Bank Hipoteczny

Condensed Interim Financial Statements of mBank Hipoteczny S.A. for the 6 months ended 30 June 2014

Selected financial data

The following selected financial data constitute supplementary information to the condensed interim financial statements of mBank Hipoteczny S.A. for the 6 months ended 30 June 2014.

Selected financial data		in PLN '000		in EUR '000	
		1st half of 2014 period from 01.01.2014 to 30.06.2014 unaudited	1st half of 2013 period from 01.01.2013 to 30.06.2013 unaudited	1st half of 2014 period from 01.01.2014 to 30.06.2014 unaudited	1st half of 2013 period from 01.01.2013 to 30.06.2013 unaudited
I.	Interest income	104 113	123 532	24 917	29 315
II.	Fee and commission income	4 946	2 436	1 184	578
III.	Net trading income	7 797	3 883	1 866	921
IV.	Profit before income tax	18 589	7 465	4 449	1 771
V.	Net profit attributable to the Company's equity shareholders	13 816	4 634	3 307	1 100
VI.	Net cash flows from operating activities	(275 863)	232 910	(66 021)	55 271
VII.	Net cash flows from investing activities	(1 223)	(3 904)	(293)	(926)
VIII.	Net cash flows from financing activities	155 652	(239 942)	37 252	(56 939)
IX.	Total net cash flows	(121 434)	(10 936)	(29 062)	(2 595)
X.	Earnings per ordinary share / Diluted earnings per ordinary share (in PLN/EUR)	5.02	1.69	1.20	0.40

Selected financial data		in PLN '000			in EUR '000		
		As at 30.06.2014 unaudited	As at 31.12.2013	As at 30.06.2013 unaudited	As at 30.06.2014 unaudited	As at 31.12.2013	As at 30.06.2013 unaudited
I.	Total assets	4 706 601	4 782 443	4 761 523	1 131 150	1 153 174	1 099 862
II.	Amounts due to other banks	998 198	1 203 488	1 170 879	239 900	290 193	270 461
III.	Amounts due to other customers	255 269	295 167	205 092	61 349	71 173	47 374
IV.	Equity attributable to shareholders of the Company	515 709	501 963	504 791	123 942	121 037	116 601
V.	Share capital	275 000	275 000	275 000	66 091	66 310	63 522
VI.	Number of shares in '000	2 750	2 750	2 750	2 750	2 750	2 750
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	187.53	182.53	183.56	45.07	44.01	42.40
VIII.	Capital adequacy ratio (%)	14.98	14.92	15.24	14.98	14.92	15.24

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

- for items of the financial position statement — the NBP exchange rate as at 30 June 2014 – EUR 1 = PLN 4.1609, the NBP exchange rate as at 31 December 2013 – EUR 1 = PLN 4.1472, and the NBP exchange rate as at 30 June 2013 – EUR 1 = PLN 4.3292.
- for items of the income statement and items of the cash flow statement — the rate calculated as the average NBP rate applicable as at the last day of each month in the first and the second half of 2014 and 2013, respectively: EUR 1 = PLN 4.1784 and EUR 1 = PLN 4.2140.

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ended 30 June 2014 (in PLN '000)

Income statement

	Note	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 data restated, unaudited
Interest income		104 113	123 532
Interest expense		(62 402)	(86 414)
Net interest income	6	**41 711**	**37 118**
Fee and commission income		4 946	2 436
Fee and commission expenses		(1 833)	(722)
Net fee and commission income	7	**3 113**	**1 714**
Net trading income, including:	8	7 797	3 883
Foreign exchange result		*1 797*	*3 970*
Other net trading income and result on hedge accounting		*6 000*	*(87)*
Other operating income	9	522	443
Net impairment write-downs on loans and advances	10	(9 099)	(12 696)
Overhead costs	11	(21 699)	(19 824)
Amortisation		(2 330)	(1 950)
Other operating expenses	12	(1 426)	(1 223)
Profit before income tax		**18 589**	**7 465**
Income tax expense	13	(4 773)	(2 831)
Net profit		**13 816**	**4 634**
Net profit		**13 816**	**4 634**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares (in	14	**2 750**	**2 750**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	14	**5.02**	**1.69**

Total profit of mBank Hipoteczny S.A. for the first half of 2014 and the first half of 2013 relates to the result of continued operations.

Explanatory notes and selected explanatory data presented on pages 10 to 51 constitute an integral part of these condensed interim financial statements.

Condensed Interim Financial Statements for the period of 6 months ended 30 June 2014 (in PLN '000)

Statement of comprehensive income

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 unaudited
Net profit	**13 816**	**4 634**
Other comprehensive income net of tax	**(70)**	**(548)**
Items that may be reclassified to the income statement	**(70)**	**(548)**
Change in valuation of available for sale financial assets (gross)	(87)	(677)
Deferred tax on available for sale financial assets	17	129
Change in valuation of available for sale financial assets (net)	(70)	(548)
Items that will not be reclassified to the income statement	**-**	**-**
Actuarial gains and losses relating to post-employment benefits (gross)	-	-
Deferred tax on actuarial gains and losses relating to post-employment benefits	-	-
Actuarial gains and losses relating to post-employment benefits (net)	-	-
Total comprehensive income net of tax	**13 746**	**4 086**

Explanatory notes and selected explanatory data presented on pages 10 to 51 constitute an integral part of these condensed interim financial statements.

ended 30 June 2014 (in PLN '000)

Statement of financial position

ASSETS	Note	30.06.2014 unaudited	31.12.2013	30.06.2013 unaudited
Cash and balances with the Central Bank		5 369	7 378	5 358
Amounts due from other banks		3 465	22 377	13 827
Derivative financial instruments	15	19 610	12 913	1 361
Loans and advances to customers	16	4 119 202	4 045 000	4 081 616
Investment securities available for sale	17	523 140	605 824	546 288
Investments in subsidiaries		-	-	715
Intangible assets		3 882	3 548	1 800
Tangible fixed assets		7 668	9 110	10 058
Deferred tax assets		11 480	13 058	10 542
Current income tax assets		-	620	-
Other assets, including:	18	12 785	62 615	89 958
- inventories		8 192	8 192	87 719
Total assets		**4 706 601**	**4 782 443**	**4 761 523**

LIABILITIES AND EQUITY		30.06.2014 unaudited	31.12.2013	30.06.2013 unaudited
Liabilities				
Amounts due to other banks		998 198	1 203 488	1 170 879
Derivative financial instruments		959	278	36 167
Amounts due to customers	19	255 269	295 167	205 092
Hedge accounting adjustments related to fair value of hedged items	8	5 463	-	-
Debt securities in issue	20	2 817 776	2 661 407	2 738 552
Subordinated liabilities		100 252	100 268	100 238
Other liabilities and provisions		12 775	19 872	5 372
Current income tax liabilities		200	-	432
Total liabilities		**4 190 892**	**4 280 480**	**4 256 732**
Equity				
Share capital:		**275 000**	**275 000**	**275 000**
- Registered share capital		275 000	275 000	275 000
Retained earnings		**239 285**	**225 469**	**227 949**
- Profit from the previous year		225 469	223 315	223 315
- Profit for the current period		13 816	2 154	4 634
Other components of equity		**1 424**	**1 494**	**1 842**
Total equity		**515 709**	**501 963**	**504 791**
TOTAL LIABILITIES AND EQUITY		**4 706 601**	**4 782 443**	**4 761 523**
Capital adequacy ratio (in %)		**14.98**	**14.92**	**15.24**

Explanatory notes and selected explanatory data presented on pages 10 to 51 constitute an integral part of these condensed interim financial statements.

ended 30 June 2014 (in PLN '000)

Statement of changes in equity

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

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

Changes in the period from 1 January 2013 to 31 December 2013

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Paid unregistered share capital	Other supplementary capital	General banking risk reserve	Profit from the previous year	Profit for the current year	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2013	**175 000**	**100 000**	**186 800**	**27 000**	**9 515**	**-**	**2 390**	**-**	**500 705**
Net profit	-	-	-	-	-	2 154	-	-	2 154
Other comprehensive income (gross)	-	-	-	-	-	-	(1 149)	43	(1 106)
Deferred tax on other comprehensive income	-	-	-	-	-	-	218	(8)	210
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**2 154**	**(931)**	**35**	**1 258**
Transfer to general banking risk reserve	-	-	-	4 000	(4 000)	-	-	-	-
Transfer to supplementary capital	-	-	5 515	-	(5 515)	-	-	-	-
Transfer to registered share capital	100 000	(100 000)	-	-	-	-	-	-	-
As at 31 December 2013	**275 000**	**-**	**192 315**	**31 000**	**-**	**2 154**	**1 459**	**35**	**501 963**

Explanatory notes and selected explanatory data presented on pages 10 to 51 constitute an integral part of these condensed interim financial statements.

ended 30 June 2014 (in PLN '000)

Changes in the period from 1 January 2013 to 30 June 2013 (unaudited)

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Paid unregistered share capital	Other supplementary capital	General banking risk reserve	Profit from the previous year	Profit for the current period	Valuation of available for sale financial assets	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2013	**175 000**	**100 000**	**186 800**	**27 000**	**9 515**	**-**	**2 390**	**-**	**500 705**
Net profit	-	-	-	-	-	4 634	-	-	4 634
Other comprehensive income (gross)	-	-	-	-	-	-	(677)	-	(677)
Deferred tax on other comprehensive income	-	-	-	-	-	-	129	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**4 634**	**(548)**	**-**	**4 086**
Transfer to general banking risk reserve	-	-	-	4 000	(4 000)	-	-	-	-
Transfer to supplementary capital	-	-	5 515	-	(5 515)	-	-	-	-
Transfer to registered share capital	100 000	(100 000)	-	-	-	-	-	-	-
As at 30 June 2013	**275 000**	**-**	**192 315**	**31 000**	**-**	**4 634**	**1 842**	**-**	**504 791**

