balances with the central bank	107 826	114 658
Amounts due from other banks	69 530	152 668
Investment securities with maturity of up to 3 months from the date of purchase	399 695	**-**
Cash and cash equivalents as at the end of the reporting period	**167 619**	**153 548**
Cash and balances with the central bank	43 826	61 314
Amounts due from other banks	68 864	92 234
Investment securities with a maturity of up to 3 months from the date of purchase	54 929	-

Explanatory notes and selected explanatory data presented on pages 12 do 50 constitute an integral part of these condensed financial statements.

Explanatory notes to the condensed financial statements

1. Information on mBank Hipoteczny S.A.

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

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

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

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

According to the By-laws of the Bank, 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. The head office of the Bank is located at 18 Prosta St., Warsaw.

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.

The Bank develops its issuing activity based on the portfolio of housing mortgage loans for individual clients, which is built in close cooperation with mBank.

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

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.

The parent company of the Bank is mBank S.A., which prepares the consolidated financial statements of the mBank Group.

The direct parent of the Bank is mBank S.A. The direct ultimate parent of mBank S.A. is Commerzbank AG.

As at 30 June 2023 the employment in the Bank was 99 FTEs and 113 persons (31 December 2022: 117 FTEs; 132 persons). The decrease in employment was caused by the transfer of corporate banking activities to mBank, together with employees (15 people) related to servicing this segment. Details described in Note 2.

Average employment in the first half of 2023 was 125 persons, in the first half of 2022 it was 131 persons.

These condensed financial statements were approved by the Management Board of mBank Hipoteczny S.A. on 28 July 2023.

2. Discontinued operation

On May 17, 2023, the Bank was divided pursuant to Art. 529 § 1 item 4 of the Code of Commercial Companies, by transferring part of the assets (assets and liabilities) to mBank and the rights and obligations of the Bank in the form of an organized part of the enterprise, constituting an organizationally and financially separate set of tangible and intangible assets related to the activity in the field of granting and servicing mortgage loans for financing commercial real estate, together with IT systems dedicated to servicing the above loans and employees necessary to conduct this activity and tangible fixed assets and other assets and obligations necessary to perform specific tasks within the scope of this banking activity.

The demerger took place through the division of the Bank by separating part of its operations and transferring it to mBank. The demerger took place by way of universal succession, which means that on the date of registration of the demerger in the KRS, i.e. May 17, 2023, mBank acquired all the rights and obligations of mBank Hipoteczny that result from the acquired business, including concluded loan agreements. After the division, mBank Hipoteczny discontinued its corporate activities.

The transaction was carried out after obtaining all necessary approvals from supervisory authorities. On March 24, 2023, the Bank obtained permission from the Polish Financial Supervision Authority for the demerger in accordance with Article 124c (2) of the Banking Law. On March 30, 2023, the Shareholders of the Bank and mBank approved the Demerger Plan. On April 5, 2023, the Polish Financial Supervision Authority authorized an amendment to the Bank's articles of association related to the reduction of the share capital in connection with the Demerger in accordance with Article 34 (2) of the Banking Law.

As a result of the Demerger, the Bank's share capital was reduced by MPLN 116, i.e. up to MPLN 220. In addition, the Bank's reserve capital was reduced by the amount constituting the difference between the book value of the spun-off business as at the Demerger date by the total amount of the decrease in the share capital (agio) of the Bank, i.e. MPLN 41.

The value of the transaction as at the division date amounted to MPLN 157, of which: the value of assets in the amount of MPLN 1,820, value of liabilities MPLN 1,663.

3. Description of the relevant accounting policies

The most important accounting principles applied by the Bank in the preparation of these condensed financial statements are presented below. The accounting principles adopted by the Bank were applied consistently to all periods presented in the financial statements.

3.1 Accounting Basis

Condensed financial statements of mBank Hipoteczny S.A. drawn up for the 6-month period ended June 30, 2023. The comparative data presented in the financial statements refer to the 6-month period ended June 30, 2022. These financial statements are separate statements.

Both as at June 30, 2023, December 31, 2022 and June 30, 2022, mBank Hipoteczny S.A. did not have any subsidiary.

To prepare the financial statements, the Bank applied the accounting principles and the historical cost principles, except for derivative contracts and financial instruments held for trading, financial assets that do not meet the SPPI test, financial assets assigned to a business model that does not assumes holding them in order to obtain contractual cash flows, equity instruments and liabilities for cash-settled share-based payments that are carried at fair value through profit or loss, and except for financial instruments at fair value through other comprehensive income and equity instruments with the fair value through other comprehensive income option.

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The information scope of the interim report is narrower than in the case of annual financial statements (i.e. it does not cover all the information and disclosures required in the annual financial statements), therefore they should be read in conjunction with the annual separate financial statements of mBank Hipoteczny S.A. for the financial year 2022.

The informative scope of the interim report is narrower than in the case of complete financial statements, therefore they should be read in conjunction with the separate financial statements of mBank Hipoteczny S.A. for the financial year 2022.

Presented in these condensed financial statements of mBank Hipoteczny S.A. data for 2022 were audited by a statutory auditor.

The preparation of financial statements in accordance with IFRS requires the use of specific accounting estimates. It also requires the Bank's Management Board to apply its own judgment when applying the accounting principles adopted by the Bank. The issues regarding which a greater degree of judgment is required, more complex issues or those where assumptions and estimates are significant from the point of view of the financial statements are presented in note 4.

The financial statements are prepared in accordance with the principle of materiality. Omissions or distortions of items in the financial statements are material if they could, individually or jointly, affect the economic decisions made by users of the Bank's financial statements. Materiality depends on the size and nature of the omission or misstatement of items in the financial statements, and a combination of both. Each material category of similar items is presented separately by the Bank. Items that differ in terms of their nature or function are presented separately by the Bank, unless they are immaterial.

These condensed financial statements have been prepared on the assumption that the Bank will continue as going concerns in the foreseeable future, i.e. at least 12 months from the balance sheet date. As at the date of approval of these financial statements, there are no circumstances implying any threats to the continuation of the Bank's operations within 12 months from the balance sheet date.

Standards and interpretations endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Amendment to IAS 8, Definition of Accounting Estimates	In amendment to IAS 8, the definition of a change in accounting estimates was replaced with a definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The introduction of a definition of accounting estimates and other amendments to IAS 8 was aimed to help entities distinguish changes in accounting policies from changes in accounting estimates.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 1 and Practice Statement to IFRS 2 Disclosure of Accounting Policies	Amendments to IAS 1 and IFRS 2 Practice Statement are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments introduce the requirement to disclose material accounting policy information instead of significant accounting policies with some clarifications and examples how an entity can identify material accounting policy information.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction	The amendments to the standards require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.
IFRS 17, Insurance contracts	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: methods for the valuation of insurance liabilities, recognition revenues and result from insurance contract.	1 January 2023	The application of the amended standard had no significant impact on the financial statements.

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Amendments to IFRS 17, Deferral of use and exclusion of certain products from the scope	Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage.	1 January 2023	The application of the amended standard had no significant impact on the financial statements.
Amendments to IFRS 17 and IFRS 9 - Comparative data	The amendment to the standards introduces optional facilities to minimise the accounting mismatch between financial assets and liabilities presented in the comparative data of the financial statements of entities applying IFRS 17 and IFRS 9 for the first time.	1 January 2023	The application of the amended standard will have no significant impact on the financial statements.

Standards and interpretations not yet endorsed by the European Union

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

Standards and interpretations	Description of the changes	The beginning of the binding period	Impact on the Group's financial statements in the period of initial application
Amendments to IAS 1, Classification of liabilities as current or non-current	Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.	1 January 2024	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IFRS 16 Leasing	Amendment to IFRS 16 requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.	1 January 2024	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules	The amendments introduce temporary exceptions to the recognition of deferred tax liabilities and assets in respect of Pillar Two of the international tax reform agreed at the OECD. In addition to the exception, the amendment introduces additional disclosures relating to the reform.	1 January 2024	The application of the amended standard will have no significant impact on the financial statements.
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements	Amendments introduce additional disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk	1 January 2024	The application of the amended standard will have no significant impact on the financial statements.

3.2 Application of hedge accounting in accordance with IFRS 9

Until June 30, 2022, the Bank used the option of applying hedge accounting requirements in accordance with IAS 39 instead of the requirements set out in IFRS 9. From July 1, 2022, the accounting principles in this area were changed to comply with IFRS 9, except for relationships hedging the fair value of a portfolio of financial assets or liabilities against interest rate risk, in which the hedged item is designated as a cash amount.

In the case of relationships hedging the Bank's positions recognized from July 1, 2022 in accordance with IFRS 9, hedge accounting is applied, provided that:

- the hedging relationship includes only eligible hedging instruments and eligible hedged items;
- at the inception of the hedging relationship, the hedging relationship was formally designated and documented, as well as the entity's risk management objective and hedging strategy. This documentation identifies the hedging instrument, the hedged item, the nature of the hedged risk, and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements;
- the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- credit risk does not have a predominant impact on changes in value resulting from the aforementioned economic relationship; and
- the hedging ratio of the hedging relationship is the same as the ratio resulting from the size of the hedged item that the Bank actually hedges and the size of the hedging instrument that the Bank actually uses to hedge the same size of the hedged item.

IFRS 9 also introduces the possibility of applying an approach consisting in recognizing in a separate component of equity part of the derivative instrument valuation resulting from the time value of the option, the element of the forward contract or currency base spread, and reclassifying it to the financial result in the periods in which the hedged cash flows occur. The Bank takes advantage of this opportunity by recognizing in the item "Other items of equity" changes in the fair value of CIRS hedging contracts, resulting from the base currency spread, if these changes have not been designated as an element of the hedging relationship.

The above change in the accounting principles in accordance with the requirements of IFRS 9 was introduced prospectively from July 1, 2022 and had no significant impact on the Bank's financial statements. In particular, no hedging relationship was terminated as a result of these changes.

