

mBank Hipoteczny S.A.

IFRS Condensed Financial Statements
for the first half of 2019

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

Selected financial data

The following selected financial data constitute supplementary information to the condensed financial statements of mBank Hipoteczny S.A. for the first half of 2019.

Selected financial data		in PLN `000		in EUR `000	
		Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 restated	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 restated
I.	Interest income	223 683	210 781	52 165	49 718
II.	Fee and commission income	1 396	1 595	326	376
III.	Net trading income	3 631	(1 006)	847	(237)
IV.	Operating profit	42 967	37 343	10 020	8 808
V.	Profit before income tax	26 833	23 768	6 258	5 606
VI.	Net profit attributable to Owners of mBank Hipoteczny S.A.	17 206	16 622	4 013	3 921
VII.	Net cash flows from operating activities	(246 497)	18 452	(57 485)	4 352
VIII.	Net cash flows from investing activities	(10 421)	(10 227)	(2 430)	(2 412)
IX.	Net cash flows from financing activities	319 602	70 729	74 534	16 683
X.	Net increase/decrease in cash and cash equivalents	62 684	78 954	14 618	18 623
XI.	Basic earnings per share / Diluted earnings per share (in PLN/EUR)	5.22	5.18	1.22	1.22

Selected financial data		in PLN `000			in EUR `000		
		As at			As at		
		30.06.2019	31.12.2018	30.06.2018	30.06.2019	31.12.2018	30.06.2018
I.	Total assets	13 602 817	12 385 908	12 704 967	3 199 157	2 880 444	2 912 914
II.	Amounts due to other banks	4 108 815	3 179 878	3 353 225	966 325	739 507	768 806
III.	Amounts due to customers	6 583	3 099	3 270	1 548	721	750
IV.	Equity attributable to Owners of mBank Hipoteczny S.A.	1 250 814	1 085 947	1 060 471	294 171	252 546	243 138
V.	Share capital	336 000	321 000	321 000	79 022	74 651	73 597
VI.	Number of shares	3 360 000	3 210 000	3 210 000	3 360 000	3 210 000	3 210 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	372.27	338.30	330.36	87.55	78.67	75.74
VIII.	Total capital ratio (%)	17.43	16.25	15.22	17.43	16.25	15.22

The following exchange rates were used in translating selected financial data into euro:

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 28 June 2019: EUR 1 = PLN 4.2520, 31 December 2018: EUR 1 = PLN 4.30 and 29 June 2018: EUR 1 = PLN 4.3616
- for items of the income statement and items of statement of cash flows – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of the first half of 2019 and 2018: EUR 1 = PLN 4.2880 and EUR 1 = PLN 4.2395 respectively.

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Condensed income statement

Total profit of mBank Hipoteczny S.A. for the first half of 2019 and the first half of 2018 relates to the result of continued operations.

	Note	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 restated
Interest income, including:		223 683	210 781
<i>Interest income accounted for using the effective interest method</i>		203 913	190 590
<i>Income similar to interest on financial assets at fair value through profit or loss</i>		19 770	20 191
Interest expense		(131 942)	(125 962)
Net interest income	5	91 741	84 819
Fee and commission income		1 396	1 595
Fee and commission expenses		(4 821)	(2 595)
Net fee and commission income	6	(3 425)	(1 000)
Net trading income, including:	7	3 631	(1 006)
<i>Foreign exchange result</i>		(110)	883
<i>Gains or losses on financial assets and liabilities held for trading</i>		28	611
<i>Gains or losses from hedge accounting</i>		3 713	(2 500)
Result from non-substantial modification	8	(2 265)	(2 270)
Result from derecognition of financial instruments not measured at fair value through profit or loss	9	217	1 058
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	564	(1 961)
Other operating income	11	918	604
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(8 341)	(8 564)
Overhead costs	12	(36 194)	(31 605)
Depreciation		(3 395)	(1 726)
Other operating expenses	13	(484)	(1 006)
Operating result		42 967	37 343
Taxes on the Bank balance sheet items		(16 134)	(13 575)
Profit before income tax		26 833	23 768
Income tax	27	(9 627)	(7 146)
Net profit		17 206	16 622
Net profit attributable to shareholders of the mBank Hipoteczny S.A.		17 206	16 622
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	15	3 295 359	3 210 000
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	15	5.22	5.18

Explanatory notes and selected explanatory data presented on pages 10 to 47 constitute an integral part of these condensed financial statements.