Explanatory notes and selected explanatory data presented on pages 10 to 51 constitute an integral part of these condensed interim financial statements.

ended 30 June 2014 (in PLN '000)

Statement of cash flows

	Period from 01.01.2014 to 30.06.2014 unaudited	**Period from 01.01.2013 to 30.06.2013** data restated, unaudited
A. Cash flows from operating activities	**(275 863)**	**232 910**
Profit before income tax	**18 589**	**7 465**
Adjustments:	***(294 452)***	***225 445***
Income tax paid	(2 359)	(3 041)
Amortisation	2 330	1 950
Interest income (income statement)	(104 113)	(123 532)
Interest expense (income statement)	62 402	86 414
Interest received	94 427	142 744
Interest paid	(63 080)	(103 597)
Change in amounts due from other banks	(1)	2
Change in assets and liabilities on derivative financial instruments	(746)	44 040
Change in loans and advances to customers	(67 788)	20 162
Change in investment securities	(19 912)	171
Change in other assets	49 830	282
Change in amounts due to other banks	(204 053)	128 820
Change in amounts due to customers	(39 881)	26 010
Change in hedge accounting adjustments related to fair value of hedged items	5 463	-
Change in debt securities in issue	125	3 741
Change in other liabilities and provisions	(7 097)	1 276
Result on disposal of intangible assets and tangible fixed assets	1	3
Net cash from operating activities	**(275 863)**	**232 910**
B. Cash flows from investing activities	**(1 223)**	**(3 904)**
Investing activity inflows	**24**	**20**
Disposal of intangible assets and tangible fixed assets	24	20
Investing activity outflows	**(1 247)**	**(3 924)**
Purchase of intangible assets and tangible fixed assets	(1 247)	(3 274)
Purchase of shares	-	(650)
Net cash from investing activties	**(1 223)**	**(3 904)**
C. Cash flows from financing activities	**155 652**	**(239 942)**
Financing activities inflows	**360 652**	**310 000**
Issue of debt securities	360 652	310 000
Financing activities outflows	**(205 000)**	**(549 942)**
Repayment of loans and advances from banks	-	(129 942)
Redemption of debt securities in issue	(205 000)	(420 000)
Net cash from financing activities	**155 652**	**(239 942)**
Net decrease in cash and cash equivalents (A+B+C)	**(121 434)**	**(10 936)**
Cash and cash equivalents as at the beginning of the reporting period, including:	**545 183**	**498 180**
Cash and balances with the Central Bank	7 378	3 069
Amounts due from other banks	22 377	10 282
Investment securities with a maturity of up to 3 months from the date of purchase	515 428	484 829
Cash and cash equivalents as at the end of the reporting period, including:	**423 749**	**487 244**
Cash and balances with the Central Bank	5 369	5 358
Amounts due from other banks	3 465	13 827
Investment securities with a maturity of up to 3 months from the date of purchase	414 915	468 059

Explanatory notes and selected explanatory data presented on pages 10 to 51 constitute an integral part of these condensed interim financial statements.

Explanatory notes to the condensed interim financial statements

1. Information on mBank Hipoteczny S.A.

In accordance with the decision of the District Court for the capital city of Warsaw, 16th Commercial Division of 16 April 1999, the Bank was entered into the Commercial Register, with the reference number 56623.

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

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

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

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

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

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

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

The Bank's duration is not limited.

mBank Hipoteczny S.A. is a specialised mortgage bank, operating in the market for the financing properties and issuing covered bonds.

The Bank's offer is addressed to business entities and institutional customers investing in purchasing, constructing or renovating commercial properties, such as offices, malls, hotels, warehouses, as well as apartments and houses, carried out by housing developers. Another important operating area of the Bank is the crediting of local governments through the financing of investments such as the construction of the municipal buildings, maintenance and construction of roads, sewage treatment plants, educational establishments or other objects, as well as the refinancing of local governments' properties – the seats of local governments, utility and office premises. In 2013, the Bank extended the scope of its business to include retail loans. The Bank's credit offer is complemented with consulting services, addressed to investors and companies operating on commercial property market. The Bank is also a leader in the issue of covered bonds, debt securities which refinance its credit activity.

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

The average number of employees in the first half of 2014 amounted to 171 persons, and in the first half of 2013 it amounted to 135 persons.

2. Summary of significant accounting policies

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

2.1. Basis of preparation

The condensed interim financial statements of mBank Hipoteczny S.A. have been prepared for the 6-month period ended 30 June 2014. These condensed interim financial statements are standalone financial statements.

As at 30 June 2014, mBank Hipoteczny S.A. did not have any subsidiaries. On 28 November 2013, pursuant to a share purchase agreement, mBank Hipoteczny S.A. sold all the shares in the share capital of BDH Development Spółka z o. o. (former name: Bankowy Dom Hipoteczny Sp. z o. o.), in which the Bank held a 100% stake and 100% of the total number of votes at the general shareholders' meeting, to mBank S.A. (mBank Hipoteczny S.A. is a subsidiary of mBank S.A.).

These condensed interim financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the EU, and in particular in accordance with the International Accounting Standard No. 34 and IFRS approved by the EU.
IFRS comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").
Information scope of these interim statements is narrower than in the case of complete financial statements, and therefore it should be read in conjunction with the stand alone financial statements of mBank Hipoteczny S.A. for the financial year 2013.

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

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

2.2. Interest income and expenses

Income statement recognises all the interest earnings and costs regarding financial instruments measured at amortised/depreciated cost using the effective interest rate method.

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

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

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest result in the position Interest income/expense on derivatives classified into banking book. The Bank is not engaged in trading; all derivative transactions are included in the banking book.

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

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

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

2.3. Fee and commission income and expense

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

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

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

2.4. Segment reporting

An operating segment is a component of the entity:

a) which engages in business activities and in connection with which revenues may be earned and costs incurred (including revenues and costs relating to transactions with other components of the same entity);

b) whose operating results are regularly reviewed by the chief operating decision maker in the entity and using those results to make decisions on resources allocated to a given segment and assessing the results of operations of the segment; and

c) in respect of which separate financial information is available.

2.5. Financial assets / financial liabilities

2.5.1. Financial assets

The Bank classifies its financial assets into the following categories:

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

The classification of investments is decided by the Management Board upon the initial recognition.

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

Loans and receivables

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

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

Available for sale financial assets

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

Interest income/expense on available-for-sale financial assets is recognized in net interest income.

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

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

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

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading.

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

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

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

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

Financial assets held to maturity

Investments held to maturity ("UDTZ") constitute financial assets not included among derivative instruments, with determined or determinable payments and determined maturity, which the Bank of the entity intends to hold and is capable of holding to maturity. In the case of sales by the Bank, prior to maturity, of assets held to maturity, which cannot be recognised as insignificant, the so called "UDTZ portfolio Infection" occurs and thus all assets in this category are reclassified as available for sale.

In the reporting periods presented in this condensed interim financial statements, the Bank had no assets held to maturity.

2.5.2. Financial liabilities

The Bank classifies its financial liabilities into the following categories:

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

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

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

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

Other financial liabilities comprise specifically:

- bank accounts balances,
- customer deposits,
- subordinated borrowings received,
- loans and advances received,
- debt securities issued by the Bank (covered bonds and bonds),
- trade payables.

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

2.6. Offsetting financial instruments

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

2.7. Impairment of financial assets

Assets carried at amortised cost

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

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

The Bank measures the impairment of credit exposures in accordance with the International Accounting Standard No 39. The process of identification of impaired customers and the calculation of impairment write-downs is as follows:

a) determining, on a case-by-case basis, the evidence for impairment arising and, when it does arise, classifying the customer as part of the "default" category,

b) determining the estimated future cash flows (repayments) both from the collateral and repayments made by borrowers,

c) calculation of impairment taking into account the future value of estimated recoveries discounted using the effective interest rate,

d) impairment write-down accounting records.

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

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

b) delays in payments of more than 90 days. Any exposure representing a debt liability of a debtor to the Bank or its parent company or subsidiary shall be past due by over 90 days, provided that:

   - in the case of retail exposures, the amount past due exceeds PLN 500,
   - in the case of the remaining exposures, the amount past due exceeds PLN 3,000,

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

<u>Retail loan portfolio granted in an agency scenario in cooperation with mBank S.A.</u>

In the case of the retail portfolio, where loans are granted in an agency scenario (the gross carrying value of the portfolio as at 30 June 2014 is PLN 110,525 thousand), it is assumed that there is evidence of impairment of a retail exposure if:

a) the amount of exposure is greater than PLN 500 PLN and it is delayed by more than 90 days,

b) a transaction is fraudulent,

c) a transaction is subject to restructuring,

d) a loan receivable is sold at a substantial economic credit loss,

e) the Bank files a request to initiate enforcement proceedings, bankruptcy or reorganisation proceedings (resulting in a possible omission of or delay in repayment) against the debtor associated with a given loan liability,

f) a loan liability is disputed by the debtor in court.

All cases of identified impairment are designated automatically, except for restructured or sold contracts, frauds and operational cases that are recognised as part of a case-by-case analysis. The method of measuring impairment loss is based on the portfolio method, except for selected mortgage exposures where events have occurred which make it necessary to analyse such exposures on a case-by-case basis.

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

List of stringent and lenient premises of impairment presented below is concernig to both portfolios, corporate loans portfolio and retail loan portfolio.