4. Changes in major estimates and judgments made in connection with the application of accounting policy 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 amount of loan portfolio write-downs changed due to a change in the models used for the calculation of expected credit risk losses. In 2023, the Bank updated macroeconomic indicators, including changes in macroeconomic scenarios in the forecast non-linearity factor. The estimated impact of these changes on the level of expected credit loss was approximately PLN +2.84 million (negative impact on the result).

Early repayment of retail loans

In the judgment of 11 September 2019 in a case concerning a consumer loan fully repaid early, the CJEU ruled that "the consumer's right to a reduction in the total cost of the loan in the event of early repayment of the loan covers all costs that have been imposed on the consumer". Due to the change in estimates of the expected future cash flows, a provision in the amount of TPLN 7 990 was created as at June 30, 2023 (as at 31. December 2022: TPLN 11 690).

The above estimates are subject to significant uncertainty as to the number of clients who will apply to the Bank for the reimbursement of commissions related to early repayments made before the judgment of the CJEU, as well as the expected rate of prepayment of loans in the future.

Credit holidays

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

In 2022, the Bank recognised the impact of credit holidays in the total amount of TPLN 361 891. The provision for credit holidays is recorded in the balance sheet in accounts dedicated to credit receivables from customers as an adjustment of the ESP to be settled over time. It is recognized in the income statement as a modification cost. The negative impact of credit holidays on the valuation of the loan portfolio is settled by the appropriate recognition of interest income calculated using the effective interest rate in periods in which customers taking advantage of credit holidays do not pay the interest according to the original schedules of the loan agreements.

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As at June 30, 2023, 92.8% of retail loans met the conditions for this program, and 75.56% of the total amount of retail loans was covered by the holiday. These customers applied for an average of 7.29 months of credit holidays. The gross carrying amount of loans covered by credit holidays as at 30 June 2023 amounted to MPLN 6 877.

At the time the Act entered into force, the Bank estimated that the credit holidays would have a negative impact on the Bank's gross profit for 2022 in the amount of PLN 300 million to PLN 400 million during the program period.

5. Business 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 (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

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

Period from 01.01.2023 to 30.06.2023	Continuing operations		Discontinued operations (corporate banking and part of the treasury segment related to discontinued operations)	Total
	Retail Banking	Treasure Segment		
Net interest income	**66 753**	**3 824**	**6 515**	**77 092**
Interest income	396 452	44 952	39 698	481 102
Interest expense	(329 699)	(41 128)	(33 183)	(404 010)
Net fee and commission income	**(1 412)**	**(1 624)**	**(1 088)**	**(4 124)**
Fee and commission income	89	-	41	130
Fee and commission expenses	(1 501)	(1 624)	(1 129)	(4 254)
Other operating income/expenses	8 078	(347)	(48)	7 683
Net trading income	-	(3 033)	1 873	(1 160)
Result from non-substantial modification	(1 562)	-	1 668	106
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	1 073	1 073
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(5 223)	62	(2 536)	(7 697)
Overhead costs	(17 309)	(11 318)	(3 722)	(32 349)
Depreciation	(4 599)	(1 551)	(643)	(6 793)
Tax on the Bank's balance sheet items	(11 770)	-	(1 844)	(13 614)
Segment result (gross)	**32 956**	**(13 986)**	**1 248**	**20 217**
Income tax				**(9 029)**
Net profit				**11 188**

PLN (000's)

Period from 01.01.2022 to 30.06.2022	Continuing operations		Discontinued operations (corporate banking and part of the treasury segment related to discontinued operations)	Total
	Retail Banking	Treasury Segment		
Net interest income	**37 273**	**10 711**	**6 920**	**54 904**
Interest income	220 093	24 705	45 469	290 267
Interest expense	(182 821)	(13 993)	(38 549)	(235 363)
Net fee and commission income	**(1 151)**	**(1 042)**	**(2 423)**	**(4 616)**
Fee and commission income	106	-	121	227
Fee and commission expenses	(1 257)	(1 042)	(2 544)	(4 843)
Other operating income/expenses	(142)	(115)	(170)	(427)
Net trading income	-	30 157	(2 425)	27 732
Result from non-substantial modification	66	-	1 857	1 923
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	-	-	(1 566)	(1 566)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(3 613)	(17)	(8 576)	(12 206)
Overhead costs	(16 770)	(9 364)	(5 986)	(32 120)
Depreciation	(4 877)	(899)	(1 207)	(6 983)
Tax on the Bank's balance sheet items	(12 291)	-	(3 432)	(15 723)
Segment result (gross)	**(1 505)**	**29 431**	**(17 008)**	**10 918**
Income tax				**(5 556)**
Net profit				**5 362**

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

30.06.2023	Corporate Banking	Retail Banking	Treasury Segment	Other assets	Total
Segment Assets	-	9 055 913	989 488	127 178	10 172 579
Segment Liabilities	-	21 232	9 406 417	-	9 427 649

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

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

As at 30 June 2023, the Bank did not identify the assets and liabilities of the corporate segment in the balance sheet due to the transfer of this part of the business to mBank. After the spin-off, the Bank retained a portfolio consisting only of housing loans granted to retail customers, which finance real estate located in Poland.

PLN (000's)

6. Net interest income

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Interest income		
Interest income calculated using the effective interest rate method	**467 586**	**268 332**
Interest income of financial assets at amortised cost, including:	**444 334**	**259 985**
- Loans and advances	439 174	258 436
- Cash and short-term placements	2 772	1 165
- Interest income on liabilities	2 388	384
Interest income on financial assets at fair value through other comprehensive income	23 252	8 347
- *Debt securities*	23 252	8 347
Income similar to interest on financial assets at fair value through profit or loss, including:	**13 516**	**21 935**
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	2 496	3 101
- *Loans and advances*	2 496	3 101
Interest income on derivatives classified into banking book	11 020	5 524
Interest income on derivatives concluded under hedge accounting	-	13 310
Total interest income	**481 102**	**290 267**

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Interest expense		
Financial liabilities valued at amortized cost, including:	**(303 459)**	**(178 048)**
-Due to the issue of debt securities	(132 084)	(98 353)
-Loans received	(159 572)	(73 502)
-Due to subordinated loan	(4 657)	(3 010)
-Other financial liabilities with deferred payment	(7 094)	(3 129)
-Lease agreements	(52)	(54)
-Other financial liabilities	**(35 769)**	-
Interest expenses on derivatives classified into banking book	**(16 371)**	(30 079)
Interest expenses on derivatives condluded under the cash flow hedge	**(48 411)**	(27 236)
Total interest expense	**(404 010)**	**(235 363)**
Net interest income	**77 092**	**54 904**

In the first half of 2023, interest income related to financial assets measured at amortized cost, the impairment amounted to TPLN 6 857 (in the first half of 2022 TPLN 4 790).

7. Net fee and commission income

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Fee and commission income		
Credit-related fees and commissions	130	227
Total fee and commission income	**130**	**227**

PLN (000's)

Fee and commission expenses		
Cost of servicing loan products	(2 063)	(2 360)
Commission expense from loan received and stand-by credit line	(215)	(179)
Costs related to the debt securities issue program (covered bonds and bonds)	(776)	(808)
Costs of real estate analyses and valuations related to the lending activity	(85)	(19)
Commission for transfers, keeping bills	(58)	(55)
Bank guarantee premium	(1 016)	(1 412)
Other	(41)	(10)
Total fee and commission expense	**(4 254)**	**(4 843)**

Total fee and commission income	**(4 124)**	**(4 616)**

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

Costs of servicing credit products related to the outsourcing agreement with mBank S.A. for the after-sale service of the commercial portfolio amount to TPLN 687, in the first half of 2022 amounted to TPLN 1 132.

8. Net trading income

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Foreign exchange result	**11 972**	**(376)**
Net exchange differences on translation	27 215	(17 032)
Valuation of foreign currency derivatives	(15 243)	16 656
Other net trading income and result on hedge accounting	**(13 132)**	**28 108**
Interest rate risk instruments	(15 750)	27 713
Hedge accounting, including:	2 620	395
- net profit on hedged items	(2 578)	115 116
- net profit on hedging instruments	4 912	(115 819)
- ineffective portion of cash flow hedge accounting	286	1 098
Total net trading income	**(1 160)**	**27 732**

The change in the balance on the result on trading activities resulted mainly from the negative result achieved on new CIRS contracts and on IRSs not related to hedge accounting.

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 the measurement of the hedged item and hedging instruments is presented in Note 15.

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.

PLN (000's)

9. Result from non-substancial modification

In the first half of 2023 and 2022, the result on modifications was calculated only for assets measured at amortized cost, as the Bank did not have any instruments valued at amortized cost at fair value through other comprehensive income.

Period from 01.01.2023 to 30.06.2023	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	3 822 945	238 637	71 753	**4 133 335**
Net income on modification	191	10	(95)	**106**

Period from 01.01.2022 to 30.06.2022	Stage 1	Stage 2	Stage 3	Total
Financial assets modified during the period				
Amortized cost of financial assets before modification	87 185	7 789	60 015	**154 989**
Net income on modification	1 932	3	(12)	**1 923**

10. Other operating income

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Income from release of prior year provisions	210	323
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	98	8
Uncompensated pooling	8 003	-
Other	242	166
Total other operating income	**8 553**	**491**

On 30 December 2022, the Bank concluded a *Pooling agreement* with mBank. Under the Agreement, the Bank receives a non-returnable compensation payable by mBank in connection with the unrealized pooling volume. As at 30 June 2023, compensation for pooling amounted to TPLN 8,003.

11. Overhead costs and depreciation

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Staff-related costs	(12 355)	(12 454)
Material costs, including:	(10 151)	(7 363)
- logistic costs	(3 235)	(2 045)
- IT cost	(5 581)	(4 240)
- marketing cost	(248)	(290)
- consulting services cost	(549)	(533)
- other overheads cost	(538)	(255)
Contributions and transfers to the Bank Guarantee Fund	(8 589)	(11 217)
Taxes and fees	(1 083)	(928)
Contributions to the Social Benefits Fund	(171)	(158)
Total overhead costs	**(32 349)**	**(32 120)**

The " logistic costs" item includes costs related to short-term leasing contracts, costs related to low value assets leasing contracts and costs related to variable elements of remuneration (not included in the leasing obligation).