Condensed statement of comprehensive income

	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018
Net profit	17 206	16 622
Other comprehensive income net of tax, including:	(2 251)	819
Items that may be reclassified to the income statement		
Change in the valuation of debt financial instruments at fair value through other comprehensive income (gross)	(2 779)	1 011
Deferred tax on debt financial instruments measured at fair value through other comprehensive income	528	(192)
Debt instruments at fair value through other comprehensive income (net)	(2 251)	819
Items that will not be reclassified to the income statement		
Actuarial gains and losses on post-employment benefits (gross)	-	-
Deferred tax on actuarial gains and losses on post-employment benefits	-	-
Actuarial gains and losses on post-employment benefits (net)	-	-
Total comprehensive income net of tax	14 955	17 441
Net total comprehensive income attributable to shareholders of the Bank	14 955	17 441

Explanatory notes and selected explanatory data presented on pages 10 to 47 constitute an integral part of these condensed financial statements

Condensed statement of financial position

ASSETS	Note	30.06.2019	31.12.2018
Cash and balances with the Central Bank		744	16 294
Financial assets held for trading and derivatives held for hedges	16	45 765	36 658
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	179 477	208 181
<i>Loans and advances to customers</i>	17	179 477	208 181
Financial assets at fair value through other comprehensive income	18	1 173 542	1 069 392
Financial assets at amortised cost, including:	19	12 121 165	10 988 966
<i>Loans and advances to banks</i>		18 753	58 432
<i>Loans and advances to customers</i>		12 102 412	10 930 534
Intangible assets	20	42 907	40 021
Tangible assets	21	15 824	8 678
Deferred income tax assets	27	14 235	12 586
Other assets	22	9 158	5 132
TOTAL ASSETS		13 602 817	12 385 908
LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	16	77	2 032
Financial liabilities measured at amortised cost, including:		12 311 910	11 253 826
<i>Amounts due to banks</i>	23	4 108 815	3 179 878
<i>Amounts due to customers</i>	23	6 583	3 099
<i>Debt securities issued</i>	24	7 996 133	7 870 443
<i>Subordinated liabilities</i>		200 379	200 406
Provisions	26	1 978	2 557
Current income tax liabilities		6 267	12 704
Other liabilities	25	31 771	28 842
TOTAL LIABILITIES		12 352 003	11 299 961
Equity			
Share capital:		884 631	734 719
Registered share capital		336 000	321 000
Share premium		548 631	413 719
Retained earnings:		362 954	345 748
Profit from the previous years		345 748	304 511
Profit for the current year		17 206	41 237
Other components of equity		3 229	5 480
TOTAL EQUITY		1 250 814	1 085 947
TOTAL LIABILITIES AND EQUITY		13 602 817	12 385 908
Total capital ratio (%)		17.43	16.25
Common Equity Tier 1 ratio		14.74	13.38
Book value		1 250 814	1 085 947
Number of shares		3 360 000	3 210 000
Book value per one share (in PLN)		372.27	338.30

Explanatory notes and selected explanatory data presented on pages 10 to 47 constitute an integral part of these condensed financial statements.

Condensed statement of changes in equity

Changes in equity from 1 January 2019 to 30 June 2019

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of financial assets at fair value through other comprehensive income	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2019	321 000	413 719	273 082	44 800	27 866	-	5 476	4	1 085 947
Net profit	-	-	-	-	-	17 206	-	-	17 206
Other comprehensive income (gross)	-	-	-	-	-	-	(2 779)	-	(2 779)
Deferred tax on other comprehensive income	-	-	-	-	-	-	528	-	528
Total comprehensive income	-	-	-	-	-	17 206	(2 251)	-	14 955
Transfer to supplementary capital	-	-	27 866	-	(27 866)	-	-	-	-
Issue of shares	15 000	135 000	-	-	-	-	-	-	150 000
Share issue costs	-	(88)	-	-	-	-	-	-	(88)
As at 30 June 2019	336 000	548 631	300 948	44 800	-	17 206	3 225	4	1 250 814

Changes in equity from 1 January 2018 to 31 December 2018

	Share capital		Retained earnings				Other components of equity		Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of financial assets at fair value through other comprehensive income	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2018	321 000	413 719	245 253	44 800	27 829	-	3 798	2	1 056 401
Effects of IFRS 9 implementation	-	-	-	-	(13 371)	-	-	-	(13 371)
Restated equity as at 1 January 2018	321 000	413 719	245 253	44 800	14 458	-	3 798	2	1 043 030
Net profit	-	-	-	-	-	41 237	-	-	41 237
Other comprehensive income (gross)	-	-	-	-	-	-	2 072	3	2 075
Deferred tax on other comprehensive income	-	-	-	-	-	-	(394)	(1)	(395)
Total comprehensive income	-	-	-	-	-	41 237	1 678	2	42 917
Transfer to general banking risk reserve	-	-	27 829	-	(27 829)	-	-	-	-
As at 31 December 2018	321 000	413 719	273 082	44 800	(13 371)	41 237	5 476	4	1 085 947

Explanatory notes and selected explanatory data presented on pages 10 to 47 constitute an integral part of these condensed financial statements.

Changes in equity from 1 January 2018 to 30 June 2018

	Share capital		Retained earnings			Other components of equity		Total	
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current year	Valuation of financial assets at fair value through other comprehensive income		Actuarial gains and losses relating to post-employment benefits
As at 1 January 2018	321 000	413 719	245 253	44 800	27 829	-	3 798	2	1 056 401
Effects of IFRS 9 implementation	-	-	-	-	(13 371)	-	-	-	(13 371)
Restated equity as at 1 January 2018	321 000	413 719	245 253	44 800	14 458	-	3 798	2	1 043 030
Net profit	-	-	-	-	-	16 622	-	-	16 622
Other comprehensive income (gross)	-	-	-	-	-	-	1 011	-	1 011
Deferred tax on other comprehensive income	-	-	-	-	-	-	(192)	-	(192)
Total comprehensive income	-	-	-	-	-	16 622	819	-	17 441
Transfer to supplementary capital	-	-	27 829	-	(27 829)	-	-	-	-
As at 30 June 2018	321 000	413 719	273 082	44 800	(13 371)	16 622	4 617	2	1 060 471

Explanatory notes and selected explanatory data presented on pages 10 to 47 constitute an integral part of these condensed financial statements.