Stringent premises of default

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

a) recognition of an impairment write-down due to a visible deterioration of creditworthiness after the liability to the Bank arose;
b) the Bank's disposal of an exposure at a significant economic loss associated with a change in its creditworthiness;
c) the Bank's consent to forced restructuring of a loan liability, provided that this may result in reducing financial liabilities as a result of redeeming a significant part of the liability or deferring repayment of the principal, interest or commission — if any;
d) the Bank's filing of a statement declaring the debtor bankrupt or of a similar motion in reference to debtor's loan liabilities to the Bank, Bank's parent entity or subsidiary;
e) the debtor being declared bankrupt or obtaining similar legal protection leading to avoidance or delay of loan liabilities repayment to the Bank, Bank's parent entity or subsidiary.

Lenient premises of default

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

In the event of lack of premises of impairment in relation to credit exposure, based on default probability, the impairment write-down on the incurred, but not identified losses, is calculated.
If there are impairment premises and the individual analysis of a given credit exposure does not show any impairment, the impairment write-down is calculated based on portfolio analysis parameters.

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

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

Receivables written-off but not remitted are recorded on off-balance sheet accounts. Receivables written off are subject to derecognition from off-balance sheet accounts when the account receivable has been recovered or remitted.

Financial assets available for sale

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

Renegotiated agreements

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

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

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

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

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

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

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

2.8. Cash and cash equivalents

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

2.9. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

<u>Fair value hedges</u>

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

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

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

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

The Bank has the following derivative instruments in its portfolio:

Interest rate risk instruments:

- IRS (Interest Rate Swap) Contracts

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

- FX SWAP contracts

2.10. Gains and losses on initial recognition

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the payment executed or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification) or based on a valuation technique whose variables include only data from observable markets.

2.11. Intangible assets

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

Computer software

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

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

Costs of completed development projects

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

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

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

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

Significant intangible assets as at 30 June 2014:

- Def3000/CL System with a net value of PLN 353 thousand,
- vPlex license with a net value of PLN 184 thousand,
- Software of the agency model with a net value of PLN 1,418 thousand.

2.12. Tangible fixed assets

The carrying amount is the value at which a given asset is recognised in the balance sheet, net of accumulated depreciation and accumulated impairment write-downs.

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

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

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

The recoverable amount is the higher of the net realizable value of the asset or its value in use.

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

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

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

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

Useful lives of the individual groups of fixed assets are as follows:

- Technical equipment and machinery	5 - 10 years
- IT equipment	3 years
- Equipment and vehicles	5 - 10 years
- Office equipment and furniture	5 - 7 years

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

Depreciable fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be irrecoverable. The carrying amount of a fixed asset is reduced to the level of its recoverable value if the carrying amount exceeds the estimated recoverable value. The recoverable amount is the higher of the two amounts: fair value of a fixed asset reduced by costs of its sales and the utility value.

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

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

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

After the initial recognition of tangible fixed assets as a component of assets, the Bank reports them at the cost of purchase or manufacture, net of accumulated depreciation and accumulated impairment write-downs.

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

2.13. Investments in subsidiaries

As at 30 June 2014, mBank Hipoteczny S.A. did not have any subsidiaries. On 28 November 2013, pursuant to a share purchase agreement, mBank Hipoteczny S.A. sold to mBank S.A. all the shares in the share capital of BDH Development Spółka z o. o. (former name: Bankowy Dom Hipoteczny Sp. z o. o.), in which the Bank held 100% interest and 100% of the total number of votes at the General Meeting of Shareholders.

2.14. Deferred income tax

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

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

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

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

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

To determine the foreign exchange rate differences, the Bank applies tax method.

2.15. Inventories

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

2.16. Prepayments, accruals and deferred income

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

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

2.17. Provisions

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

2.18. Pension benefits and other employee benefits

Pension benefits

The Bank creates provisions for future liabilities in respect of retirement, disability and post-mortem benefits, determined on the basis of estimations of such liabilities, using an actuarial model. Current service cost and net interest on the net defined pension benefit liability are recognised in profit or loss. The actuarial gains and losses are recognised in other comprehensive income.

Phantom share based benefits

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

The payout under phantom shares depends on the valuation of these shares in a given reporting period in which they are redeemed, adjusted with the capital increase above the par value during the entire appraisal period.

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

Eligible employees of the Bank are entitled to deferred tranches, provided that:

1) they received a positive assessment of their work from the Supervisory Board;
2) they fulfilled the conditions of employment at mBank Hipoteczny S.A.; and
3) the Bank's performance as at the end of the first, second and third calendar year after the end of the appraisal period is no lower than the result adopted for a given year in the financial plan lessen by 10%.

Each of the deferred tranches shall be granted within 30 calendar days upon the approval by the General Meeting of Shareholders of the financial statements for a given year.

The Supervisory Board may modify the level of the planned Bank performance in respect of the market situation.

2.19. Issuance of securities

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

2.20. Loans and advances received and deposits accepted

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

2.21. Equity

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

<u>Registered share capital</u>

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

<u>Paid unregistered capital</u>

Paid-up capital not entered into the court register, but formally submitted for registration.

<u>Retained earnings</u>

Retained earnings include:

- other supplementary capital created from profit appropriation,
- General banking risk reserve created through the profit appropriation and intended for the purposes specified in the Bank's Memorandum of Association or in other legal regulations;
- profit from the previous year,
- profit for the current period.

<u>Other components of equity</u>

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

2.22. Leases

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

2.23. Measurement of foreign currency items

<u>Functional currency and presentation currency</u>

The financial statements are presented in Polish zloty which is the Bank's functional and presentational currency.

<u>Transactions and balances</u>

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

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

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

Published standards and interpretations that have been issued and are applicable in the Bank for the annual periods beginning on 1 January 2014:

- Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities*, published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2014. The amendments were endorsed by the European Union on 13 December 2012.
- Amendments to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*, published by the International Accounting Standards Board on 29 May 2013, binding for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*, published by the International Accounting Standards Board on 27 June 2013, binding for annual periods starting on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014. The amendments were endorsed by the European Union on 20 November 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements*, *Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

The application of the amended standards had no significant impact on the financial statements in the period of its initial application.

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

Standards and Interpretations not yet approved by the European Union:

- IFRIC 21, *Levies*, published on 20 May 2013 and is applicable for annual periods starting on or after 1 January 2014 or later, in the EU is applicable for annual periods beginning on or after 17 June 2014.

  The Bank is of the opinion that the application of IFRIC 21 will have no impact on the total level of recognised fees of the financial year, but it may have an impact on the level of such costs recognised in each quarter of the financial year.
- IAS 19 (Amended), *Defined Benefit Plans: Employee Contributions*, published by the International Accounting Standards Board on 21 November 2013, binding for annual periods starting on or after 1 July 2014.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.
- IFRS 9, Financial Instruments, published on 24 July 2014 is applicable for annual periods starting on or after 1 January 2018 – not yet endorsed by EU till the date of approval of these financial statements, the legislative process is postponed as at the date of approval of these financial statements.

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

  The actual impact of the application of IFRS 9 will be possible to estimate after the publication final version of the standard.

- IFRS 11 (Amended), *Accounting for acquisitions of interests in the joint operations*, published by the International Accounting Standards Board on 6 May 2014, binding for annual periods starting on or after 1 January 2016.

  The Bank is of the opinion that the application of the amended standard will not have a significant impact on the financial statements in the period of initial application.

- IFRS 14, *Regulatory Deferral Accounts*, published by the International Accounting Standards Board on 30 January 2014, binding for annual periods starting on or after 1 January 2016. Decision about terms of performing particular steps resulting in endorsement of the Standard has not yet been made by EFRAG – not yet endorsed by EU till the date of approval of these financial statements.

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

- IFRS 15, *Revenue from Contracts with Customers*, published by the International Accounting Standards Board on 28 May 2014, binding for annual periods beginning on or after 1 January 2017.

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

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

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

- Improvements to IFRS 2010 - 2012, published by the International Accounting Standards Board on 12 December 2013, in majority binding for annual periods starting on or after 1 July 2014.

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

- Improvements to IFRS 2011 - 2013, published by the International Accounting Standards Board on 12 December 2013, binding for annual periods starting on or after 1 July 2014.

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

- Amendments to IAS 16 and IAS 41 Agriculture: bearer plants (published on 30 June 2014), binding for annual periods beginning on or after 1 January 2016.

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

- Amendments to IAS 27 Equity method in separate financial statements (published on 12 August 2014), binding for annual periods beginning on or after 1 January 2016.

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

2.25. Comparative data

Comparative data has been converted taking into account presentational changes introduced in the current reporting period.

At the end of 2013, the Bank changed the presentation of receipts from the reimbursement by customers of the annual contribution to the Bank Guarantee Fund. In the current period and in the financial statements for the year 2013, the Bank has presented them under "Fee and commission income". In previous periods, such receipts were recognised as part of interest income. Expenses due to the annual contribution to the Bank Guarantee Fund are presented under "Fee and commission expense" — their presentation has not changed.

Transformation of the comparative data had no impact on the result and the amount of capital in the presented comparative data as at 31 December 2013 and 30 June 2013.

ended 30 June 2014 (in PLN ‘000)

Other data prepared as at 31 December 2013 and 30 June 2013 is fully comparable with data from the current reporting period and therefore did not require transformations.

The impact of transformations introduced in 2013 on comparative data presented in the condensed interim financial statements is demonstrated below.

Transformations in the income statement for the period from 1 January 2013 to 30 June 2013.

	Period from 01.01.2013 to 30.06.2013 before restatement unaudited	**Restatement**	**Period from 01.01.2013 to 30.06.2013 after restatement** unaudited
Interest income	125 257	(1 725)	123 532
Fee and commission income	711	1 725	2 436

3. Fair value of financial assets and liabilities

The fair value is the price that would be obtained for the sale of an asset or paid for the transfer of a liability in a transaction carried out on normal commercial terms between market participants as at the measurement date, i.e. the exit price as at the measurement date from the perspective of the market participant who holds the asset or has the liability.