The total cost of leasing included in general administrative costs as at 30 June 2023 amounted to TPLN 106 (as at 30 June 2022: TPLN 92).

PLN (000's)

Employee costs

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Wages and salaries	(10 180)	(10 330)
Social security expenses	(1 839)	(1 760)
Remuneration payment in the form of phantom shares settled in cash	(175)	(148)
Other employee benefits	(161)	(216)
Staff-related costs, total	**(12 355)**	**(12 454)**

Depreciation

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Intangible assets	(3 948)	(4 136)
Tangible assets	(1 282)	(1 523)
depreciation allowances - leasing	(1 563)	(1 324)
Depreciation, total	**(6 793)**	**(6 983)**

12. Other operating expenses

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Costs of enforcement proceedings	(181)	(211)
Litigation reserves	-	(345)
Writing down investments	(113)	-
Other	(576)	(362)
Total other operating expenses	**(870)**	**(918)**

13. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Financial assets at amortised cost, including:	**(7 734)**	**(12 150)**
Loans and advances	**(7 734)**	**(12 150)**
Individual clients	**(3 992)**	**(3 568)**
Stage 1	(300)	1 005
Stage 2	(3 777)	(1 325)
Stage 3	57	(2 999)
POCI	28	(249)
Corporate clients	**(3 742)**	**(8 582)**
Stage 1	(4 208)	2 803
Increase / decrease of the write-off for receivables covered by the guarantee	2 349	(1 308)
Stage 2	(5 449)	(1 041)
Decrease of the write-off for receivables covered by the guarantee	2 994	413
Stage 3	(9 656)	(19 248)
Decrease of the write-off for receivables covered by the guarantee	9 120	9 195
POCI	1 108	604

PLN (000's)

Commitments and guarantees given	**-**	**(39)**
Stage 1	-	5
Stage 2	-	(44)
Financial assets measured at fair value through other comprehensive income, including:	**37**	**(17)**
Debt securities	**37**	(17)
Stage 1	37	(17)
Net impairment losses on financial assets not measured at fair value through profit or loss	**(7 697)**	**(12 206)**

The valuation of guarantees in the first half of 2023 in the amount of TPLN 14,463 had a positive impact on the result on write-downs (in the first half of 2022: TPLN 8,300) to cover the increase in credit risk, which covered part of the commercial portfolio. The details of the guarantee are described in Note 21. The guarantee expired on May 17, 2023 due to the transfer of the commercial portfolio to mBank.

14. Earnings per share

Period	from 01.01.2023 to 30.06.2023		from 01.01.2022 to 30.06.2022	
	Continuing operation	Discontinuing operation	Continuing operation	Discontinuing operation
Basic:				
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	10 863	325	20 286	(14 924)
Weighted average number of ordinary shares	3 078 011	3 078 011	3 360 000	3 360 000
Basic net profit per share (in PLN per share)	**3,53**	**0,11**	**6,04**	**(4,44)**
Diluted:				
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted earnings per share	10 863	325	20 286	(14 924)
Weighted average number of ordinary shares	3 078 011	3 078 011	3 360 000	3 360 000
Diluted net profit per share (in PLN per share)	**3,53**	**0,11**	**6,04**	**(4,44)**

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

The Bank has the following derivative instruments in its portfolio:

Instruments for interest rate risk:

- interest rate risk instruments: IRS (Interest Rate Swap),

Instruments for the exchange rate risk:

- currency futures transactions: FX SWAP contracts.

Instrument for interest rate risk and foreign exchange risk

- Cross Currency Interest Rate Swap (CIRS)

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.

	30.06.2023		31.12.2022	
	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading classified into banking book	2 542	35 205	1 975	4 964
Derivatives held for hedging	3 930	151 247	41 954	109 576
Offsetting effect	(4 714)	(95 951)	(9 916)	(98 384)
Total derivative financial instruments assets/liabilities	**1 758**	**90 501**	**34 013**	**16 156**

As at June 30, 2023, the offsetting effect, apart from the valuation of derivative transactions, includes TPLN 90 951 of collateral accepted in connection with concluded transactions on derivative instruments subject to compensation (as at 31 December 2022 in the amount of TPLN 9 916).

Hedge Accounting

The Bank applies fair value hedge accounting for fixed-rate covered bonds issued by the Bank, fair value hedge accounting for fixed-rate loan portfolio and cash flow hedge accounting. Detailed information on hedge accounting is presented below.

Pursuant to the provisions of IFRS 9, on the date of delivery of IFRS 9, the exclusive bank had the opportunity to implement the decision constituting an element of the rule in accordance with the specific requirements of the supplement of the supplement in accordance with IAS 39 instead of the supplement in IFRS 9. The bank joined the quality study from January 1, 2018 to apply the assessment protocol from IAS 39. These rules were applied until June 30, 2022. Starting from July 1, 2022, in the control area, the Bank applies the principles of compliance with IFRS 9

a) Accounting for fair value hedges of fixed-rate mortgage covered bonds issued by the Bank

The Bank applies fair value hedge accounting, where the only type of hedged risk is the interest rate risk.

At the end of each month, the Bank assesses the effectiveness of the applied hedge by analyzing changes in the fair value of the hedged instrument and the hedging instrument due to the hedged risk in order to confirm that the hedging relationships are effective in line with the accounting policy described in Note 2.10.

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

Description of the hedging 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 mortgage bonds with a nominal value TEUR 426,900 with a fixed interest rate.

The hedged item and the hedged item have exactly the same nominal amounts, start and end dates. As at the reporting dates, the Bank assesses the existence of an economic relationship.

The assessment of the existence of an economic link is made using a two-step approach:

- In the first step, the existence of an economic link is assessed using a qualitative assessment - the critical terms match method. If the method indicates the existence of an economic relationship between the hedged item and the hedging instrument, then the assessment is considered complete;

- Otherwise, unless there are qualitative grounds to question the existence of an economic relationship between the hedged item and the hedging instrument, the Bank conducts a prospective test based on the linear regression analysis method.

Sources of ineffectiveness

Sources of ineffectiveness for hedging relationships for which ineffectiveness arises include mismatching the timing of cash flows, the credit risk of the hedged instrument and the mismatch due to the initial measurement of derivatives, if a derivative that was entered into before the relationship was included in the hedging relationship.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

The fair value adjustment of hedged liabilities and the measurement of hedging instruments is recognized in the income statement in trading income, except for interest income and interest expense of the interest component of the valuation on hedging instruments, which are presented in the item Interest income/expenses on derivatives concluded as part of hedge accounting.

PLN (000's)

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

Period	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Interest income on derivatives as part of fair value hedge accounting (Note 6)	(19 555)	13 310
Result from the valuation of the hedged (Note 8)	(13 743)	115 116
Result on the valuation of hedging instruments (Note 8)	14 991	(115 819)
Total result on fair value hedge accounting	**(18 307)**	**12 607**

b) Cash flow hegde accounting

IFRS 9 introduces changes in hedge accounting, which the Bank decided to apply from July 1, 2022. The changes introduced in IFRS 9 are aimed at increasing the consistency of accounting for risk management activities. At the same time, IFRS 9 does not introduce a new standard for hedging the fair value of a portfolio (assets and/or liabilities) against interest rate risk. Therefore, for this type of hedge, IFRS 9 introduces the option of applying the principles of IAS 39 instead of the requirements of IFRS 9.
The Bank decides to use this option to hedge the fair value of loan portfolios against interest rate risk.

The Bank applies fair value hedge accounting, where the only type of hedged risk is the interest rate risk, in particular:

- Risk related to the mismatch of the frequency and dates of changes in interest rates on balance sheet items - risk of mismatch of repricing dates,
- Risk related to changes in the shape and slope of the market yield curve,
- Risk resulting from an imperfect transmission mechanism of changes in market rates to

The Bank tests the effectiveness of the hedge by analyzing changes in the fair value of the hedged risk of the hedging instrument and the hedged item at the end of each month. For this purpose, the Bank uses linear regression of daily changes in the value of the hedging instrument against daily changes in the value of the hedged item. Efficiency tests include the valuation of hedging transactions less the value of accrued interest. By means of effectiveness tests, the Bank confirms that the applied hedging relationships are consistent with its accounting policy and meet the requirements of high efficiency specified in the accounting standard.

Hedged items

The Bank hedges against changes in the fair value of 4 portfolios of fixed interest rate loans denominated in PLN with a total nominal value of MPLN 250. The criteria for allocating assets to individual portfolios are defined and described in the documentation of individual relationships and are based on the dates of repricing the interest rate on loans. The nominal value of the portfolios of secured loans as at 30 June 2023 and 31 December 2022 was TPLN 250,000.

Hedging instrument

As a hedging instrument, the Bank uses interest rate swaps in which it pays a fixed interest rate and receives payments from the counterparty at a variable rate. The nominal value of hedging instruments (IRS) as at 30 June 2023 and 31 December 2022 was TPLN 250,000.

Sources of potential inefficiency

The source of potential hedge ineffectiveness may be one or more of the following factors:

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- change in market circumstances between the moment of determining the terms of the contract for the hedged item and the moment of determining the terms of the hedging instrument,
- mismatch of cash flow dates of the hedged item and the hedging instrument,
- mismatch between the nominal values of the hedged item and the hedging instrument.

Presentation of the result on hedged and hedging transactions

The adjustment to the fair value of the hedged assets and liabilities and the valuation of hedging instruments is recognized in the profit and loss account.