Condensed statement of cash flows

	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2018 to 30.06.2018 restated
A. Cash flows from operating activities	(246 497)	18 452
Profit before income tax	26 833	23 768
Adjustments:	(273 330)	(5 316)
Income taxes paid	(17 184)	(10 060)
Amortisation	3 395	1 726
(Gains) losses on investing activities	-	(149)
Interest income (income statement)	(223 683)	(210 781)
Interest expense (income statement)	131 942	125 962
Interest received	210 910	194 638
Interest paid	(8 692)	(6 683)
Change in assets and liabilities held for trading and derivatives held for hedges	(11 455)	29 272
Change in loans and advances to customers	(1 136 066)	(498 226)
Changes in financial assets at fair value through other comprehensive income	10 442	23 093
Changes in other assets	(4 026)	2 223
Changes in amounts due to other banks	1 038 318	279 589
Changes in amounts due to customers	4 692	(861)
Changes in debt securities in issue	(271 266)	59 095
Changes in provisions	(579)	2 968
Changes in other liabilities	2 929	494
Result on disposal of intangible assets and tangible fixed assets	(27)	2
Other changes in intangible assets, tangible assets	(2 980)	2 382
Net cash generated from operating activities	(246 497)	18 452
B. Cash flows from investing activities	(10 421)	(10 227)
Investing activity inflows	37	-
Due to the disposal of intangible assets and tangible fixed assets	37	-
Investing activity outflows	10 458	10 227
Due to the purchase of intangible assets and tangible fixed assets	10 458	10 227
Net cash generated from investing activities	(10 421)	(10 227)
C. Cash flows from financing activities	319 602	70 729
Financing activity inflows	721 513	1 829 094
Due to the loans and advances from banks	-	250 000
Due to the issue of debt securities	565 000	1 571 760
Due to share issue	149 912	-
Interest received from hedging derivative financial instruments	6 601	7 334
Financing activities outflows	401 911	1 758 365
Due to the repayment of loans and advances from banks	113 315	1 005 805
Due to the issue of debt securities	160 000	631 148
Due to lease payments	1 414	n/a
Interest paid from loans received, debt securities in issue, subordinated loans	127 182	121 412
Net cash from financing activities	319 602	70 729
Net increase / decrease in cash and cash equivalents, total (A+B+C)	62 684	78 954
Cash and cash equivalents as at the beginning of the reporting period, including:	164 715	143 573
Cash and balances with the central bank	16 294	1 351
Amounts due from other banks	58 432	18 737
Investment securities with maturity of up to 3 months from the date of purchase	89 989	123 485
Cash and cash equivalents as at the end of the reporting period, including:	227 399	222 527
Cash and balances with the central bank	744	524
Amounts due from other banks	18 753	20 037
Investment securities with maturity of up to 3 months from the date of purchase	207 902	201 966

Explanatory notes and selected explanatory data presented on pages 10 to 47 constitute an integral part of these condensed financial statements.

Explanatory notes to the condensed financial statements**1. Information on mBank Hipoteczny S.A.**

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

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

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

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

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

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

Registered office of the Bank is located in Warsaw, at Avenue Armii Ludowej Street No. 26.

The Bank was established for an indefinite period of time.

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

- a retail line, focused on the purchase of debt claims from housing mortgage loans from mBank S.A.,
- a commercial line, covering the purchase from mBank S.A. or co-financing with mBank S.A. of transactions concerning commercial real estate, such as office buildings, shopping centres, hotels, warehouses and distribution facilities.

At the beginning of 2019, the sale of commercial loans was transferred to mBank S.A. In the first half of 2019, there were no new exposures in this segment, but only loan disbursements for which the requests for disbursement started to be processed in 2018.

Activities of mBank Hipoteczny S.A. are carried out in the segments described in detail in Note 4.

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

As at 30 June 2019 the employment in the Bank was 131 FTEs and 141 persons (31 December 2018: 161 FTEs; 170 persons).

Average employment in the first half of 2019 was 141 persons, in the first half of 2018 it was 172 persons.

These condensed financial statements were approved by the Management Board of mBank Hipoteczny S.A. on 5 August 2019.

2. Description of the relevant accounting policies

Accounting Basis

The condensed financial statements of mBank Hipoteczny S.A. have been prepared for the 6-month period ended 30 June 2019. Comparative data presented in these condensed financial statements relate to the period on 31 December 2018 and to the period of 6 months ended on 30 June 2018.

These condensed financial statements are standalone financial statements.