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

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

Amounts due from other banks

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

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

Loans and advances to customers

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

Loans and advances to customers are presented at level 3 in the fair value hierarchy.

Investment securities available for sale

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

Any increases in value or impairment are booked as at the valuation date, i.e. as at the end of the month, separately for each type of securities.

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The Bank sells the securities of the same issuer and the same series contained in the Bank's portfolio but purchased in various periods and at various prices, using the FIFO method, according to which securities are released in the order in which they were purchased.

Financial instruments on the liabilities side are:

- bank accounts balances,
- loans received,
- subordinated loans received,
- deposits,
- liabilities in respect of covered bonds and bonds issued by the Bank.

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

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

<u>Debt securities in issue (covered bonds and bonds)</u>

The Bank has estimated the fair value of issued covered bonds and unsecured corporate bonds with a high rating using the credit spread. In the case of issued tranches subject to secondary trading, it was assumed that the value of the credit spread is the same as the value of the issue on the primary market with the same period to maturity. The clean price of individual tranches of floating covered bonds was estimated taking into account the period to redemption, the expected value of the credit spread for the issue on the secondary market and quotations from the swap curve.
Liabilities in respect of debt securities in issue are presented at level 3 in the fair value hierarchy.

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

Financial assets and liabilities	30.06.2014 unaudited		31.12.2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with the Central Bank	**5 369**	**5 369**	**7 378**	**7 378**
Amounts due from other banks	**3 465**	**3 465**	**22 377**	**22 377**
Loans and advances to customers, including:	**4 119 202**	**4 207 388**	**4 045 000**	**4 057 222**
Corporate customers	3 734 351	3 827 557	3 725 996	3 746 120
Individual customers	193 217	186 037	93 761	84 473
Public sector customers	189 425	191 585	225 235	226 621
Other receivables	2 209	2 209	8	8
Total financial assets	**4 128 036**	**4 216 222**	**4 074 755**	**4 086 977**
Financial liabilities				
Amounts due to other banks	**998 198**	**998 198**	**1 203 488**	**1 203 488**
Amounts due to customers, including:	**255 269**	**255 269**	**295 167**	**295 167**
Corporate customers	255 012	255 012	294 978	294 978
Individual customers	257	257	174	174
Public sector customers	-	-	15	15
Debt securities in issue	**2 817 776**	**2 778 641**	**2 661 407**	**2 649 432**
Subordinated liabilities	**100 252**	**100 252**	**100 268**	**100 268**
Total financial liabilities	**4 171 495**	**4 132 360**	**4 260 330**	**4 248 355**

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Disclosures concerning the fair value hierarchy

30.06.2014 unaudited	**including:**	**Level 1** Quoted prices in active markets	**Level 2** Valuation techniques based on observable market data	**Level 3** Other valuation techniques
Financial assets				
Cash and balances with the Central Bank	5 369	-	-	5 369
Amounts due from other banks	3 465	-	-	3 465
Derivative financial instruments	19 610	-	19 610	-
Interest rate derivatives	6 196	-	6 196	-
Foreign exchange derivatives	13 414	-	13 414	-
Loans and advances to customers	4 207 388	-	-	4 207 388
Investment securities available for sale, including:	523 140	108 226	414 914	-
Treasury bonds	108 226	108 226	-	-
Central Bank's bills	414 914	-	414 914	-
Total financial assets	**4 758 972**	**108 226**	**434 524**	**4 216 222**
Financial liabilities				
Amounts due to other banks	998 198	-	-	998 198
Derivative financial instruments	959	-	959	-
Interest rate derivatives	158	-	158	-
Foreign exchange derivatives	801	-	801	-
Amounts due to customers	255 269	-	-	255 269
Debt securities in issue	2 778 641	-	-	2 778 641
Subordinated liabilities	100 252	-	-	100 252
Total financial liabilities	**4 133 319**	**-**	**959**	**4 132 360**

31.12.2013	**including:**	**Level 1** Quoted prices in active markets	**Level 2** Valuation techniques based on observable market data	**Level 3** Other valuation techniques
Financial assets				
Cash and balances with the Central Bank	7 378	-	-	7 378
Amounts due from other banks	22 377	-	-	22 377
Derivative financial instruments	12 913	-	12 913	-
Interest rate derivatives	339	-	339	-
Foreign exchange derivatives	12 574	-	12 574	-
Loans and advances to customers	4 057 222	-	-	4 057 222
Investment securities available for sale, including:	605 824	90 396	515 428	-
Treasury bonds	90 396	90 396	-	-
Central Bank's bills	515 428	-	515 428	-
Total financial assets	**4 705 714**	**90 396**	**528 341**	**4 086 977**
Financial liabilities				
Amounts due to other banks	1 203 488	-	-	1 203 488
Derivative financial instruments	278	-	278	-
Interest-bearing instruments	277	-	277	-
Foreign exchange instruments	1	-	1	-
Amounts due to customers	295 167	-	-	295 167
Debt securities in issue	2 649 432	-	-	2 649 432
Subordinated liabilities	100 268	-	-	100 268
Total financial liabilities	**4 248 633**	**-**	**278**	**4 248 355**

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

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

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

Impairment of loans and advances

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

Impairment of non-financial assets — inventories

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

Deferred income tax assets

The Bank recognizes impairment write-downs on loans in deferred income tax in case of occurrence of the events increasing the probability of documenting non-recoverability in accordance with applicable tax regulations, in which as a result of undertaken debt collection activities.

Liabilities in respect of post-employment benefits

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

Phantom share-based benefits

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

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

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

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

Annual allocations are calculated according to the projected unit credit method.

The aforementioned probability was determined using the Multiple Decrement Model, where the following three risks were taken into account: the possibility of dismissal, the risk of total incapacity for work, the risk of death.

The fair value of financial instruments

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

5. Operating segments

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

mBank Hipoteczny S.A. is a specialist mortgage bank and it plays a leading role in the market of commercial real estate financing and issuing covered bonds. The Bank's offer is addressed to corporate and institutional clients investing in buying, building or renovating commercial properties, such as offices, malls, hotels, warehouses, as well as apartments and houses, carried out by housing developers. Another important area of activity of the Bank is lending money to local government units in the form of financing of investments such as municipal housing, road construction and repairs, construction of sewage treatment plants, educational facilities and other facilities, as well as the refinancing of municipal real estate — seats of local governments, utility premises, office buildings. In 2013, the Bank extended the scope of its business to include retail loans (loans to individuals — agency model). The Bank is also a leader in the issue of covered bonds, debt securities which refinance its credit activity.

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

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

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

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

Loans for local government units (JST) — this segment comprises loans to local government units (municipalities, districts, provinces) as well as loans guaranteed by local government units (commercial companies established by local governments, public health care institutions).

Loans for housing real estate developers — this segment comprises loans for financing of housing development projects (residences or apartments for sale or rent).

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

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

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

Loans to individual customers — agency model — this segment comprises loans granted to individuals for housing purposes. Loans are offered in PLN and secured by a mortgage. Loans are sold under an agency agreement through the network of mBank S.A. branches.

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

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

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

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

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

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

Remaining profit and loss positions are divided between the segments on the basis of the share of segment loans in all loans portfolio, or share of risk weighted assets of segment in all risk weighted assets in case of depreciation and bank overheads. The bank does not allocate the income tax charge to individual segments, accordingly the operating segments profit/loss data is presented on profit before income tax level. Data concerning operating segments is measured by the same principles as those disclosed in the accounting policy.

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

There are no operations between the segments within the Bank.

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

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Reporting by operating segments of mBank Hipoteczny S.A.

Period from 01.01.2014 to 30.06.2014 unaudited	**Loans for refinancing commercial real estates**	**Loans to local government units**	**Loans to housing real estate developers**	**Loans to commercial real estate developers**	**Loan for land purchase**	**Loans to individuals**	**Loans to individuals — agency model**	**Total**	**Income statement**
Interest income	62 869	10 844	18 472	8 197	1 681	734	1 316	104 113	104 113
Interest expense	(32 825)	(10 576)	(9 995)	(5 000)	(709)	(880)	(2 417)	(62 402)	(62 402)
Net interest income	**30 044**	**268**	**8 477**	**3 197**	**972**	**(146)**	**(1 101)**	**41 711**	**41 711**
Fee and commission income	2 285	280	405	469	20	26	1 461	4 946	4 946
Fee and commission expense	(1 208)	(193)	(197)	(156)	(14)	(17)	(48)	(1 833)	(1 833)
Net impairment write-downs on loans and advances	(9 006)	12	(1 981)	(285)	2 166	(1)	(4)	(9 099)	(9 099)
Amortisation and overhead costs	(17 863)	(669)	(1 942)	(2 577)	(261)	(243)	(474)	(24 029)	(24 029)
Other income statement items	5 124	192	557	739	75	70	136	6 893	6 893
Segment result (before tax)	**9 376**	**(110)**	**5 319**	**1 387**	**2 958**	**(311)**	**(30)**	**18 589**	**18 589**