The table below presents the total result on fair value hedge accounting of the fixed interest rate loan portfolio recognized in the income statement:

	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022
Interest income on derivatives under fair value hedge accounting for a portfolio of fixed rate loans	3 184	-
Hedged item valuation result (Note 8)	11 165	-
Result on valuation of hedging instruments (Note 8)	(10 079)	-
Total result on fair value hedge accounting of the fixed rate loan portfolio	**4 270**	**-**

c) Cash flow hedge accounting

The Bank applies hedge accounting for the cash flows of the portfolio of mortgage loans denominated in PLN and covered bonds denominated in EUR issued by the Bank. The purpose of the hedging strategy is to eliminate the risk of volatility of cash flows generated by mortgage loans in PLN due to changes in reference interest rates and mortgage bonds denominated in a convertible currency due to changes in the exchange rate using currency interest rate swaps (CIRS).

As part of hedge accounting, the Bank designates a hedged item consisting of:

- part of the portfolio of housing loans for retail customers, entered in the collateral register for mortgage covered bonds, denominated in PLN with an interest rate indexed to the 3M WIBOR rate, the credit margin is excluded from the collateral;
- mortgage bonds issued by the Bank denominated in EUR with a fixed interest rate.

As hedging instruments, the Bank uses CIRS derivative transactions, in which, as a party to the transaction, it pays variable interest flows in PLN plus a margin, and receives fixed-rate interest flows in EUR and the denominations are exchanged at the beginning

and at the end of the transaction. As transactions concluded by a mortgage bank, CIRS transactions are entered into the Covered Bond Collateral Register. In addition, if the court declares the Bank bankrupt, they will not be terminated immediately, but will last until the end of the original maturity date on the terms set out on the transaction date (they will not be extended beyond the original maturity date).

In accordance with the adopted methodology, the Bank hedges interest rate risk and currency risk

as part of one economic relationship between the concluded CIRS transactions and a part of the loan portfolio in PLN and mortgage bonds in EUR financing them. For the purposes of cash flow hedge accounting, the Bank simultaneously establishes two hedging relationships:

- by decomposing part of the actual CIRS transaction hedging the portfolio of loans in PLN with variable interest rates (hedge against interest rate risk) - relation A and
- by decomposing part of the actual CIRS transaction securing the liability in EUR (currency risk hedging) - relation B.

For the purpose of calculating changes in the fair value of future cash flows of hedged items, the Bank applies the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the hedged risk

in the form of a derivative. The principles of valuation are analogous to the principles of valuation of interest rate derivatives, however, in accordance with the requirements of IFRS 9, they do not include features such as currency base spread, which are not specific to the hedged item.

From July 1, 2022, the Bank applies IFRS 9 as part of hedge accounting.

As part of the changes, the currency base spread was separated from the financial instrument designated as a hedging instrument. The Bank recognizes changes in the value of the currency basis spread (with respect to the hedged item) in a separate component of equity in other comprehensive income in the line "Change in valuation due to cash flow hedges", and these amounts are then transferred or derecognised from equity and recognized in income statement or included directly in the initial cost of hedging or other carrying amount of the asset or liability. The currency base spread as at the designation date (to the extent it applies to the hedged item) is amortized in a systematic and rational manner in the period to which it relates. What is considered to be a systematic and rational basis for the amortization of the currency basis spread amount from equity to profit or loss is straight-line amortization (over the life of the hedging relationship).

Nominal value of hedged items:

- loans in PLN with a variable interest rate - as at June 30, 2023 and December 31, 2022, it amounted to TPLN 1,278,930.
- covered bonds issued in a convertible currency with a fixed interest rate - as at June 30, 2023, it amounted to PLN 1,335,090 thousand. and on December 31, 2022 TPLN 1,406,970.

Nominal value of hedging items:

- CIRS variable leg PLN - as at 30 June 2023 and 31 December 2022 it amounted to TPLN 1,278,930.
- CIRS fixed leg EUR - as at 30 June 2023 it amounted to TPLN 1,335,090 while on 31 December 2022 TPLN 1,406,970.

In the case of established relationships, the period in which cash flows are expected to occur and when they should have an impact on the results is from July 2023 to September 2025.

Efficiency tests include the valuation of hedging transactions less the value of accrued interest. The effectiveness of the hedge is verified by applying prospective and retrospective effectiveness tests. Tests are performed on a monthly basis.

The main sources of hedge ineffectiveness may be:

- taking into account the change in the CVA/DVA adjustment only on the side of the hedging instrument,
- differences in the structure and basic parameters of hedging transactions and hedged items, resulting from different lengths of interest periods - 3 months for IRS transactions and 1 month for the loan portfolio.

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income in the part constituting the effective part of the hedge.

The ineffective part of the hedge is recognized in the profit and loss account in the item "Result on financial instruments measured at fair value" or "Result on foreign exchange". In addition, amounts recognized directly in other comprehensive income are transferred to the profit and loss account, respectively, to the items "Net interest income" and "Net exchange result", in the same period or periods in which the impact of the hedged transaction is recognized in the income statement and precipitate.

The table below presents other comprehensive income from cash flow hedges and the ineffective part of cash flow hedges in the period from 1 January to 30 June 2023 and in the period from 1 January to 30 June 2022.

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Accumulated other total revenue for protection of cash flows and impact on other total income	**Period**	
	from 01.01.2023 to 30.06.2023	**from 01.01.2022 to 30.06.2022**
Accumulated other comprehensive income from cash flow hedges at the beginning of the gross period	**(91 546)**	**(5 231)**
Profits / (Losses) recognized in other comprehensive income in the period	**(124 740)**	**(122 176)**
The amount transferred during the period from other comprehensive income to the profit and loss account	**120 004**	**51 614**
- Net interest income	48 411	27 254
- Result on exchange position	71 880	24 360
- Currency basis spread	(287)	-
Accumulated other comprehensive income from cash flow hedges at the end of the gross period	**(96 282)**	**(75 793)**
Tax effect	18 294	14 401
Accumulated other comprehensive income from cash flow hedges at the end of the net period	**(77 988)**	**(61 392)**
Impact during the period on other gross comprehensive income	**(4 736)**	**(70 562)**
Deferred tax due to cash flow hedges	900	13 407
Impact during the period on other net comprehensive income	**(3 836)**	**(57 155)**

	Period	
	from 01.01.2023 to 30.06.2023	**from 01.01.2022 to 30.06.2022**
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:		
Unrealised gains/losses included in other comprehensive income (gross)	**(4 736)**	**(70 562)**
Results of cash flow hedge accounting recognised in the income statement	**(120 005)**	**(52 712)**
- amount included as interest income in income statement during the reporting period	(48 411)	(27 254)
- foreign exchange result	(71 880)	(24 360)
- currency basis spread	287	-
- ineffective portion of hedge recognised included in other net trading income in income statement	(1)	(1 098)
Impact on other comprehensive income in the reporting period (gross)	**(124 741)**	**(123 274)**

Currency basis spread		
	30.06.2023	**31.12.2022**
Currency basis spread recognized as hedging cost (separate component of equity)	16 360	33 463
Difference from currency basis spread (WBS) between the real WBS element and the matched WBS element	77	169
The amount of amortization from separate equity to profit or loss related to the currency basis spread at the time of designation	758	379
Total	**17 195**	**34 011**

PLN (000's)

Estimates and ratings

The fair value of derivatives is determined using valuation models based on discounted future cash flows from a given financial instrument. Variables in the model and assumptions used for valuation include, where available, data from observable markets (e.g. interbank deposit rates, exchange rates, IRS and CCBS quotes). The fair value of derivatives includes own credit risk DVA (debit value adjustment) and counterparty credit risk CVA (credit value adjustment). The process of calculating the CVA and DVA adjustments includes the selection of the method for determining the spread for the counterparty's or the Bank's credit risk as well as estimating the probability of the counterparty's or the Bank's insolvency and the recovery rate. In addition, in order to reflect the impact of non-standard transaction parameters on the valuation level, the model uses historical prices used in CIRS transactions with similar parameters, for which quotes from active markets can be obtained.

Calculation of estimates
The Bank conducted a simulation to determine the possible impact of changes in yield curves on the valuation of transactions.

Estimated change in valuation with a parallel income shift	Scenario +50 bp.	Scenario -50 bp.
30.06.2023		
CIRS	(12 497)	12 500

For the purpose of calculating the valuation of CIRS transactions classified under level 3 of the fair value hierarchy, the Bank determines the value of CVA and DVA adjustments using:
- available market data in the form of spread curves necessary to determine the probability of default, the input data range of which is summarized in the table below:

Range of spread curves used for cva and dva calculations	Min	Max
30.06.2023		
Credit spread	0,00%	1,99%

- and unobserved LGD levels, for which, in the case of determining CVA and DVA, the Bank adopts the levels of 60% and 100%, respectively. The asymmetric LGD levels for CIRS transactions result from the specific nature of this transaction, described in detail in the section "Derivatives designated as cash flow hedges".

The tables below present the estimated impact of the applied input parameters on the valuation of CIRS transactions - a parallel shift of the spread curves by 50 basis points and the impact of different levels of the LGD parameter on the amount of CVA and DVA adjustments.

Estimated change in the valuation of a cirs transfer with a parallel shift of the spread curve	script +50pb.
30.06.2022	
CIRS transaction CVA change	38
CIRS transaction DVA change	553
Total impact on the valuation of CIRS transactions	**515**

Estimated values of the valuation of the cva and dva applying different lag levels	40%	60%	80%	100%
30.06.2022				
CVA	(13)	(20)	(27)	(34)
DVA	312	469	625	781

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

	30.06.2023	31.12.2022
Loans	**-**	**100 822**
- corporate customers	-	100 822
Financial assets not held for trading mandatorily measured at fair value through net financial income	**-**	**100 822**

17. Financial assets at fair value through other comprehensive income

	30.06.2023	31.12.2022
Debt securities	**840 348**	**1 171 608**
- Central banks	54 929	399 695
- General governments, including::	785 419	771 913
pledged securities	*246 037*	*257 585*
Total financial assets at fair value through comprehensive income	**840 348**	**1 171 608**
Short-term (up to 1 year)	414 552	399 695
Long-term (over 1 year)	425 796	771 913
Based on fixed interest rate	245 061	233 825
Based on floating interest rate	595 287	937 783

All debt securities have been classified into Stage 1. Financial assets in the form of money bills and treasury bonds, the Bank considers financial assets with low credit risk due to the fact that these assets are characterized by a low risk of default.