Both as at 30 June 2019 and as at 31 December 2018 and as at 30 June 2018, mBank Hipoteczny S.A. did not have any subsidiaries.

These condensed financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union, in particular in accordance with the International Accounting Standard (IAS) 34 "Interim Financial Reporting", concerning interim financial statements, according to the historical cost principle with the exception of derivative contracts, financial assets that do not meet the SPPI test, which are measured at fair value through profit or loss, and with the exception of financial instruments measured at fair value through other comprehensive income.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The scope of information disclosed in interim financial statements is narrower than in the case of full financial statements, therefore they should be read in conjunction with the standalone financial statements of mBank Hipoteczny S.A. for the financial year 2018.

The data for the year 2018 presented in these mBank Hipoteczny S.A. condensed financial statements was audited by the auditor.

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

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

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

Detailed accounting principles applied to the preparation of these condensed financial statements are presented in Note 2 to mBank Hipoteczny Financial Statements for 2018, published on 27 March 2019. These principles were applied consistently over all presented periods, except for the accounting principles applied in connection with the implementation of IFRS 16 as of 1 January 2019 and changes in the principles for determination of the income tax expense, which is described in more detail below.

New standards, interpretations and amendments to published standards

IFRS 16 Leases

The Standard was issued by International Accounting Standards Board (IASB) on 13 January 2016 and it has been accepted by the European Union. IFRS 16 applies for annual reporting periods beginning in or after 1 January 2019. The incoming standard supersedes regulations effective until December 31, 2018: IAS 17 Leasing, IFRIC Interpretation 4 and SIC Interpretations 15 and 27.

The new standard introduced a single lessee accounting model, convergent with IAS 17. As per IFRS 16, the contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Transfer of the right of use occurs when it concerns an identified asset, for which the lessee possesses the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

If lease definition is executed, a company recognizes the right to use of the leased asset and a financial liability representing its obligation to make future lease payments, excluding short-term lease contracts lasting no longer than 12 months and lease contracts concerning immaterial lease assets.

The expenses related to the use of leased assets, previously presented as overhead costs, currently are classified as depreciation and interest expenses.

Right-of-use assets are depreciated on a straight-line basis, while liabilities under lease agreements are settled using the effective interest rate.

Impact of IFRS 16 on financial statements

In the first quarter of 2019, the Bank completed the implementation of IFRS 16 (project), which was planned in three stages:

- stage I - analysis of all contracts for purchase of services, regardless of the current qualification, aimed at selecting those contracts on the basis of which the Bank uses assets belonging to suppliers,
- stage II - assessment of contracts identified in the first stage in terms of meeting the criteria for considering leasing in accordance with IFRS 16,
- stage III - implementation of IFRS 16 based on the developed concept.

The object of the analyzes were consisted of all operating lease, rental agreements. In addition, the transactions of acquired services (costs of external services within operating activities) were analyzed in terms of the use of an identified asset.

As part of the project, the Bank made relevant changes to the accounting policy and operational procedures. Methodologies for the correct identification of contracts that are leasing and the collection of data necessary for the correct accounting treatment of these transactions have been developed and implemented.

The Bank decided to implement the standard on 1 January 2019. In accordance with the transitional provisions included in IFRS 16, the new principles were adopted retrospectively. Therefore, comparative data for the financial year 2018 have not been restated (modified retrospective approach).

Individual adjustments resulting from the implementation of IFRS 16 are described below.

Description of adjustments

(a) Recognition of leasing liabilities

After the adoption of IFRS 16, the Bank recognizes lease liabilities in connection with a lease that was previously classified as an operating lease in accordance with the principles of IAS 17 Leasing. The liabilities result primarily from lease contracts for real estate and car leasing. These liabilities have been measured at the present value of lease payments remaining to be paid at the date of application of IFRS 16, discounted using the leasing interest rate as at 1 January 2019, calculated on the basis of the Bank's incremental borrowing rate.

In order to calculate discount rates for IFRS 16, the Bank assumed that the discount rate should reflect the cost of financing that would be incurred to purchase the leased asset.

As at 1 January 2019, the discount rate calculated by the Bank amounted to:

- for contracts in PLN: 1.95%
- for contracts in EUR: 0.02%

b) Recognition of right-of-use assets

Right-of-use assets are measured at cost and presented in the statement of financial position together with the assets owned by the Bank along with the breakdown of additional information in the explanatory notes.

As at 1 January 2019, the cost of the asset component of the right to use includes the amount of the initial measurement of the lease liability.

(c) Application of estimates

The implementation of IFRS 16 required making certain estimates and calculations that have an impact on the valuation of lease liabilities and right-of-use assets. They include, among others:

- determination of the duration of contracts (for contracts with an indefinite period or with the possibility of extending the Bank applied the reasonably certain period of lease)
- determining the interest rate used to discount future cash flows,

Discount rates for mBank Hipoteczny S.A. and mBank S.A. they differ slightly, therefore the decision was made to use the same discount rate and the discount rate of mBank was applied;

- determination of the depreciation rate.