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

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

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Period from 01.01.2013 to 30.06.2013 data restated, unaudited	**Loans for refinancing commercial real estates**	**Loans to local government units**	**Loans to housing real estate developers**	**Loans to commercial real estate developers**	**Loan for land purchase**	**Loans to individuals**	**Total**	**Income statement**
Interest income	74 603	16 886	20 926	5 949	4 020	1 148	123 532	123 532
Interest expense	(45 933)	(17 638)	(15 420)	(3 637)	(2 277)	(1 509)	(86 414)	(86 414)
Net interest income	**28 670**	**(752)**	**5 506**	**2 312**	**1 743**	**(361)**	**37 118**	**37 118**
Fee and commission income	1 520	242	421	196	32	25	2 436	2 436
Fee and commission expense	(489)	(91)	(82)	(40)	(12)	(8)	(722)	(722)
Net impairment write-downs on loans and advances	(10 439)	13	(1 843)	(153)	(269)	(5)	(12 696)	(12 696)
Amortisation and overhead costs	(16 399)	(654)	(2 752)	(1 339)	(400)	(230)	(21 774)	(21 774)
Other income statement items	2 337	93	392	191	57	33	3 103	3 103
Segment result (before tax)	**5 200**	**(1 149)**	**1 642**	**1 167**	**1 151**	**(546)**	**7 465**	**7 465**

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

31.12.2013	**Loans for refinancing commercial real estates**	**Loans to local government units**	**Loans to housing real estate developers**	**Loans to commercial real estate developers**	**Loan for land purchase**	**Loans to individuals**	**Loans to individuals — agency model**	**Non-allocated assets items**	**Total**	**Statement of financial position**
Loans and advances to customers	**2 646 903**	**479 491**	**477 789**	**327 193**	**66 947**	**40 573**	**6 096**	**8**	**4 045 000**	**4 045 000**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**737 443**	**737 443**	**737 443**
Segment assets	**2 646 903**	**479 491**	**477 789**	**327 193**	**66 947**	**40 573**	**6 096**	**737 451**	**4 782 443**	**4 782 443**

30.06.2013 unaudited	**Loans for refinancing commercial real estates**	**Loans to local government units**	**Loans to housing real estate developers**	**Loans to commercial real estate developers**	**Loan for land purchase**	**Loans to individuals**	**Loans to individuals — agency model**	**Non-allocated assets items**	**Total**	**Statement of financial position**
Loans and advances to customers	**2 758 799**	**520 049**	**463 890**	**225 662**	**67 441**	**45 723**	**-**	**52**	**4 081 616**	**4 081 616**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**679 907**	**679 907**	**679 907**
Segment assets	**2 758 799**	**520 049**	**463 890**	**225 662**	**67 441**	**45 723**	**-**	**679 959**	**4 761 523**	**4 761 523**

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6. Net interest income

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 restated data unaudited
Interest income		
Loans and advances, including the unwind of discount relating to impairment write-down, of which:	86 915	98 160
- interest income on impaired loans and advances	4 562	4 456
Cash and short-term deposits	233	228
Investment securities	8 113	10 128
Interest income on derivatives classified into banking book	8 419	15 016
Interest income on derivatives concluded under hedge accounting	433	-
Total interest income	**104 113**	**123 532**
Interest expense		
Arising from amounts due to banks	(7 457)	(7 955)
Arising from amounts due to customers	(962)	(1 218)
Arising from issue of debt securities	(50 917)	(73 655)
Arising from subordinated loan	(3 066)	(3 586)
Total interest expense	**(62 402)**	**(86 414)**
Total net interest income	**41 711**	**37 118**

7. Net fee and commission income and expense

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 restated data unaudited
Fee and commission income		
Credit-related fees and commissions	4 746	2 248
Commissions from bank accounts	172	167
Commissions from money transfers	28	21
Total fee and commission income	**4 946**	**2 436**
Fee and commission expense		
Costs related to the debt instrument's issue program (covered bonds and bonds)	(323)	(450)
Commission expense from the stand-by credit line	(244)	(240)
Other	(1 266)	(32)
Total fee and commission expense	**(1 833)**	**(722)**
Total net fee and commission income	**3 113**	**1 714**

8. Net trading income

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 unaudited
Foreign exchange result	**1 797**	**3 970**
Net exchange differences on translation	8 958	47 924
Valuation of foreign currency derivatives	(7 161)	(43 954)
Other net trading income and result on hedge accounting	**6 000**	**(87)**
Interest rate risk instruments	7 040	(87)
Result on hedge accounting, including:	(1 040)	-
- net profit on hedged items	(5 463)	-
- net profit on hedging instruments	4 423	-
Total net trading income	**7 797**	**3 883**

Foreign exchange result covers realised and unrealised, positive and negative exchange rate differences, as well as profit/(loss) on spot transactions and forward contracts. Interest rate risk instruments include the profit on swap contracts for interest rates, which are not designated as hedging instruments.

In the first half of 2014, the Bank implemented fair value hedge accounting of issued mortgage bonds with a fixed interest rate. As hedging instrument the Bank designated the Interest Rate Swap changing fixed interest rate into a variable interest rate. As at 30 June 2014 there were four hedging relationships designated.

The following table presents the hedged item as at 30 June 2014.
The following table presents the nominal value in EUR '000 while the carrying amount and hedge accounting adjustments related to fair value in PLN '000.

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

The following table presents the hedging instruments as at 30 June 2014.
The following table presents the nominal value in EUR '000 while the fair value and changes in fair value from hedge accounting in PLN '000.

Derivative instruments	Nominal value	Redemption date	The fair value of assets	The fair value of liabilites	Changes in fair value from hedge accounting
IRS (EUR)	30 000	2020-07-28	6 556	-	1 199
IRS (EUR)	8 000	2029-02-28	1 308	-	658
IRS (EUR)	15 000	2029-03-15	2 103	-	1 222
IRS (EUR)	20 000	2029-05-30	-	794	1 344
Total hedging instrument			**9 967**	**794**	**4 423**

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The interest rate risk is the only one type of risk hedged within hedge accounting applied by the Bank. The results of the valuation of hedged items and hedging instruments are presented in the above tables. The hedge is assessed on a regular basis and its effectiveness is assessed as highly effective. The Bank documents its own assessment of the effectiveness of fair value hedges 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.

9. Other operating income

	Period from 01.01.2014 to 30.06.2014 unaudited	**Period from 01.01.2013 to 30.06.2013** unaudited
Income from sales of services	237	169
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	26	36
Other	259	238
Total other operating income	**522**	**443**

10.Net impairment write-downs on loans and advances

	Period from 01.01.2014 to 30.06.2014 unaudited	**Period from 01.01.2013 to 30.06.2013** unaudited
Establishment of write-downs on loans and advances to customers	(24 244)	(16 857)
Reversal of write-downs on loans and advances to customers	15 145	4 161
Total net impairment write-downs on loans and advances	**(9 099)**	**(12 696)**

11.Overhead costs

	Period from 01.01.2014 to 30.06.2014 unaudited	**Period from 01.01.2013 to 30.06.2013** unaudited
Staff-related expenses	(13 085)	(12 488)
Material costs	(7 016)	(5 846)
Contribution and payments to the Bank Guarantee Fund	(869)	(808)
Taxes and fees	(587)	(559)
Contributions to the Social Benefits Fund	(142)	(123)
Total overhead costs	**(21 699)**	**(19 824)**

Staff-related expenses

	Period from 01.01.2014 to 30.06.2014 unaudited	**Period from 01.01.2013 to 30.06.2013** unaudited
Wages and salaries	(10 853)	(10 619)
Social security expenses	(1 617)	(1 405)
Provision for unused employee leaves	(28)	-
Other staff expenses	(587)	(464)
Total staff-related expenses	**(13 085)**	**(12 488)**

Condensed Interim Financial Statements for the period of 6 months ended 30 June 2014 (in PLN '000)

12. Other operating expenses

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 unaudited
Result on the sales of assets repossessed for debts (inventories) and costs of their maintenance	(423)	(767)
Costs of execution proceedings	(439)	(294)
Inventories revaluation write-downs	-	(129)
Loss on the sales or liquidation of fixed assets and intangible assets	(1)	(3)
Compensation, penalties and fines paid	(281)	(1)
Other	(282)	(29)
Total other operating expenses	**(1 426)**	**(1 223)**

13. Income tax expense

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 unaudited
Current income tax	(3 179)	(3 284)
Deferred income tax	(1 594)	453
Total income tax	**(4 773)**	**(2 831)**

Profit before income tax	**18 589**	**7 465**
Income tax calculated at the rate applicable in a given fiscal year (19%)	(3 532)	(1 418)
Non-deductible tax costs - net impairment write-downs on loans and advances	(1 037)	(1 387)
Non-deductible tax costs - other	(271)	(61)
Non-taxable income	67	35
Total income tax expense	**(4 773)**	**(2 831)**

Effective tax rate calculation		
Profit before income tax	18 589	7 465
Income tax expense	(4 773)	(2 831)
Effective tax rate	**25.68%**	**37.92%**
Nominal tax rate	**19%**	**19%**

14.Profit per share

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 30.06.2013 unaudited
Basic:		
Net profit attributable to shareholders of the Bank	13 816	4 634
Weighted average number of ordinary shares (in '000)	2 750	2 750
Basic net profit per share (in PLN per share)	**5.02**	**1.69**
Diluted:		
Net profit attributable to shareholders of the Bank, applied during the estimation for calculation of diluted profit per share	13 816	4 634
Weighted average number of ordinary shares (in '000)	2 750	2 750
Weighted average number of ordinary shares for calculation of diluted profit per share (in '000)	2 750	2 750
Diluted net profit per share (in PLN per share)	**5.02**	**1.69**

15. Derivative financial instruments

	30.06.2014 unaudited		31.12.2013		30.06.2013 unaudited	
	assets	liabilites	assets	liabilites	assets	liabilites
Held for trading derivative financial instruments classified into banking book	9 643	165	12 913	278	1 361	36 167
Derivative financial instruments held for hedging	9 967	794	-	-	-	-
Total derivative financial instruments assets/liabilities	**19 610**	**959**	**12 913**	**278**	**1 361**	**36 167**

In the first half of 2014, the Bank implemented fair value hedge accounting of issued mortgage bonds with a fixed interest rate. As hedging instrument the Bank designated the Interest Rate Swap changing fixed interest rate into a variable interest rate. The Bank applies hedge accounting from 19 May 2014. As at 30 June 2014 there were four hedging relationships desiganated. According to the above, the Bank separated instruments hedging the risk of changes in interest rate. Result from valuation of the hedged item and hedging instruments is presented in these condensed interim financial statements in item 'Net income from other trading operations and hedge accounting' in Note 8.