As at June 30, 2023 and December 31, 2022, all debt securities were classified in stage 1.

18. Financial assets at amortised cost

30.06.2023	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	68 864	68 864	-	-	-	-	-	-	-
Loans and advances to customers	**9 076 376**	**8 601 532**	**420 504**	**86 473**	**1 332**	**(4 228)**	**(8 474)**	**(20 539)**	**(224)**
Individual customers	9 055 913	8 581 069	420 504	86 473	1 332	(4 228)	(8 474)	(20 539)	(224)
Corporate customers	20 463	20 463	-	-	-	-	-	-	-
Public sector customers	**9 145 240**	**8 670 396**	**420 504**	**86 473**	**1 332**	**(4 228)**	**(8 474)**	**(20 539)**	**(224)**
Financial institutions	68 864	68 864	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**9 076 376**	**8 601 532**	**420 504**	**86 473**	**1 332**	**(4 228)**	**(8 474)**	**(20 539)**	**(224)**
Short-term (up to 1 year)	91 026								
Long-term (over 1 year)	9 054 214								

PLN (000's)

In the first half of 2023, the Bank sold credit receivables (measured at amortized cost) with a total gross carrying amount of TPLN 21,369 qualified to Stage 3. Obtained prices in the amount of TPLN 2,000 were credited towards the repayment of principal and interest, in accordance with the provisions of the sales agreements. Uncovered capital and interest in the amount TPLN 19,369 was written off against previously created provisions for individual debts.

Change in expected credit losses as at June 30, 2023

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Change due to modyfications that do not result in removal from the balance sheet (net)	Changes due to the transfer of the portfolio within the ZCP (net)	Decreases in write-offs	Closing balance
Loans	**(171 497)**	**-**	**-**	**-**	**(419)**	**(15 191)**	**(8 137)**	**140 344**	**21 435**	**(33 465)**
Stage 1	(7 728)	(904)	354	41	(51)	(3 857)	95	7 822	-	(4 228)
Stage 2	(9 854)	574	(629)	708	(15)	(5 136)	(4 634)	10 512	-	(8 474)
Stage 3	(153 806)	330	275	(749)	(308)	(5 639)	(3 598)	121 521	21 435	(20 539)
POCI	(109)			-	(45)	(559)	-	489	-	(224)
Provision related to financial assets, total	**(171 497)**	**-**	**-**	**-**	**(419)**	**(15 191)**	**(8 137)**	**140 344**	**21 435**	**(33 465)**

Explanation of the translation of significant changes in the gross carrying amount of financial instruments during the period into changes in the allowance for expected credit losses. A detailed description is provided in Note 13.

Changes in the gross carrying amount of financial instruments as at June 30, 2023

	Opening balance	Transfered to stage 1	Transfered to stage 2	Transfered to stage 3	Increase due to given and repossess	Decreases caused by deletion from the balance sheet	Zmiany spowodowane przeniesieniem portfela w ramach ZCP (netto)	writing down	other adjustments	Closing balance
Receivables from banks	**69 530**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(666)**	**68 864**
Stage 1	69 530								(666)	68 864
Loans	**11 721 273**	**-**	**-**	**-**	**123 082**	**(532 729)**	**(1 807 373)**	**(21 435)**	**(291 343)**	**9 109 841**
Stage 1	10 714 236	35 026	(243 019)	(10 417)	121 191	(434 727)	(1 292 760)	-	(287 998)	8 601 532
Stage 2	412 004	(32 601)	244 400	(11 080)	1 000	(48 241)	(142 020)	-	(2 958)	420 504
Stage 3	490 713	(2 425)	(1 381)	21 497	689	(49 799)	(350 999)	(21 435)	(387)	86 473
POCI	22 686		-	-	202	38	(21 594)		-	1 332
Gross carrying amount of financial assets at amortized cost	**11 790 803**	**-**	**-**	**-**	**123 082**	**(532 729)**	**(1 807 373)**	**(21 435)**	**(291 343)**	**9 179 371**

Financial assets measured at amortized cost as at December 31, 2022

31.12.2022	**Carrying value**	**Gross carrying amount**				**Accumulated impairment**			
		Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Loans and advances to banks	69 530	69 530							

PLN (000's)

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

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

In 2022, the Bank sold loan receivables with a total gross carrying amount of TPLN 27 188 qualified to the stage 3. Principal and interest obtained prices in the amount TPLN 7 200 were credited towards the repayment of principal and interest, in accordance with the provisions of the sale agreements. Unpaid principal and interest in the amount of TPLN 19 988 was written off against previously created provisions for individual debts.

Change in expected credit losses as at 31 December 2022

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

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

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

PLN (000's)

19. Intangible assets

	30.06.2023	31.12.2022
Concessions, patents, licences and similar assets, including:	**30 617**	**45 385**
- computer software	30 617	45 385
Intangible assets under development	**4 167**	**3 057**
Intangible assets, total	**34 784**	**48 442**

20. Tangible assets

	30.06.2023	31.12.2022
Technical equipment and machinery	**4 373**	**5 053**
Other fixed assets	**1 763**	**1 718**
The right to use under leasing contracts:	**21 440**	**21 073**
buildings	20 886	20 723
means of transport	554	350
Tangible assets, total	**27 576**	**27 844**

On June 8, 2021, the Bank concluded with mBank S.A. a sublease agreement for space in the Mennica Tower GGH MT building located at Prosta 18 Street in Warsaw, to which the seat of the Bank has been transferred. The agreement was concluded for a fixed period from June 8, 2021 to February 28, 2031. The value of the rights to use due to the above-mentioned the agreement was recognized under the right of use under leasing agreements, where it amounted to TPLN 17 420 as of June 30, 2023 (at December 31, 2022 it amounted to TPLN 17 194).

21. Other assets

	30.06.2023	31.12.2022
Other, including:	**8 046**	**33 790**
- other prepayments	2 395	2 159
- receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	5 409	4 577
- income receivable	150	157
- debtors	68	333
- asset for return	-	26 552
- other	24	12
Total other assets	**8 046**	**33 790**
Short-term (up to 1 year)	8 046	7 238
Long-term (over 1 year)	-	26 552

The asset to be returned item relates to the financial guarantees received by the Bank from mBank S.A. in accordance with the agreement of 17 December 2020.
In 2022, the guarantee mechanism triggered the creation of an asset to be recovered as a result of offsetting the increase in allowances for expected credit losses. The change in the value of the recoverable asset is recognized in the income statement in the same line as the cost of expected credit losses (Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss in Note 13). Due to the transfer of ZCP to mBank on May 17, 2023, the guarantee expired. As at June 30, 2023 and December 31, 2022, the Bank had no assets repossessed for debts.

PLN (000's)

22. Financial liabilities measured at amortised cost

Liabilities to other banks and customers

30.06.2023	Amount due to banks	Amount due to customers	Individual customers	Corporate customers	Public sector customers
Loans received	**2 801 014**	**-**	**-**	**-**	**-**
Other financial liabilities:	**269 374**	**620**	**2**	**618**	**-**
Liabilities with deferred payment term	248 448	-	-	-	-
Liabilities in respect of cash collateral	-	2	2	-	-
Leasing liabilities	20 926	557	-	557	-
Other liabilitie	-	61	-	61	-
Total	**3 070 388**	**620**	**2**	**618**	**-**
Short-term (up to 1 year)	27 204	258			
Long-term (over 1 year)	3 043 184	362			

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

Deferred liabilities act as a bridge financing for the portfolio of credit receivables taken over from mBank S.A. The value of this category of liabilities will increase after taking over subsequent pooling tranches and decrease after the completed issues of mortgage covered bonds or in the case of repayment of tranches from excess liquidity. The original maturity of the deferred liability is 24 months until the date of transfer of the pooling.

In connection with the demerger transaction, deferred payment liabilities in the amount of TPLN 1,217,279 were transferred to mBank and liabilities due to cash collateral in the amount of TPLN 443,814.

In the first half of 2023, the Bank took over 1 tranche the pooling, which resulted in a deferred liability in the total amount of TPLN 125 207. At the same time, the Bank repaid the commitment tranches for a total of TPLN 1 174 497.

In the item other financial liabilities with deferred payment dates, they relate to the liabilities resulting from the agreement concluded with mBank S.A. on November 30, 2018, an agreement to transfer the retail mortgage-backed loan portfolio.

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

All loans received were based on a variable interest rate.

The bank did not provide collateral to its lenders. The Bank did not register any breaches of contractual conditions related to liabilities under contracted loans.

PLN (000's)

The lease liabilities item presents the value of liabilities for the agreement concluded with mBank S.A. contracts for sublet space in the Mennica Tower GGH MT building.

Debt securities in issue

The basis for the issue of mortgage covered bonds are receivables secured by a mortgage entered in the land and mortgage register in the first place.

The mortgage bank's funds may also constitute the basis for the issue of covered bonds:

- deposited in securities referred to in Art. 16 (1)(3) of the Act on Covered Bonds and Mortgage Banks, unless they constitute basic assets'
- deposited in the National Bank of Poland;
- deposited in domestic banks within the meaning of Art. 4 sec. 1 point 1 of the Act of August 29, 1997 - Banking or credit institution law within the meaning of Art. 4 (1)(17) of the Act of August 29, 1997 - Banking Law, meeting the requirements set out in Art. 129 (1c) of Regulation (EU) No 575/2013.

Principles for the admissible amount of the substitute collateral

The Bank is obliged to maintain, separately for mortgage covered bonds and public covered bonds, a surplus in the amount not lower than the maximum accumulated net liquidity outflow in the next 180 days. Net liquidity outflows are the outflows of payments due on a given payment date, including payments of the face value of mortgage covered bonds and interest on these bonds and payments on account of derivatives under the covered bond issue programme, after deducting the inflows of payments due on the same day for the assets constituting collateral for the covered bonds. The maturity date of the covered bonds extended by 12 months is used to calculate the payment of the nominal value of the covered bonds.