(d) The use of practical simplifications

When applying IFRS 16 for the first time, the Bank applied the following practical simplifications allowed by the standard:

- applying one discount rate to the portfolio of leasing agreements with similar features,
- contracts for operating leases with the remaining lease period of less than 12 months as at 1 January 2019 were treated as short-term leasing,
- for operating lease contracts for which the underlying asset is of low value (less than PLN 20.000), the Bank \did not recognize any lease liabilities or related right-of-use assets. Lease payments on this account are recognized as expenses during the leasing period,
- the exclusion of initial direct costs in the measurement of right-of-use assets on the date of initial application, and
- using the time perspective (using the knowledge gained after the fact) in determining the leasing period, if the contract includes options for extending or terminating the lease agreement.

Impact on the statement of financial position

The impact of the implementation of IFRS 16 on the recognition of additional financial liabilities and related right-of-use is presented in the table below:

	31 December 2018 without IFRS 16 effect	IFRS 16 effect	1 January 2019 with IFRS 16 effect
ASSETS			
Tangible assets	8 678	8 070	16 748
including: right-of-use	-	8 070	8 070
LIABILITIES AND EQUITY			
Financial liabilities measured at amortized cost	11 253 826	8 994	11 262 820
including: Lease liabilities	-	8 994	8 994

The reconciliation of the difference between the amounts of future lease payments due to irrevocable operating leases as at the end of 2018 and the lease liabilities recognized as at the date of first application of IFRS 16 are as follows:

Future minimum lease payments under operating leases as at 31 December 2018 (disclosures in accordance with IFRS 17)	9 209
Exclusion from short-term contracts	(109)
The impact of the discount using the Bank's incremental borrowing rate	(106)
Lease liabilities as at 1 January 2019	8 994
Other adjustments to right-of-use	(924)
Right-of-use as at 1 January 2019	8 070

Impact on the income statement

Since 2019 in the Bank income statement, a change in the classification of costs will appear (rental costs were replaced by depreciation and interest expense) and the time of recognition (recognition of leasing costs is faster due to recognition of interest cost using the effective interest rate method) which was previously not applied to contracts other than those classified as finance leasing in accordance with IAS 17).

Impact on equity

The implementation of IFRS 16 did not affect retained earnings and equity of the Bank as at 1 January 2019.

Impact on capital ratios

Due to the inclusion of lease agreements in the Bank's balance sheet as at 1 January 2019, the total amount of risk exposures increased, and this the total capital ratio of the Bank decreased by ca. 2 basis points.

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

These financial statements do not include standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In relation to standards and interpretations that have been approved by the European Union, but entered or will enter into force after the balance sheet date, the Group did not use the possibility of early.

Standards and interpretations not yet approved by the European Union

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

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

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

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

Amendments to References to the Conceptual Framework in IFRS Standards is a document that sets out the objective of the financial reporting, the qualitative characteristics of useful financial information, a description of the reporting entity, definitions of an asset, a liability, equity, income and expenses, criteria of recognition assets and liabilities in financial statements and guidance on when to derecognize them, measurement bases and guidance on when to use them, as well as concepts and guidelines for presentation and disclosure.

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

- Amendments to IFRS 3, Definition of a Business, published by the International Accounting Standards Board on 22 October 2018, binding for annual periods starting on or after 1 January 2020.

Amendments to IFRS 3 clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an

asset acquisition. The main amendments are to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The assessment of whether the market participants are capable of replacing any missing inputs or processes and continuing to produce outputs has been removed. Moreover, guidance and illustrative examples have been added to help entities assess whether a substantive process has been acquired, and the definitions of a business and of outputs have been narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. An optional concentration test has been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

- Amendments to IAS 1 and IAS 8, Definition of Material, published by the International Accounting Standards Board on 31 October 2018, binding for annual periods starting on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 clarify the definition of material and its application by aligning the wording of the definition of material across IFRS Standards and other publications and making minor improvements to that wording, as well as including some of the supporting requirements in IAS 1 Presentation of Financial Statements in the definition to give them more prominence. The explanation accompanying the definition of material was clarified. The amendments have the objective to help entities make better materiality judgements without substantively changing existing requirements.

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

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB.

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

Comparative data

Change in presentation of selected items in the income statement

In the financial statements for 2018, the Bank changed the presentation of selected items in the income statement, i.e. the following items are now presented separately:

- result from non-substantial modification, presented previously in the item "Interest income",
- gain (loss) on derecognition of financial instruments not measured at fair value through profit or loss, including:
 - net result on non-substantial modification on financial assets measured at amortized cost, previously partially presented under "Interest income, and partially under "Impairment losses or reversal of impairment losses on financial assets not measured at fair value through profit or loss",
 - gain (loss) on sale of debt securities measured at fair value through other comprehensive income, previously presented in the income statement under "Gain (loss) on debt securities measured at fair value through other comprehensive income".

Therefore, comparative for an interim period in the income statement and the statement of cash flows have been restated accordingly.