16. Loans and advances to customers

	30.06.2014 unaudited	31.12.2013	30.06.2013 unaudited
Loans and advances to corporate customers (gross)	**3 811 867**	**3 799 524**	**3 763 354**
Loans and advances to public customers (gross)	**189 481**	**225 302**	**281 128**
Loans and advances to individual customers (gross)	**195 231**	**95 754**	**96 024**
Other receivables	**2 209**	**8**	**52**
Loans and advances to customers (gross)	**4 198 788**	**4 120 588**	**4 140 558**
Impairment write-downs on loan and advances to customers (negative amount)	(79 586)	(75 588)	(58 942)
Loans and advances to customers (net)	**4 119 202**	**4 045 000**	**4 081 616**
Short-term (up to 1 year)	370 967	406 311	374 497
Long-term (over 1 year)	3 748 235	3 638 689	3 707 119

ended 30 June 2014 (in PLN '000)

Movements in impairment write-downs on loans and advances

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

	Impairment write-downs as at 01.01.2013	Write-downs created	Reversal of write-downs	Loans written-off	Impairment write-downs as at 31.12.2013
Corporate customers	(44 936)	(44 341)	10 225	5 524	(73 528)
Public sector customers	(97)	(13)	43	-	(67)
Individual customers	(1 213)	(1 620)	840	-	(1 993)
Total movements in impairment write-downs on loans and advances	(46 246)	(45 974)	11 108	5 524	(75 588)

	Impairment write-downs as at 01.01.2013	Write-downs created	Reversal of write-downs	Loans written-off	Impairment write-downs as at 30.06.2013 unaudited
Corporate customers	(44 936)	(16 551)	3 848	-	(57 639)
Public sector customers	(97)	(4)	17	-	(84)
Individual customers	(1 213)	(302)	296	-	(1 219)
Total movements in impairment write-downs on loans and advances	(46 246)	(16 857)	4 161	-	(58 942)

17. Investment securities

	30.06.2014 unaudited	31.12.2013	30.06.2013 unaudited
Debt securities	**523 140**	**605 824**	**546 288**
Treasury bonds issued by government, including:	108 226	90 396	78 231
- pledged treasury bonds (BFG)	2 165	-	-
Bills issued by Central Bank, including:	414 914	515 428	468 057
- pledged Central Bank's bills (BFG)	-	1 500	1 200
Total investment securities	**523 140**	**605 824**	**546 288**
Short-term (up to 1 year)	440 793	557 433	509 407
Long-term (over 1 year)	82 347	48 391	36 881

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

As at 30 June 2013, treasury bonds with a total nominal value of PLN 55,000 thousand were registered in the covered bonds collateral register as additional collateral for mortgage covered bonds issued. As at 31 December 2013 and 30 June 2014, debt securities did not constitute the additional collateral for covered bonds issued.

Pledged assets are not subject to resale or further pledging.

ended 30 June 2014 (in PLN '000)

18.Other assets

	30.06.2014 unaudited	31.12.2013	30.06.2013 unaudited
Other, including:	**12 785**	**62 615**	**89 958**
- inventories	8 192	8 192	87 719
- receivables from the purchase and sale of inventories	1 734	52 761	-
- other prepayments	1 295	725	1 638
- income receivable	1 122	313	270
- other	442	624	331
Total other assets	**12 785**	**62 615**	**89 958**

In item 'Receivables from the purchase and sale of inventories item', are presented as at:

- 30 June 2014 amount due resulting from incorrectly applied VAT by the counterparty on invoices documenting delivery of the property to the Bank. The Bank applied to counterparty for corrections of VAT invoices.
- 31 December 2013 amount from the sale in 2013 of three properties taken over by the Bank in 2011 and 2012 based on the agreements concluded with BDH Development Sp. z o. o.

19.Amounts due to customers

	30.06.2014 unaudited	31.12.2013	30.06.2013 unaudited
Corporate customers:	**255 012**	**294 978**	**204 910**
Cash in current accounts	194 577	226 551	139 538
Term deposits	57 012	64 633	62 113
Other liabilities (in respect of):	3 423	3 794	3 259
- cash collateral	904	2 169	2 190
- other	2 519	1 625	1 069
Public sector customers:	**-**	**15**	**6**
Other liabilities (in respect of):	-	15	6
- other	-	15	6
Individual customers:	**257**	**174**	**176**
Other liabilities (in respect of):	257	174	176
- cash collateral	65	65	65
- other	192	109	111
Total amounts due to customers	**255 269**	**295 167**	**205 092**
Short-term (up to 1 year)	254 299	292 933	202 837
Long-term (over 1 year)	970	2 234	2 255

20.Liabilities from debt securities

As at 30 June 2014, mortgage covered bonds and public covered bonds issued are assigned 'A' level by the Fitch Ratings in London.

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

- the Bank's funds invested in securities issued or guaranteed by the National Bank of Poland (NBP), the European Central Bank, governments or central banks of the Member

States of the European Union, the Organization for Economic Co-operation and Development (OECD), except for countries which restructure or have restructured their foreign debt over the past 5 years, as well as the State Treasury,
- the Bank's funds deposited with the National Bank of Poland (NBP),
- the Bank's funds held in cash.

Total nominal value of mortgage covered bonds issued as at:

- 30 June 2014 amounted to PLN 2,164,606 thousand,
- 31 December 2013 amounted to PLN 1,978,248 thousand,
- 30 June 2013 amounted to PLN 1,848,292 thousand.

Total nominal value of public covered bonds issued as at:

- 30 June 2014 amounted to PLN 350,000 thousand,
- 31 December 2013 amounted to PLN 350,000 thousand,
- 30 June 2013 amounted to PLN 450,000 thousand.

The carrying amount of covered bonds issued as at 30 June 2014, 31 December 2013 and 30 June 2013 is presented in the tables below.

The capital value of receivables registered in the register of covered bonds collateral that constitute the collateral for the issue of mortgage covered bonds as at:

- 30 June 2014 amounted to PLN 2,765,397 thousand,
- 31 December 2013 amounted to PLN 2,404,717 thousand,
- 30 June 2013 amounted to PLN 2,447,336 thousand.

In addition, the basis for the issue of mortgage covered bonds as at 30 June 2013 were the treasury bonds with a nominal value of PLN 55,000 thousand. While as at 31 December 2013 and 30 June 2014 there was no additional collateral regarding the issue of covered bonds.

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

- 30 June 2014 amounted to PLN 2,298,516 thousand,
- 31 December 2013 amounted to PLN 2,019,926 thousand,
- 30 June 2013 amounted to PLN 2,009,133 thousand.

As at 30 June 2014, 31 December 2013 and 30 June 2013, the collateral for mortgage covered bonds were loan receivables secured by mortgages on the right of perpetual usufruct or ownership of real estate entered in the first place of land register.

The capital value of receivables registered in the register of covered bonds collateral that constitutes the collateral for the issue of public covered bonds as at:

- 30 June 2014 amounted to PLN 441,027 thousand,
- 31 December 2013 amounted to PLN 480,604 thousand,
- 30 June 2013 amounted to PLN 521,155 thousand.

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

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

- 30 June 2014 amounted to PLN 2,164,606 thousand,
- 31 December 2013 amounted to PLN 1,978,248 thousand,

ended 30 June 2014 (in PLN '000)

- 30 June 2013 amounted to PLN 1,848,292 thousand.

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

- 30 June 2014 amounted to PLN 350,000 thousand,
- 31 December 2013 amounted to PLN 350,000 thousand,
- 30 June 2013 amounted to PLN 450,000 thousand.

Debt securities issued as at 30 June 2014 (unaudited)

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

ended 30 June 2014 (in PLN ‘000)