Principles for the statutory over-collateralisation of covered bonds

The sum of the nominal amounts of the Bank's receivables under mortgage-backed loans and substitute collateral entered in the covered bond collateral register, constituting the basis for the issue of mortgage covered bonds, may not be lower than 105% of the total amount of the nominal values of outstanding mortgage covered bonds, with the sum of the nominal values the amounts of the Bank's claims secured with a mortgage, constituting the basis for the issue of mortgage covered bonds, may not be lower than 85% of the total amount of the nominal values of the outstanding mortgage covered bonds.

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

In accordance with the act on mortgage bonds and mortgage banks, the funds were obtained from the issue of covered bonds, the Bank may refinance loans secured with a mortgage and purchased receivables of other banks due to loans secured by mortgage extended by them; refinancing in respect of a single loan or debt may not, however, exceed an amount corresponding to 60% of the mortgage lending value of the property and, in the case of residential properties, 80% of the mortgage lending value of the property.

The table below presents data related to the issue of covered bonds as at June 30, 2023 and as at December 31, 2022.

Mortgage covered bonds	30.06.2023	31.12.2022
1. Nominal value of covered bonds listed on the market	6 194 923	6 569 088
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)	8 332 479	8 130 326
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)	250 000	270 000
4. Financial hedging instruments	56 160	128 040
5. Level of collateral the covered bonds by receivables (2/1)	134,50%	123,77%
6. Total covered bonds collateral level (2+3+4) / 1	139,45%	129,83%
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	8 042 336	7 828 498

PLN (000's)

Permissible value of Substitute collateral	30.06.2023	31.12.2022
1. Cash invested in treasury bonds	250 000	270 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	-	-
3. Permissible value of Substitute collateral (1-2)	250 000	270 000

The total nominal amount of covered bonds in circulation, both as at June 30, 2023 and as at December 31, 2022, was listed on two markets within CATALYST: the regulated market operated by BondSpot S.A. and the regulated parallel market operated by the Warsaw Stock Exchange S.A., except for mortgage covered bonds offered in a private placement (series A PLN 100 million and B PLN 500 million - issued in 2021, series C PLN 500 million and D PLN 200 million - issued in 2022).

Debt financial instruments by type as at June 30,2023	Nominal value	Interest rate as at 30.06.2023	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 (EUR)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	35 697	(1 908)	33 789
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	66 907	(3 573)	63 334
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	88 490	(4 774)	83 716
Mortgage covered bonds (PLN)	250 000	7,82%	Mortgage covered bonds register	16.10.2023	253 923	-	253 923
Mortgage covered bonds (EUR)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	48 993	(2 886)	46 107
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage covered bonds register	20.09.2026	156 982	(14 811)	142 171
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	58 298	(5 748)	52 550
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	111 211	(2 248)	108 963
Mortgage covered bonds (PLN)	1 000 000	7,72%	Mortgage covered bonds register	15.09.2023	1 003 223	-	1 003 223
Mortgage covered bonds (EUR)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 338 671	(68 538)	1 270 133
Mortgage covered bonds (PLN)	300 000	7,48%	Mortgage covered bonds register	10.06.2024	301 036	-	301 036
Mortgage covered bonds (PLN)	10 000	7,48%	Mortgage covered bonds register	10.06.2024	10 028	-	10 028
Mortgage covered bonds (PLN)	100 000	7,70%	Mortgage covered bonds register	20.12.2028	100 052	-	100 052
Mortgage covered bonds (EUR)	300 000	0,24%	Mortgage covered bonds register	15.09.2025	1 336 346	-	1 336 346
Mortgage covered bonds (PLN)	100 000	7,44%	Mortgage covered bonds register	03.09.2026	100 426	-	100 426
Mortgage covered bonds (PLN)	500 000	7,44%	Mortgage covered bonds register	10.12.2026	501 888	-	501 888
Mortgage covered bonds (PLN)	500 000	7,44%	Mortgage covered bonds register	10.09.2027	501 883	-	501 883
Mortgage covered bonds (PLN)	200 000	7,44%	Mortgage covered bonds register	22.06.2027	200 347	-	200 347
Bonds (PLN)	35 000	7,30%	Unsecured	04.12.2023	35 169	-	35 169
Debt securities in issue (carrying value)					**6 249 570**	**(104 486)**	**6 145 084**

Debt financial instruments by type as at 31 December, 2022	Nominal value	Interest rate as at 31.12.2022	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 (EUR)	200 000	8,23%	Mortgage covered bonds register	20.02.2023	205 902	-	205 902
Mortgage covered bonds (PLN)	1 000 000	7,92%	Mortgage covered bonds register	15.09.2023	1 003 213	-	1 003 213
Mortgage covered bonds (EUR)	250 000	8,30%	Mortgage covered bonds register	16.10.2023	254 141	-	254 141
Mortgage covered bonds (PLN)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	117 731	(3 434)	114 297

PLN (000's)

Mortgage covered bonds (PLN)	300 000	7,76%	Mortgage covered bonds register	10.06.2024	300 000	-	300 000
Mortgage covered bonds (EUR)	10 000	7,76%	Mortgage covered bonds register	10.06.2024	10 026	-	10 026
Mortgage covered bonds (PLN)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 418 078	(77 883)	1 340 194
Mortgage covered bonds (PLN)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	51 946	(3 227)	48 718
Mortgage covered bonds (PLN)	300 000	0,24%	Mortgage covered bonds register	15.09.2025	1 406 389	-	1 406 389
Mortgage covered bonds (PLN)	100 000	7,79%	Mortgage covered bonds register	03.09.2026	100 459	-	100 459
Mortgage covered bonds (EUR)	35 000	1,18%	Mortgage covered bonds register	20.09.2026	164 450	(16 237)	148 213
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	61 072	(6 329)	54 742
Mortgage covered bonds (EUR)	500 000	7,72%	Mortgage covered bonds register	10.12.2026	502 061	-	502 061
Mortgage covered bonds (EUR)	200 000	7,60%	Mortgage covered bonds register	22.06.2027	200 395	-	200 395
Mortgage covered bonds (EUR)	500 000	7,72%	Mortgage covered bonds register	10.09.2027	502 056	-	502 056
Mortgage covered bonds (PLN)	100 000	7,86%	Mortgage covered bonds register	20.12.2028	100 065	-	100 065
Mortgage covered bonds (EUR)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	38 276	(2 057)	36 219
Mortgage covered bonds (EUR)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	71 741	(3 857)	67 883
Mortgage covered bonds (EUR)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	94 742	(5 201)	89 541
Bonds (PLN)	60 000	7,78%	Unsecured	03.01.2023	61 151	-	61 151
Bonds (PLN)	35 000	7,65%	Unsecured	04.12.2023	35 170	-	35 170
Debt securities in issue (carrying value)					**6 700 144**	**(118 225)**	**6 581 915**

23. Provisions

	30.06.2023	31.12.2022
Provision (due to)	**774**	**12 487**
- provisions for future liabilities	-	11 690
- provisions for retirement and disability benefits	96	119
- provisions for legal proceedings	678	678
Provision, in total	**774**	**12 487**
Short-term (up to 1 year)	403	11 507
Long-term (over 1 year)	371	980

In 2023, the provision for future liabilities was shown on the asset side, reducing the receivables item: loans and advances to customers. In previous periods, this provision was presented on the liabilities side: under provisions. Details on the change in the presentation of the provision for future liabilities are described in Note 4.

Change from January 1 to June 30, 2023	Change in provisions for future liabilities	Change in provisions for disputes	Provisions for retirement and disability benefits
Provisions at the beginning of the period	**11 690**	**678**	**119**
- increase on provisions	-	-	-
- release of provisions	-	-	(18)
- transfer to assets	(11 690)	-	-
- other changes	-	-	(5)
Provisions as at the end of the period	**-**	**678**	**96**
Expected settlement period of provisions:			
Short-term (up to 1 year)	-	345	58
Long-term (over 1 year)	-	333	38

PLN (000's)

Change from January 1 to June 30, 2022	Off-balance sheet contingent liabilities granted	Change in provisions for future liabilities	Provisions for legal proceedings	Provisions for retirement and disability benefits
Provisions at the beginning of the period	**9**	**4 770**	**443**	**160**
- increase on provisions	-	8 681	345	39
- release of provisions	(9)	(1 057)	(110)	(96)
- other changes	-	(704)	-	16
Provisions as at the end of the period	**-**	**11 690**	**678**	**119**
Expected settlement period of provisions:				
Short-term (up to 1 year)	-	11 507	345	25
Long-term (over 1 year)	-	183	333	94

24. Other liabilities

	30.06.2023	31.12.2022
Other liabilities (due to)	**19 878**	**15 097**
- accrued expenses	15 595	9 520
- settlements due to tax from Bank balance sheet items	1 712	2 792
- provision for holiday equivalents	758	964
- settlements with insurers	751	750
- liabilities due to income tax on salaries, Social Security contributions and VAT	465	443
- lease settlement	40	-
- other	557	628
Other liabilities, in total	**19 878**	**15 097**
Short-term (up to 1 year)	19 878	15 097

25. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2023	31.12.2022	30.06.2022
As at the beginning of the period	**133 649**	**83 185**	**83 185**
- Changes recognized in the income statement	(21 146)	37 131	606
- Changes recognized in other comprehensive income	(8 964)	13 333	24 822
- Other changes	(26 727)	-	-
As at the end of the period	**76 812**	**133 649**	**108 613**

Deferred income tax liabilities	30.06.2023	31.12.2022	30.06.2022
As at the beginning of the period	**(51 786)**	**(63 225)**	**(63 225)**
- Changes recognized in the income statement	(294)	6 657	3 429
- Changes recognized in other comprehensive income	7 246	4 782	(6 992)
- Other changes	4 287	-	-
As at the end of the period	**(40 547)**	**(51 786)**	**(66 788)**

PLN (000's)

Income tax	**30.06.2023**	**31.12.2022**	**30.06.2022**
Current income tax	12 440	18 594	(9 511)
Adjustments in respect of current income tax from previous years	(29)	(79)	(80)
Deferred income tax recognised in the income statement	(21 440)	43 789	4 035
Income tax recognised in the income statement	**(9 029)**	**62 304**	**(5 556)**
Recognised in other comprehensive income	(1 718)	18 115	17 830
Total income tax	**(10 747)**	**80 419**	**12 274**

The income tax expense for the interim period is calculated using the expected annual effective tax rate. For the first half of 2023, this rate was estimated at 44.66% (for the first half of 2022, the rate was 55.88%).