Restatements in the condensed income statement

Period	from 01.01.2018 to 30.06.2018 before restatement	Adjustments	from 01.01.2018 to 30.06.2018 after restatement
Interest income, including:	209 266	1 515	210 781
<i>Interest income on financial assets measured at amortized cost</i>	178 062	(178 062)	n/a
<i>Interest income on assets measured at fair value through other comprehensive income</i>	11 013	(11 013)	n/a
<i>Interest income accounted for using the effective interest method</i>	n/a	190 590	190 590
<i>Income similar to interest on financial assets at fair value through profit or loss</i>	20 191	-	20 191
Interest expenses	(125 962)	-	(125 962)
Net interest income	83 304	1 515	84 819
Fee and commission income	1 595	-	1 595
Fee and commission expenses	(2 595)	-	(2 595)
Net fee and commission income	(1 000)	-	(1 000)
Net trading income, including:	(1 006)	-	(1 006)
<i>Foreign exchange result</i>	883	-	883
<i>Gains or losses on financial assets and liabilities held for trading</i>	611	-	611
<i>Gains or losses from hedge accounting</i>	(2 500)	-	(2 500)
Result from non-substantial modification	n/a	(2 270)	(2 270)
Result from derecognition of financial instruments not measured at fair value through profit or loss	n/a	1 058	1 058
Gains or losses from debt securities measured at fair value through other comprehensive income	149	(149)	-
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(1 961)	-	(1 961)
Other operating income	604	-	604
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(8 410)	(154)	(8 564)
Overhead costs	(31 605)	-	(31 605)
Depreciation	(1 726)	-	(1 726)
Other operating expenses	(1 006)	-	(1 006)
Operating result	37 343	-	37 343
Taxes on the Bank balance sheet items	(13 575)	-	(13 575)
Profit before income tax	23 768	-	23 768
Income tax	(7 146)	-	(7 146)
Net profit	16 622	-	16 622

Restatements in the statement cash flows

The restatement interim comparative figures also includes the presentation correction of cash flows from financing activities, as described in Section 19 "Corrections of prior period errors" of the Selected explanatory notes.

Period	from 01.01.2018 to 30.06.2018 before restatement	Adjustments	from 01.01.2018 to 30.06.2018 after restatement
A. Cash flows from operating activities	(292 068)	(310 520)	18 452
Profit before income tax	23 768	-	23 768
Adjustments:	(315 836)	310 520	(5 316)
Income taxes paid	(10 060)	-	(10 060)
Amortisation	1 726	-	1 726
(Gains) losses on investing activities	(149)	-	(149)
Interest income (income statement)	(209 266)	(1 515)	(210 781)
Interest expense (income statement)	125 962	-	125 962
Interest received	194 638	-	194 638
Interest paid	(6 683)	-	(6 683)
Change in assets and liabilities held for trading and derivatives held for hedges	29 272	-	29 272
Change in loans and advances to customers	(499 741)	1 515	(498 226)
Changes in financial assets at fair value through other comprehensive income	23 093	-	23 093
Changes in other assets	2 223	-	2 223
Changes in amounts due to other banks	(30 931)	310 520	279 589
Changes in amounts due to customers	(861)	-	(861)
Changes in debt securities in issue	59 095	-	59 095
Changes in provisions	2 968	-	2 968
Changes in other liabilities	494	-	494
Result on disposal of intangible assets and tangible fixed assets	2	-	2
Other changes in intangible assets, tangible assets	2 382	-	2 382
Net cash generated from operating activities	(292 068)	310 520	18 452
B. Cash flows from investing activities	(10 227)	(10 227)	(10 227)
Investing activity inflows	-	-	-
Due to the disposal of intangible assets and tangible fixed assets	-	-	-
Investing activity outflows	10 227	-	10 227
Due to the purchase of intangible assets and tangible fixed assets	10 227	-	10 227
Net cash generated from investing activities	(10 227)	-	(10 227)
C. Cash flows from financing activities	381 249	(310 520)	70 729
Financing activity inflows	2 139 614	(310 520)	1 829 094
Due to the loans and advances from banks	560 520	(310 520)	250 000
Due to the issue of debt securities	1 571 760	-	1 571 760
Interest received from hedging derivative financial instruments	7 334	-	7 334
Financing activities outflows	1 758 365	-	1 758 365
Due to the repayment of loans and advances from banks	1 005 805	-	1 005 805
Due to the issue of debt securities	631 148	-	631 148
Interest paid from loans received, debt securities in issue, subordinated loan	121 412	-	121 412
Net cash from financing activities	381 249	(310 520)	70 729
Net increase / decrease in cash and cash equivalents, total (A+B+C)	78 954	-	78 954
Cash and cash equivalents as at the beginning of the reporting period, including:	143 573	-	143 573
Cash and balances with the central bank	1 351	-	1 351
Amounts due from other banks	18 737	-	18 737
Investment securities with maturity of up to 3 months from the date of purchase	123 485	-	123 485
Cash and cash equivalents as at the end of the reporting period, including:	222 527	-	222 527
Cash and balances with the central bank	524	-	524
Amounts due from other banks	20 037	-	20 037
Investment securities with maturity of up to 3 months from the date of purchase	201 966	-	201 966

Change in the principles for determination of the income tax expense

Starting from the financial statements for the first half of 2019, the Bank changed the principles for determining the income tax expense in interim financial statements, by adapting them to the market approach.

