



(a joint-stock company with its registered office in Warsaw, address: Al. Armii Ludowej 26, 00-609 Warsaw, registered in the Register of Entrepreneurs of the National Court Register under entry No. KRS 000003753)

## Supplement 2

approved by the Polish Financial Supervision Authority on 12th October 2016

to the Base Prospectus of mBank Hipoteczny S.A.

approved by the Polish Financial Supervision Authority

on 26th August 2016

(the “Prospectus”)

This supplement 2 (“Supplement 2”) to the Base Prospectus of mBank Hipoteczny S.A. has been prepared in connection with the entry into force, on 9th October 2016, of the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Mandatory Restructuring, dated 10th June 2016 (Dz. U. of 8th July 2016) (“BGF Act”). The above Act amends the Covered Bonds Act by excluding activities which consist in (1) accepting time deposits, and (2) operating bank accounts dedicated to investment projects implemented with the support of loans advanced by the mortgage bank, from the scope of permitted activities of mortgage banks. Moreover, the BGF Act introduces provisions concerning cancellation of liabilities for the purpose of coverage of losses and conversion of liabilities into equity instruments.

This Supplement 2 must be read in conjunction with the Prospectus.

All terms which are capitalized in this document are defined in the Prospectus in the “*Definitions and Abbreviations*” Chapter.

The Prospectus shall be supplemented as follows:

### **Amendment 1: page 15, Chapter I, Element D.3**

*The following shall be added after the existing text:*

- risk associated with a decision on mandatory restructuring of the Issuer and, as a consequence, application of one of the mandatory restructuring measures, such as cancellation or conversion of the liabilities under Covered Bonds to the extent they are in excess of the value of available security.

### **Amendment 2: page 21, Chapter II, Section 1.1.3 a)**

*After the sentence: “The Issuer satisfies its current financial needs on the interbank market and by issuing short-term bonds, accepting deposits from customers and from current accounts services.”, the following new sentence shall be added:*

Following the entry into force of the BGF Act, the Bank may no longer accept deposits from customers or operate current accounts for customers.

**Amendment 3: page 34, Chapter II, Section 2.2**

*After Section 2.2.7 (Risk of exclusion of Covered Bonds from trading on the regulated market), a new Section 2.2.8 shall be added, reading as follows:*

**2.2.8 Risk associated with mandatory restructuring of the Issuer**

The BGF Act confers on the Bank Guarantee Fund powers enabling the BGF to carry out mandatory restructurings of banks, including mortgage banks. The Bank Guarantee Fund may make a decision to initiate a mandatory restructuring procedure in respect of a bank exclusively if all of the following conditions are met:

- 1) the bank is at risk of bankruptcy,
- 2) there is nothing to support the belief that potential supervisory measures or action taken by the domestic entity would eliminate the risk of bankruptcy in due time, and
- 3) action must be taken in respect of the domestic entity in the public interest.

If the Bank Guarantee Fund decides to open mandatory restructuring of the Issuer, the Bank Guarantee Fund shall be authorised to use with respect to the Issuer the mandatory restructuring measures defined in the BGF Act, including cancellation or conversion of the Issuer's liabilities.

With respect to the Issuer's liabilities under Covered Bonds, it needs to be noted that in accordance with Art. 206 of the BGF Act, liabilities under covered bonds of an entity which is undergoing a restructuring process may be cancelled or converted exclusively to the extent such liabilities exceed the value of available security. Such liabilities may potentially be converted or cancelled in the order defined in the BGF Act, i.e. subsequently to the cancellation or conversion of equity instruments and other subordinated liabilities of the entity undergoing the restructuring process.

In addition, pursuant to Art. 148 of the BGF Act, the Bank Guarantee Fund may request the company operating a regulated market or the investment firm organising an alternative trading system that:

- 1) financial instruments of the entity undergoing the restructuring process be excluded from organised trading, in particular if the restructuring measure consisting in cancellation or conversion of the entity's liabilities is applied; or
- 2) trading in financial instruments of the entity undergoing restructuring be suspended for a period of up to one month.

The Issuer believes the probability of materialization of such risks to be low.

**Amendment 4: page 53, Chapter VII, Section 1.3.1**

*After the paragraph which commences: "In the case of housing development projects which started selling apartments from 29th April 2012 the bank also runs a closed housing trust account" the following new paragraph shall be added:*

Following the entry into force of the BGF Act, customer services with respect to operation of escrow accounts and closed housing trust accounts have been transferred to mBank, and shall be rendered by way of jointly offering to customers those mBank S.A.'s products which meet pre-defined functionality criteria.

**Amendment 5: page 55, Chapter VII, Section 1.4**

*After the paragraph commencing: "The interest rate is determined on the basis of reference rates", the following new paragraph shall be added:*

Following the entry into force of the BGF Act, the Bank no longer offers time deposits.

**Amendment 6: page 143, Chapter XXI**

*After the definition of “USD”, the following new definition shall be added:*

**BGF Act** means the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Mandatory Restructuring, dated 10th June 2016 (Dz. U. of 2016, item 996).