26. 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.

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

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

<u>Receivables due to loans and advances granted to clients</u>

The fair value for loans and advances to customers is disclosed as the present value of future cash flows using current interest rates including 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.

<u>Financial assets at fair value through other comprehensive income.</u>

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.

PLN (000's)

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

Any increases or loss of values are accounted for the day of valuation, i.e. at the end of a month, separately for each type of securities.

Securities in the Bank's portfolio of the same issuer, of the same series, and purchased in different periods and at different prices are sold by the Bank using the FIFO principle - outflow of securities takes place in the order of their purchase.

Financial instruments representing liabilities include the following:

- 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,
- liabilities leases,
- 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	30.06.2023		31.12.2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortized cost				
Cash and balances with the central bank	**43 826**	**43 826**	**107 826**	**107 826**
Amounts due from other banks	**68 864**	**68 864**	**69 530**	**69 530**
Loans and advances to customers, including:	**9 076 376**	**9 058 401**	**11 446 008**	**11 446 008**
Individual customers	9 055 913	9 037 938	9 463 161	9 463 161
Corporate customers	-	-	1 895 561	1 895 561
Public sector customers	-	-	55 400	55 400
Other financial institutes	20 463	20 463	31 886	31 886
Total financial assets	**9 189 066**	**9 171 091**	**11 645 498**	**11 623 364**
Financial liabilities at amortised cost				
Amounts due to other banks	**3 049 462**	**3 049 462**	**5 544 817**	**5 544 817**

PLN (000's)

Amounts due to customers, including:	**63**	**63**	**596**	**596**
Corporate customers	61	61	594	594
Individual customers	2	2	2	2
Public sector customers	**21 483**	**21 483**	**22 032**	**22 032**
Debt securities in issue	**6 145 084**	**5 959 276**	**6 581 915**	**6 414 333**
Subordinated liabilities	**100 404**	**100 404**	**100 438**	**100 438**
Total financial liabilities	**9 316 496**	**9 130 688**	**12 249 798**	**12 082 216**

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 2023.

30.06.2023	**including:**	**Level 1**	**Level 2**	**Level 3**
		Prices quoted in active markets	**Valuation techniques based on observable market data**	**Other valuation techniques**
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and derivatives held for hedges	**1 758**	**-**	**1 758**	**-**
Derivative financial instruments, including:	**1 758**	**-**	**1 758**	**-**
Derivative financial instruments held for trading:	**2 542**	**-**	**2 542**	**-**
- Interest rate derivatives	1 730	-	1 730	-
- Foreign exchange derivatives	812	-	812	-
Derivative financial instruments held for hedging:	**(784)**	**-**	**(784)**	**-**
Derivatives designated as fair value hedges	(784)	-	(784)	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-
Loans and advances to custumers	-	-	-	-
Corporate customers	**-**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income	**840 349**	**785 420**	**54 929**	**-**
- Treasury bonds	785 420	785 420	**-**	-
- Money bills	54 929	**-**	54 929	**-**
TOTAL FINANCIAL ASSETS	**842 107**	**785 420**	**56 687**	-

30.06.2023	**including:**	**Level 1**	**Level 2**	**Level 3**
		Prices quoted in active markets	**Valuation techniques based on observable market data**	**Other valuation techniques**
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**90 501**	**-**	**48 005**	**42 496**
Derivative financial instruments held for trading:	**35 205**	**-**	**35 205**	**-**
- Interest rate derivatives	17 359	-	17 359	-
- Foreign exchange derivatives	17 846	-	17 846	-
Derivative financial instruments held for hedging:	**55 296**	**-**	**12 800**	**42 496**
- Derivatives designated as fair value hedges	12 800	**-**	12 800	-
- Derivatives designated as cash flow hedges	42 496	**-**	-	42 496
TOTAL FINANCIAL LIABILITIES	**842 107**	**785 420**	**56 687**	**-**

PLN (000's)

RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**842 107**	**785 420**	**56 687**	**-**
TOTAL FINANCIAL LIABILITIES	**90 501**	**-**	**48 005**	**42 496**

The table below presents the fair value hierarchy for financial assets and liabilities that were disclosed in the Bank's statement of financial position at fair value as at December 31, 2022.

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

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

PLN (000's)

With regard to financial instruments repeatedly measured at fair value, classified at levels 1 and 2 of the fair value hierarchy, any potential transfer between these levels is monitored by the relevant departments of the Bank based on internal rules.

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

The fair value of loans and advances to customers was calculated on the basis of discounted expected cash flows, taking into account potential losses due to credit risk, due to credit exposure determined taking into account, inter alia:

- repayment schedule,
- uncertainty of flows over the entire forecast life of the exposure, resulting from credit risk, by modifying contractual flows using long-term credit risk parameters Lt PD and Lt LGD,
- in the discount rate of risk factors, excluding the credit component (risk-free rate, liquidity margin, cost of capital, fixed costs mark-up),
- other factors that would be taken into account by the potential buyer of the exposure (cost mark-ups and the profit margin expected by market participants) when calibrating the discount rate used in the valuation process - the so-called calibration margin.

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

As at 30 June 2023, the Bank did not have any loans and advances to customers mandatorily measured at fair value through profit or loss in its portfolio, they were transferred to mBank as part of the demerger transaction.

Portfolio	Fair value	Sensitivity to the change of the unobservable parameter		Description
	31.12.2022	(-)	(+)	
Loans and advances to customers are obligatorily measured at fair value through profit or loss in a non-default situation	70 981	39	(78)	The valuation model uses the PD credit risk parameters Sensitivity calculated assuming a PD change of +/- 10%
Loans and advances to customers obligatorily measured at fair value through profit or loss in the def	29 841	(2 984)	2 984	The valuation model uses individual estimates of expected cash flows. Sensitivity calculated assuming a change in flows of +/- 10%

<u>Derivatives designated as cash flow hedges</u>

The derivative instrument designated as a cash flow hedge is CIRS (Cross-Currency Interest Rate Swap), which was classified at level 3 of the fair value hierarchy, where the Bank pays a floating rate based on the WIBOR rate and receives a fixed rate in EUR. In the event of the declared bankruptcy of mBank Hipoteczny S.A. the CIRS transaction is not completed and continues until the transaction is completed in accordance with the parameters determined on the transaction date. In addition, the transaction in question is characterized by a high nominal value and a unilateral obligation to provide a margin, where mBank Hipoteczny S.A. is released from the obligation to submit it.

For the purposes of cash flow hedge accounting, the Bank enters into two hedging relationships simultaneously:

- by decomposition of the actual part of a CIRS transaction securing a PLN loan portfolio with a variable interest rate (hedging against interest rate risk), and
- by decomposing the part of the actual CIRS transaction securing the obligation in EUR (hedging against currency risk).

PLN (000's)

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank applies the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the hedged risk in the form of a derivative.

The rules of valuation are analogous to those of interest rate derivatives.

Due to the characteristics of the CIRS transaction concluded by the Bank, containing non-standard and unquoted price components, the margin on the leg paid by the Bank was higher than the margin of the standard, analogous CIRS transaction, terminated in the event of a counterparty's bankruptcy with a bilateral exchange of the margin. This fact was confirmed by the independent CIRS quotation obtained by the Bank. At the same time, before concluding the transaction, the Bank checked other market quotations of high-rated counterparties and they showed compliance with the finally obtained transaction quotation. Thus, the transaction was classified as an arm's length transaction, not having an option nature, free of additional fees at the time of its conclusion, and was considered a transaction in which there are parameters that are unobservable in an active market, affecting its valuation.

Due to the non-standard nature of the CIRS transaction concluded by the Bank, the valuation of this transaction consists of three elements - the value of discounted expected cash flows from CIRS transactions, CVA / DVA adjustments and linear amortization over time to the maturity date of the difference between the valuation of the non-standard CIRS transaction (taking into account CVA / DVA adjustments). DVAs corresponding to the nature of this transaction) and the standard CIRS transaction valuation (including CVA / DVA adjustments resulting from the profile of this transaction) determined on the transaction date. The straight-line amount, included in the valuation of IRS transactions, determined at the time of concluding the transaction is TPLN 7,216. Due to the fact that at the moment of establishing the NPV relation of the original transaction, CIRS was transferred to the IRS transaction, hence DVA was included in its valuation as a significant component of the valuation, and CVA, due to its insignificant value, was included in the valuation of the CIRS transaction.

The components of the transaction valuation are presented in the table below

		30.06.2023	31.12.2022
Fair value measurement of CIRS transactions		**(58 796)**	**(1 324)**
including:	CVA of the CIRS transaction	(20)	(59)
	DVA of the CIRS transaction	781	1 332
	Value of the valuation of the CIRS transaction to be settled over time	2 723	3 337

For the CIRS transaction concluded by the Bank for the purposes of cash flow hedge accounting, there is no active market that would reflect the valuation of transactions with similar characteristics. Publicly available CIRS quotes refer to contracts that are settled upon bankruptcy of the counterparty, include bilateral margin collateral and have a face value that is actively traded in the market. In the Bank's opinion, these are arguments that there are no prices available on an actively available market that could adequately reflect the fair value of the CIRS transaction concluded by the Bank.