Debt securities issued as at 31 December 2013

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2013	Guarantee/collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Covered bonds (PLN)	25 000	4,05%	Mortgage bonds register	2014-04-28	25 174
Covered bonds (PLN)	200 000	4,11%	Mortgage bonds register	2014-07-28	203 435
Covered bonds (PLN)	100 000	4,07%	Mortgage bonds register	2015-09-28	100 921
Covered bonds (PLN)	100 000	3,94%	Mortgage bonds register	2014-11-28	100 307
Covered bonds (PLN)	100 000	3,88%	Mortgage bonds publicly registered	2015-11-30	100 238
Covered bonds (PLN)	200 000	3,85%	Mortgage bonds register	2016-04-20	201 194
Covered bonds (PLN)	100 000	3,70%	Mortgage bonds register	2015-05-15	100 366
Covered bonds (PLN)	200 000	3,68%	Mortgage bonds register	2017-06-16	199 855
Covered bonds (PLN)	100 000	3,59%	Mortgage bonds register	2015-07-07	101 613
Covered bonds (PLN)	200 000	4,00%	Mortgage bonds register	2017-04-20	201 127
Covered bonds (PLN)	200 000	4,39%	Mortgage bonds register	2018-06-15	199 796
Covered bonds (EUR)	10 000	2,24%	Mortgage bonds register	2017-10-19	41 580
Covered bonds (PLN)	100 000	4,40%	Mortgage bonds register	2016-11-15	100 391
Covered bonds (PLN)	100 000	4,01%	Mortgage bonds publicly registered	2015-07-28	101 576
Covered bonds (PLN)	150 000	4,50%	Mortgage bonds publicly registered	2016-09-28	151 421
Covered bonds (PLN)	80 000	3,70%	Mortgage bonds register	2019-06-21	79 973
Covered bonds (EUR)	30 000	2,75%	Mortgage bonds register	2020-07-28	123 533
Covered bonds (EUR)	50 000	1,35%	Mortgage bonds register	2018-10-22	207 085
Bonds (PLN)	30 000	3,60%	no collateral	2014-03-17	30 044
Bonds (PLN)	50 000	3,90%	no collateral	2015-03-16	50 054
Bonds (PLN)	30 000	3,63%	no collateral	2014-04-15	30 228
Bonds (PLN)	50 000	3,60%	no collateral	2014-10-06	50 417
Bonds (PLN)	20 000	3,57%	no collateral	2014-10-22	20 133
Short-term issues (with original maturity of up to 1 year)					
Bonds (PLN)	50 000	3,78%	no collateral	2014-01-07	50 445
Bonds (PLN)	30 000	3,73%	no collateral	2014-01-15	30 238
Bonds (PLN)	15 000	3,58%	no collateral	2014-07-15	15 111
Bonds (PLN)	35 000	3,51%	no collateral	2014-10-27	35 204
Bonds (PLN)	10 000	3,20%	no collateral	2014-02-28	9 948
Debt securities in issue (carrying value)					**2 661 407**

ended 30 June 2014 (in PLN '000)

Debt securities issued as at 30 June 2013 (unaudited)

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2013	Guarantee/collateral	Redemption date	Amount of liability
Long-term issues (with original maturity of over 1 year)					
Covered bonds (PLN)	100 000	3,90%	Mortgage bonds publicly registered	20.09.2013	101 089
Covered bonds (PLN)	200 000	4,31%	Mortgage bonds register	21.10.2013	201 581
Covered bonds (PLN)	25 000	4,45%	Mortgage bonds register	28.04.2014	25 178
Covered bonds (PLN)	200 000	5,36%	Mortgage bonds register	28.07.2014	204 377
Covered bonds (PLN)	100 000	3,93%	Mortgage bonds register	28.11.2014	100 275
Covered bonds (PLN)	100 000	3,86%	Mortgage bonds register	15.05.2015	100 349
Covered bonds (PLN)	100 000	4,92%	Mortgage bonds register	07.07.2015	102 202
Covered bonds (PLN)	100 000	5,26%	Mortgage bonds publicly registered	28.07.2015	102 037
Covered bonds (PLN)	100 000	4,76%	Mortgage bonds register	28.09.2015	101 091
Covered bonds (PLN)	100 000	3,87%	Mortgage bonds publicly registered	30.11.2015	100 207
Covered bonds (PLN)	200 000	4,44%	Mortgage bonds register	20.04.2016	201 310
Covered bonds (PLN)	150 000	5,19%	Mortgage bonds publicly registered	28.09.2016	151 675
Covered bonds (PLN)	100 000	4,56%	Mortgage bonds register	15.11.2016	100 383
Covered bonds (PLN)	200 000	4,59%	Mortgage bonds register	20.04.2017	201 244
Covered bonds (PLN)	200 000	3,68%	Mortgage bonds register	16.06.2017	199 752
Covered bonds (PLN)	200 000	4,39%	Mortgage bonds register	15.06.2018	199 689
Covered bonds (PLN)	80 000	3,69%	Mortgage bonds register	21.06.2019	79 954
Covered bonds (EUR)	10 000	2,23%	Mortgage bonds register	19.10.2017	43 393
Bonds (PLN)	10 000	3,89%	no collateral	26.08.2013	10 040
Bonds (PLN)	50 000	4,24%	no collateral	28.10.2013	50 357
Bonds (PLN)	30 000	3,71%	no collateral	17.03.2014	30 032
Bonds (PLN)	30 000	4,33%	no collateral	15.04.2014	30 298
Bonds (PLN)	50 000	4,01%	no collateral	16.03.2015	50 034
Short-term issues (with original maturity of up to 1 year)					
Bonds (PLN)	30 000	4,40%	no collateral	15.07.2013	30 278
Bonds (PLN)	50 000	4,48%	no collateral	04.10.2013	50 527
Bonds (PLN)	20 000	4,30%	no collateral	21.10.2013	20 174
Bonds (PLN)	30 000	4,00%	no collateral	15.11.2013	30 148
Bonds (PLN)	20 000	3,86%	no collateral	28.11.2013	20 067
Bonds (PLN)	20 000	3,54%	no collateral	09.12.2013	20 040
Bonds (PLN)	50 000	4,47%	no collateral	07.01.2014	50 501
Bonds (PLN)	30 000	4,40%	no collateral	15.01.2014	30 270
Debt securities in issue (carrying value)					**2 738 552**

ended 30 June 2014 (in PLN '000)

Movements in the balance of debt securities issued

	Period from 01.01.2014 to 30.06.2014 unaudited	Period from 01.01.2013 to 31.12.2013	Period from 01.01.2013 to 30.06.2013 unaudited
As at the beginning of the period	**2 661 407**	**2 852 445**	**2 852 445**
Increase (due to)	413 304	903 726	385 219
- issue	360 652	776 826	310 000
- accrued interest	50 917	126 900	72 809
- currency translation differences	1 735	-	2 410
Decrease (due to)	(256 935)	(1 094 764)	(499 112)
- redemption	(205 000)	(950 000)	(420 000)
- interest repayment	(50 906)	(140 304)	(79 112)
- currency translation differences	(1 029)	(4 460)	-
As at the end of the period	**2 817 776**	**2 661 407**	**2 738 552**
Short-term (up to 1 year)	623 170	608 159	715 260
Long-term (over 1 year)	2 194 606	2 053 248	2 023 292
Fixed interest rate debt securities issued	342 411	133 481	-
Floating interest rate debt securities issued	2 475 365	2 527 926	2 738 552

Selected explanatory data

1. Compliance with the International Financial Reporting Standards

The presented condensed interim financial statements for the first half of 2014 as well as the comparative data as at 30 June 2013 meet the requirements of the International Accounting Standard (IAS) 34 Interim Financial Reporting relating to interim financial statements.

2. Uniformity of accounting principles and estimation methods used during the preparation of the interim financial statements and the most recent annual financial statements

Detailed description of the Bank's accounting principles is contained in Notes 2, 3 and 4 to the condensed interim financial statements for the first half of 2014. Accounting policies adopted by the Bank are applied consistently to all periods presented in the financial statements, including the transformations described in Note 2.25.

3. Seasonality or periodicity of operations

In the first half of 2014 as well as in the presented comparative periods, the Bank's activities were not significantly influenced by seasonal or periodical factors.

4. Type and amounts of items affecting the assets, liabilities, equity, net financial result or cash flows that are unusual due to their nature, size or degree of influence

In the first half of 2014 as well as in the presented comparative periods, the above events did not occur in the Bank.

5. Type and amounts of changes in the estimated amounts reported in the previous interim periods of the current financial year or changes in the estimated amounts reported in the previous financial years, if they significantly affect the current interim period

In the first half of 2014 as well as in the presented comparative periods, no significant changes occurred in the estimated amounts reported in the previous financial periods, except for changes arising from regular credit reviews carried out by the Bank.

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

The data on the issue, redemption of debt securities are presented in Note 20 of the Condensed Interim Financial Statements.

7. Paid out (or declared) dividends in total or per share, divided into ordinary shares and other shares

The Bank does not plan to pay out dividends for 2014 and did not pay out dividends for 2013.

8. Significant events after the end of the first half of 2014, which were not reflected in the condensed interim financial statements

On 28 July 2014, the Bank issued mortgage covered bonds with a total nominal value of PLN 300,000 thousand with the maturity date on 28 July 2022 and a variable interest rate coupon.

On 4 August 2014, the Bank issued mortgage covered bonds with a total nominal value of PLN 200,000 thousand with the maturity date on 20 February 2023 and a variable interest rate coupon.

On 3 July 2014, Mariusz Tokarski was appointed a member of the Supervisory Board of mBank Hipoteczny S.A.

9. Effects of changes in the entity's structure in the first half of 2014, including business combinations, acquisitions or disposal of subsidiaries long-term investments, restructuring and discontinuationof business activities

In the first half of 2014 events as indicated above did not occur in the Bank.

10. Changes in contingent liabilities and commitments

In the first half of 2014 as well as in the presented comparative periods, no significant changes occurred in relation to off balance sheet liabilities of a loan nature, i.e. guarantees, letters of credit or unused loan amounts, not resulting from the Bank's ongoing operations.

11. Write-downs on inventories to the net realizable value and the reversal of such write-downs

In the first half of 2014 the Bank did not change the level of impairment write-downs on inventory. In the first half of 2013 the Bank verified the valuation of repossessed real estate and created an inventory impairment write-down in the amount of PLN 129 thousand.

12. Creating revaluation write-downs in relation to the impairment of tangible fixed assets, intangible assets or other assets, as well as reversal of such write-downs

In the first half of 2014 as well as in the presented comparative periods, the above events did not occur in the Bank.

13. Creating revaluation write-downs in relation to the impairment of financial assets

Data regarding write-downs related to the impairment of financial assets is presented in Note 10 of these condensed interim financial statements.

14. Reversal of provisions for restructuring costs

In the first half of 2014 as well as in the presented comparative periods, the above events did not occur in the Bank.

15. Acquisitions and disposals of tangible fixed items

In the first half of 2014 as well as in the presented comparative periods, no significant acquisitions or disposals occurred in relation to tangible fixed assets.