The tax expense is determined in accordance with IAS 34, based on the best estimate of the annual Effective Tax Rate (ETR) expected by the Bank for the full financial year, using the projected annual ETR to calculate the tax expense for the first half of 2019. The purpose of the change is to present an adjusted ETR in interim financial statements so that it is similar to the annual ETR during the year, as certain categories of expenses which are not tax deductible are incurred unevenly during the year, which distorts the ETR. The change in the principle for determining the expense has no material impact on the comparative period.

Change in the principles for presentation of comparative balance sheet figures in interim financial statements

In mid-2019, the Bank changed the principles for presentation of comparative balance sheet figures in interim financial statements. Comparative figures for balance sheet items are presented only as at the end of the previous financial year, but not as at the end of the corresponding period of the previous year

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

The Bank applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the income statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified. If there is objective evidence of impairment of loan, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows, discounted according to original effective interest rate of a given element of financial assets. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 10.7 million or increase by PLN 24.1 million as at 30 June 2019, respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral. The rules of determining write-downs and provisions for impairment of credit exposures have been described under Note 2.8 to the Financial Statements of mBanku Hipotecznego S.A. for 2018, published on 27 March 2019.

Deferred tax assets

The Bank recognizes a deferred tax asset if there is sufficient certainty that a taxable profit will be obtained in the future that will allow its use. The carrying amount of the deferred tax asset is verified as at each balance sheet date and is subject to appropriate reduction, provided that it is no longer probable that sufficient taxable income will be available for the partial or full realization of the deferred tax asset.

The Bank activates in deferred tax write-offs for loan losses not recognized as a tax cost, in part attributable to capital, which in future may become a tax-deductible cost in the form of an allowance for credit losses after meeting statutory prerequisites for overdue or probable non-recoverability or as the cost of irrecoverable capital after documenting the non-recoverability of receivables. Charges to credit losses that will never become a tax expense under the CIT Act have been excluded from the calculation of income tax.

Principles for determination of the income tax expense

In interim financial statements – starting from the financial statements for the first half of 2019 – tax expense is determined in accordance with IAS 34, based on the best estimate of the annual Effective Tax Rate (ETR) expected by the Bank for the full financial year, using the projected annual ETR.

Phantom share-based benefits

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

In accordance with the provisions of IAS 19, the projected unit credit method was applied to determine the present value of liabilities due to employee benefits. The basis for calculating the provision for deferred portion of variable remuneration for eligible employees of the Bank is the amount of the bonus, which the Bank undertakes to pay based on the Policy of employees' remuneration having a significant impact on the Bank's risk profile.

Phantom shares are granted in the number resulting from the valuation of these shares for the assessment period. The valuation of the phantom stock is calculated each time at the end of the reporting period as a quotient of the Bank's book value and the number of ordinary shares. The payment of phantom shares depends on the average valuation of these shares obtained from two values: the value of the phantom share at the end of the annual period preceding the pay day and the value of the phantom share at the end of the first half of the year in which the payment is due in a given reporting period. The aforementioned average value is multiplied by the number of phantom shares to be executed in a given period, and the result of this action determines the amount of cash payment resulting from owned phantom shares. The final value of the bonus, which is the product of the number of shares, and their expected value as of the balance sheet date preceding the implementation of each of the deferred tranches, is discounted actuarially. The discounted amount is reduced by the actuarially discounted amounts for the annual impairment allowances on the same day. The actuarial discount is the product of the financial discount and the probability of each participant being able to meet individually until the rights are fully acquired for each of the deferred tranches. The amounts of annual write-downs are calculated in accordance with the projected unit credit method. The probability referred to above was determined by the "Multiple Decrement Model", where the following three risks were taken into account: the possibility of dismissal from work, the risk of total inability to work, the risk of death.

Fair value of derivatives and other financial instruments

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. All models are approved before use and also calibrated to ensure that the results obtained reflect actual data and comparable market prices. Where possible, only observable data from an active market is used in the models.

Important modification

Important modification - a change in the contractual terms of a financial instrument that leads to the removal of a modified asset from the balance sheet and recognition of a new one. In the case of a significant modification resulting in the exclusion of an asset from the balance sheet, all unsettled commissions and all commissions charged for modification of this asset are settled once in the profit and loss account. The modified assets are derecognized in the net amount, ie taking into account previously recognized credit risk write-offs (in the case of assets with recognized impairment). The new asset is recognized at fair value (possibly adjusted for new commissions related to the newly created asset) and a new effective interest rate is calculated for it. The assessment whether a given modification of financial assets is an important or insignificant modification depends on meeting the quality and quantity criteria, which have been described in note 2.6. Financial statements of mBank Hipoteczny S.A. for 2018 published on March 27, 2019.

4. Business segments

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

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

- a retail line, focused on the purchase of debt claims from housing mortgage loans from mBank S.A.,
- a commercial line, covering the purchase from mBank S.A. or co-financing with mBank S.A. of transactions concerning commercial real estate, such as office buildings, shopping centres, hotels, warehouses and distribution facilities.