Selected explanatory information

1. Seasonal or cyclical nature of the business

There are no significant seasonal or cyclical phenomena in the Bank's operations.

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

In the first half of 2023, the Bank's financial situation was significantly affected by statutory credit holidays and the transaction of transferring part of the business related to servicing the commercial portfolio to mBank. Detailed information is described in Notes 2 and 4 in the Explanatory notes to the condensed financial statements.

3. 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

Events as indicated above did not occur in the Bank.

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

In the first half of 2023, the Bank redeemed 1 series of unsecured bonds with a total value of TPLN 60,000 and 1 series of mortgage covered bonds with a total value of TPLN 200,000.

In the first half of 2023, the Bank did not issue any securities.

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

March 30, 2023 Ordinary General Meeting of mBank Hipoteczny S.A. adopted a resolution on covering the loss for 2022. The net loss incurred in 2022 in the amount of TPLN 303,378 will be fully covered by the Bank's profits from future years. The General Meeting did not adopt a resolution on the payment of dividend for 2022.

6. Significant events after the end of the first half of 2023, which are not reflected in the condensed financial statements

Events as indicated above did not occur in the Bank.

7. Effect of changes in the structure of the entity in the first half of 2023, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

On May 17, 2023, the Bank was divided by separating an organized part of the enterprise and transferring it to mBank. As a result, two business areas remained in the Bank: the retail area, related to the purchase of retail loans as part of cooperation with mBank, and the area of mortgage covered bonds issuance. After the transaction, a new organizational structure of the Bank was introduced, which ensures the separation of functions necessary from the point of view of the law, supervisory regulations and good market practices:

- credit risk management, including retail credit portfolio monitoring, responsible for building or changing risk models and model validation function;
- control;
- operational.

A detailed description is provided in note 2.

8. Changes in contingent liabilities

In the first half of 2023, 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.

9. Significant commitments made for the purchase of tangible fixed assets

In the first half of 2023, the above events did not occur at the Bank.

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

In the reporting period, as well as in the comparative periods presented, there were no changes in the process (method) of measurement the fair value of financial instruments.

PLN (000's)

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

In the reporting period, as as well as in the comparative periods presented, there were no changes in the classification of financial assets as a result of a change in the purpose or use of these assets.

12. Corrections of errors from previous reporting periods

In the first half of 2023, events as indicated above did not occur in the Bank.

13. Registered share capital

The total number of ordinary shares as at June 30, 2023 was 2,200,000 (as at December 31, 2022 was 3,360,000) with a par value of PLN 100 per share. All issued shares are fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 JUNE 2022							
Share type	**Type of preference**	**Type of restrictions**	**Number of shares**	**Series / issue at par value (PLN)**	**Means of covering share capital**	**Registration date**	**Right to dividend**
registered	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registered	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registered	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registered	-	-	450 000	45 000 000	cash	08.01.2013	01.01.2013
Total number of shares			**2 200 000**	**-**			
Total registered share capital				**220 000 000**			

On June 14, 2023, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, made an entry regarding the redemption of 1,160,000 ordinary shares with a nominal value of PLN 100 each, in connection with the Bank's spin-off transaction by separating part of its operations and transferring it to mBank.

14. 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 2023 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 2023, 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.

15. Proceedings before a court, arbitration body or public administration authority

In the first half of 2023, 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.

16. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2023 and 31 December 2022.

	30.06.2023	**31.12.2022**
1. Off-balance sheet liabilities granted and received	**1 204 971**	**1 204 762**
Liabilities granted	**3 235**	**3 615**
1. Financial liabilities::	3 235	3 615
a) Lending commitments	3 235	3 615
Liabilities received:	**1 201 736**	**1 201 147**

PLN (000's)

a) Financial liabilities received	1 201 736	733 017
b) Guarantee	-	468 130
2. Derivative financial instruments (nominal value of contracts)	**11 119 480**	**9 521 217**
1. Interest rate derivatives	4 899 666	4 804 236
2. Foreign exchange derivatives	6 219 814	4 716 981
Total off-balance sheet items	**12 324 451**	**10 725 979**

17. 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.

On May 17, 2023, the Bank transferred some of its mortgage loans to mBank. These were mostly loans for financing commercial real estate. The takeover took place by way of division of the Bank by separating part of its activity and transferring it to mBank. Detailed information on this transaction is described in Note 2 of this report

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, debt securities issued, subordinated liabilities, other financial liabilities with deferred payment date, the derivative transactions and liabilities related to cash collaterals related to the 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 2023, 31 December 2022 and and related costs and income in the periods from 1 January to 30 June 2022.

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 2023 and 31 December 2022 and related costs and income in the periods from 1 January to 30 June 2023 and 1 January to 30 June 2022.

(PLN '000)	Supervisory and Management Board members of mBank Hipoteczny S.A./mBank S.A., management personnel of mBank Hipoteczny S.A.		Other persons and entities related*		mBank Group companies***		mBank S.A.		Commerzbank Group companies***	
As at the end of the period	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**
Statement of finacial position										
Total assets	**201**	**233**	**341**	**-**	**554**	**350**	**90 611**	**102 341**	**-**	**-**
Receivables from Banks	-	-	-	-	-	-	68 864	69 530	-	-
Derivative financial instruments held for trading	-	-	-	-	-	-	812	1 975	-	-
Receivables from credits	201	233	341	-	-	-	-	-	-	-
Derivative hedging instruments	-	-	-	-	-	-	-	10 064	-	-
Intangible assets	-	-	-	-	-	-	49	49	-	-
Fixed assets	-	-	-	-	554	350	20 886	20 723	-	-
Total liabilities	-	-	-	-	**557**	**353**	**4 865 638**	**7 407 432**	**66 922**	**68 675**
Derivative financial instruments held for trading	-	-	-	-	-	-	31 922	3 083	-	-
Liabilities due to loans received from the financial sector	-	-	-	-	-	-	2 801 014	2 584 354	-	-
Cash collateral liabilities	-	-	-	-	-	-	-	469 155	-	-
Liabilities due to deferred payment (retail pooling)	-	-	-	-	-	-	248 448	2 457 730	-	-
Subordinated loan	-	-	-	-	-	-	100 404	100 438	-	-
Covered bonds and bonds	-	-	-	-	-	-	1 662 883	1 770 993	66 922	68 675
Liabilities for the right of use - buildings	-	-	-	-	-	-	20 967	21 679	-	-
Liabilities due to the right to use - means of transport	-	-	-	-	557	353	-	-	-	-
Liabilities received	-	-	-	-	-	-	3 235	3 615	-	-
Guarantee received	-	-	-	-	-	-	-	468 130	-	-
CIRS contracts	-	-	-	-	-	-	1 347 225	-	-	-
IRS contracts	-	-	-	-	-	-	480 632	506 509	-	-
FX SWAP contracts	-	-	-	-	-	-	2 256 789	1 843 403	-	-

Property, plant and equipment include lease contracts classified in accordance with IFRS 16, relating to buildings, i.e. rental of office space in Warsaw and Łódź and redemption of the above-mentioned assets.
The item "Off-balance sheet liabilities granted and received - Guarantee received" relates to a bank guarantee agreement concluded on December 17, 2020 with mBank S.A. on selected commercial credit exposures.

(PLN '000)	Supervisory and Management Board members of mBank Hipoteczny S.A./mBank S.A., management personnel of mBank Hipoteczny S.A.		Other persons and entities related*		mBank Group companies***		mBank S.A.		Commerzbank Group companies***	
Year ended	**30.06.2023**	**30.06.2022**	**30.06.2023**	**30.06.2022**	**30.06.2023**	**30.06.2022**	**30.06.2023**	**30.06.2022**	**30.06.2023**	**30.06.2022**
Income statement										
Interest income	1	-	2	-	123	136	10 394	3 512	-	-
Interest expense	-	-	-	-	(4)	(2)	(129 733)	(136 627)	(1 474)	(1 592)
Fee and commission expenses	-	-	-	-	(2)	(1)	(4 310)	(2 579)	-	-
Net trading income	-	-	-	-	-	-	(25 862)	(12 753)	-	-
Other operating income	-	-	-	-	-	-	107	-	-	-
Other operating expenses	-	-	-	-	(7)	-	(413)	(141)	-	-
Overhead costs, amortisation and depreciation	-	-	-	-	(232)	(178)	(2 405)	(1 862)	-	-

*Other persons and related entities include a loan granted to a close family member of a Member of the Supervisory Board of mBank S.A.
** mBank Group's position includes transactions with the following mBank Group companies: mFinanse S.A., mLeasing Sp. z o.o.
***The position of a Commerzbank Group company includes purchases of mortgage covered bonds by Commerzbank AG and Future Tech on the secondary market.

18. Credit and loan guarantees, oter guarantees granted in excess of 10% of the equity

In the first half of 2023, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

19. 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, other guarantees granted in excess of 10% of the equity

- Changes in the composition of the Bank's Supervisory Board.

Composition of the Supervisory Board of mBank Hipoteczny S.A. as of June 30, 2022 is as follows:

1. Marek Lusztyn - Chairman of the Supervisory Boar
2. Pascal Ruhland - Vice-chairman of the Supervisory Board
3. Łukasz Maculewicz - Member of the Supervisory Board
4. Frank Bock - Member of the Supervisory Board
5. Paweł Graniewski - Member of the Supervisory Board
6. Michał Popiołek - Member of the Supervisory Board
7. Mikołaj Tatarkiewicz - Member of the Supervisory Board
8. Mariusz Tokarski - Member of the Supervisory Board
9. Grzegorz Ostrowski - Member of the Supervisory Board

- Changes in the Management Board Members

on June 14, 2023 Ms. Jolanta Pankiewicz, Member of the Management Board of mBank Hipoteczny S.A. resigned from her position. The resignation will take place on August 31, 2023.

20. Other material information

21. Material events after the balance sheet date information

As at the date of signing these condensed financial statements, there were no events that would require additional disclosure in these condensed financial statements.