16. Significant obligations on behalf of the purchase of tangible fixed assets

In the first half of 2014 as well as in the presented comparative periods, none of the above events occurred in the Bank.

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

In the first half of 2014, events as indicated above did not occur in the Bank.

18. Changes in the classification of financial assets due to the change of their purpose or use

In the first half of 2014, the Bank implemented fair value hedge accounting of issued mortgage bonds with a fixed interest rate. As hedging instrument the Bank designated the Interest Rate Swap changing fixed interest rate into a variable interest rate. As at 30 June 2014 there were four hedging relationships designated.

19. Corrections of errors from the previous periods

In the first half of 2014 as well as in the presented comparative periods, no adjustments of errors from the previous periods occurred.

20. Failure to repay or breach of a loan agreement and failure to undertake corrective actions

In the first half of 2014 as well as in the presented comparative periods, none of the above events occurred in the Bank.

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

mBank Hipoteczny S.A. did not publish a performance forecast for the year 2014.

22. Registered share capital

Total number of ordinary shares as at 30 June 2014 as well as in the comparative periods as at 31 December 2013 and 30 June 2013 amounted to 2,750 thousand with a nominal value of PLN 100 per share. All issued shares have been fully paid up.

23. Statement of changes in the ownership of the Bank's shares as well as rights to these shares (options) owned by managing and supervising persons

As at the date of submission of condensed interim financial statements for the first half of 2014 and as at the end of the previous periods presented in the financial statements, Members of the Management Board do not and did not possess options for the Bank's shares.

In the first half of 2014 as well as in the presented comparative periods, Members of the Bank's Supervisory Board did not possess the Bank's shares or options for the Bank's shares.

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

In the first half of 2014 as well as in the presented comparative periods, the Bank did not conduct any proceedings before a court, an appropriate arbitration authority or public administration authority which which represent at least 10% of the Bank's equity.

As at 30 June 2014, proceedings were pending before the District Court in Poznań concerning an action brought by the Bank against a limited debtor who acquired a mortgaged property from the Bank. The value of the matter at issue is PLN 11,692 thousand.

The Bank acts as the assignee under an agreement for assignment of receivables in respect of an insurance policy. The assignment was made to secure a loan granted by the Bank to a borrower. The borrower had suffered a loss due to a property fire. The Insurer paid compensation which did not cover the loss. The Bank, as an authorised entity under the policy, applied for compensation, at first by submitting a request for payment, and subsequently, on 4 February 2014, by filing a lawsuit at the District Court in Warsaw, 20th Commercial Division, against the Insurer for the payment of compensation in the amount of PLN 18,494 thousand. On 10 June 2014 the Bank filed a lawsuit for extending the amount claimed by PLN 1,342 thousand by way of capitalised interest together with statutory interest due as from the date of filing the lawsuit until the date of payment. After the lawsuit was filed the Insurer has voluntarily satisfied a part of the Bank's claim by paying to the Bank the net amount of PLN 6,523 thousand. On 24 February 2014 the Court issued a payment order instructing the Insurer to pay to the Bank the amount of PLN 18,494 thousand with the statutory interest. As at 30 June 2014 the date of the first hearing was not appointed.

25. Related party transactions

MLV 45 sp. z o. o. spółka komandytowa (formerly: BRE Holding Sp. z o. o.) is the direct parent entity of mBank Hipoteczny S.A. mBank S.A. is the parent entity of MLV 45 sp. z o. o. spółka komandytowa. mBank S.A. is the parent entity of the mBank Group. Commerzbank AG is the ultimate parent of the Group as well as the direct parent of mBank S.A. Until 28 November 2013, the direct subsidiary of mBank Hipoteczny S.A. was BDH Development Sp. z o. o. (previous company name: Bankowy Dom Hipoteczny Sp. z o. o.).

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

Value of the transaction, i.e. balances of receivables and liabilities as at 30 June 2014 31 December 2013 and 30 June 2013 and the related costs and income in periods 1 January - 30 June 2014, 1 January – 31 December 2013 and 1 January – 30 June 2013, are summarised below.

(PLN '000)	Spółki Grupy mBanku*			BDH Development Sp. z o.o.			mBank S.A.			Commerzbank AG		
As at the end of the period	**30.06.2014** unaudited	**31.12.2013**	**30.06.2013** unaudited	**30.06.2014** unaudited	**31.12.2013**	**30.06.2013** unaudited	**30.06.2014** unaudited	**31.12.2013**	**30.06.2013** unaudited	**30.06.2014** unaudited	**31.12.2013**	**30.06.2013** unaudited
Statement of financial position												
Assets	-	-	-	-	52 761	-	23 075	35 286	15 183	-	-	-
Liabilities	-	-	-	-	53 576	729	1 069 399	1 273 979	1 282 920	-	-	23 701
Income statement												
Interest income	-	-	-	-	-	-	8 979	13 938	5 348		12 333	9 671
Interest expense	-	-	-	-	-	-	(10 163)	(21 363)	(11 540)	-	-	-
Commission income	1 391	-	-	-	-	-	-	-	-	-	-	-
Commission expense	(19)	(43)	(19)	-	-	-	(380)	(2)	-	-	-	-
Net trading income	-	-	-	-	-	-	4 304	7 357	(15 225)	-	(1 700)	(28 078)
Other operating income	-	-	-	-	5 658	-	98	150	73	-	-	-
Other operating expenses	(5)	(44)	(20)	-	(2 918)	-	-	-	-	-	-	-
Overhead costs	(486)	(715)	(216)	-	-	-	(1 492)	(114)	(65)	-	-	-
Contingent liabilities												
Liabilities received	-	-	-	-	-	-	169 034	169 033	220 128	-	-	-
Derivatives (purchase, sales)							-					
IRS contracts	-	-	-	-	-	-	1 632 318	663 552	1 143 044	-	-	17 317
FX SWAP contracts	-	-	-	-	-	-	1 307 382	1 325 005	820 625	-	-	1 134 640

The item "mBank Group subsidiaries" includes transactions with the following mBank Group subsidiaries: Aspiro S.A., mCentrum Operacji Sp. z o. o., mCorporate Finance S.A., mLeasing Sp. z o. o., mLocum S.A., Dom Maklerski mBanku S.A., BRE Ubezpieczenia Sp. z o. o.

Remuneration of Members of the Management Board and the Supervisory Board

Gross remuneration of Members of the Management Board of mBank Hipoteczny S.A. for the first half of 2014 amounted to PLN 1,085 thousand (remuneration for the first half of 2013 amounted to PLN 1,023 thousand).

In the first half of 2014 years, only one Member of the Management Board of mBank Hipoteczny S.A. received the award for 2013 year in the amount of PLN 90 thousand.

Total bonus for Members of the Management Board for 2012 paid out in the first half of 2013 year amounted to PLN 135 thousand (cash settlement of the incentive programme based on phantom shares).

In the first half of 2013, due to the completion of the term of office by one of the Members of the Management Board, severance pay was executed in the amount of PLN 1,296 thousand.

Gross remuneration of Members of the Supervisory Board of mBank Hipoteczny S.A. for the first half of 2014 totalled PLN 9 thousand (only one Member of the Supervisory Board received remuneration), while remuneration for the first half of 2013 amounted to PLN 18 thousand (only one Member of the Supervisory Board received remuneration).

26. Granted loan sureties, loans or guaranties amounting to over 10% of equity

In the first half of 2014 as well as in the presented comparative periods, the above events did not occur in the Bank.

27. Other information considered by the Issuer as important in the assessment of the Issuer's personnel, asset and financial standing, financial result and changes to such items, as well as information relevant for the assessment of the Issuer's ability to fulfil its obligations

- Implementation of the hedge accounting

In the first half of 2014, the Bank implemented fair value hedge accounting of issued mortgage bonds with a fixed interest rate. As hedging instrument the Bank designated the Interest Rate Swap changing fixed interest rate into a variable interest rate. The Bank applies hedge accounting from 19 May 2014. As at 30 June 2014 there were four hedging relationships desiganated.

The intention of the Bank is to reduce interest rate risk in the application of the hedging, which arises as a result of the mortgage bonds issued at a fixed rate.

- Appointment of the Supervisory Board for a new term

On 11 April 2014, the Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A. elected the Supervisory Board of mBank Hipoteczny S.A. on the ninth term, in the following members:

1. Cezary Kocik – Chairman of the Supervisory Board
2. Hans-Dieter Kemler – Deputy Chairman of the Supervisory Board
3. Lidia Jabłonowska-Luba – Member of the Supervisory Board
4. Joerg Hessenmueller – Member of the Supervisory Board
5. Michał Popiołek – Member of the Supervisory Board
6. Dariusz Solski – Member of the Supervisory Board

The Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A. decided that the Members of the Supervisory Board of the ninth term will not receive remuneration.

On 3 July 2014 Mariusz Tokarski was appointed a member of the Supervisory Board of mBank Hipoteczny S.A.

- The Committees operate as a part of the Supervisory Board

The Supervisory Board has two Committees: the Audit Committee and Risk Committees.

As at 30 June 2014, the composition of the Audit Committee was as follows:

1. Joerg Hessenmueller – Chairman of the Committee
2. Dariusz Solski – Member of the Committee

On 2 July 2014 and 16 July 2014, respectively, Hans-Dieter Kemler and Mariusz Tokarski were appointed to the Audit Committee.

On 2 July 2014, a new composition of the Risk Committee was appointed:

1. Lidia Jabłonowska-Luba – Chairwoman of the Committee
2. Michał Popiołek – Member of the Committee
3. Hans-Dieter Kemler – Member of the Committee
4. Joerg Hessenmueller – Member of the Committee