At the beginning of 2019, the sale of commercial loans was transferred to mBank S.A. In the first half of 2019, there were no new exposures in this segment, but only loan disbursements for which the requests for disbursement started to be processed in 2018.

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

1. The Corporate Banking Segment - is a segment of the Bank's business that includes the following loans:
 - for refinancing - loans for refinancing or purchase of existing commercial properties (office buildings, warehouses, shopping centres and malls, logistics centres, hotels, guest houses, commercial premises, etc.), including commercial loans acquired from mBank S.A.,
 - historically to housing developers — loans for the financing of housing development projects (estates with single/multi-family houses for sale or rent),
 - loans to commercial developers — loans for the financing of commercial real estate projects that are consistent with the Bank's credit policy,
 - historically to local government units — loans to local government units (municipalities, districts, provinces) as well as loans secured by local government units (commercial companies established by local governments, public health care institutions).
2. The Retail Banking Segment - is a segment of the Bank's business that includes the loans to natural persons, those that may from a basis for the issue of mortgage bonds:
 - loans granted for housing purposes in PLN, the sale of which was under an agency agreement with mBank S.A. – agency model,
 - loans in PLN, secured with a mortgage on housing property, acquired from mBank S.A. - pooling,
 - loans to natural persons granted not in cooperation with mBank S.A. The Bank discontinued the sales in this segment in 2004.
3. Treasury Segment - a segment of Bank's activities, comprising financing acquisition, in particular issuance of mortgage bonds, liquidity management, and Bank's interest rate and currency risk management.

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

The main purpose of profit and loss segmentation is to present the profitability of each individual segment of Bank's operations as closely as possible (excluding the Treasury segment which finances other segments in the Mortgage Bank and by assumption is not expected to generate a positive financial result). In order to achieve this, the Bank assigns all direct income such as interest income, fee and commission income as well as impairment write-downs at the loan agreement level.

The Bank does not allocate the income tax charge to individual segments, accordingly the operating segments profit/loss data is presented on profit before income tax level. Data concerning operating segments is measured according to the same principles as those disclosed in the accounting policy.

The segmentation of assets and profit and loss has been made using the information that Bank uses for controlling and management purposes. Assets and liabilities, income and costs attributable to these assets have been assigned to individual segments of the Bank. The Treasury segment includes assets and liabilities related to hedging derivatives, receivables from debt securities, receivables from banks, receivables due to operations with the central bank and liabilities of external financing. The segment results include all profit and loss positions.

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

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

Period from 01.01.2019 to 30.06.2019	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	50 238	41 223	280	91 741
Net fee and commission income	(478)	(966)	(1 981)	(3 425)
Other operating income/expenses	(19)	477	(24)	434
Net trading income	-	-	3 631	3 631
Result from non-substantial modification	(2 267)	2	-	(2 265)
Result from derecognition of financial instruments not measured at fair value through profit or loss	217	-	-	217
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	564	-	-	564
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(7 965)	(376)	-	(8 341)
Overhead costs	(16 056)	(16 487)	(3 651)	(36 194)
Depreciation	(674)	(2 482)	(239)	(3 395)
Tax on the Bank's balance sheet items	(6 982)	(9 152)	-	(16 134)
Segment result (gross)	16 578	12 239	(1 984)	26 833

Period from 01.01.2018 to 30.06.2018	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	50 797	37 853	(3 831)	84 819
Net fee and commission income	1 154	(846)	(1 308)	(1 000)
Other operating income/expenses	(280)	202	(324)	(402)
Net trading income	-	-	(1 006)	(1 006)
Result from non-substantial modification	(2 268)	(2)	-	(2 270)
Result from derecognition of financial instruments not measured at fair value through profit or loss	909	-	149	1 058
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(1 961)	-	-	(1 961)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(6 893)	(1 671)	-	(8 564)
Overhead costs	(14 309)	(13 181)	(4 115)	(31 605)
Depreciation	(781)	(781)	(164)	(1 726)
Tax on the Bank's balance sheet items	(6 954)	(6 621)	-	(13 575)
Segment result (gross)	19 414	14 953	(10 599)	23 768

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

	Corporate Banking	
	30.06.2019	31.12.2018
Segment Assets	5 006 862	4 928 865
Segment Liabilities	25 350	44 008

	Retail Banking	
	30.06.2019	31.12.2018
Segment Assets	7 244 719	6 177 906
Segment Liabilities	21 248	95

	Treasure Segment	
	30.06.2019	31.12.2018
Segment Assets	1 269 113	1 212 719
Segment Liabilities	12 305 405	11 255 858

	30.06.2019	31.12.2018
Other assets not allocated to segments	82 123	66 417

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

5. Net interest income

	Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Interest income			
Interest income accounted for using effective interest method:		203 913	190 590
Interest income of financial assets measured at amortized cost, including:		193 571	179 577
- Loans and advances		193 156	179 231
- Cash and short-term placements		333	346
- Cash collaterals		82	-
Interest income on financial assets at fair value through other comprehensive income		10 342	11 013
- Debt securities		10 342	11 013
Income similar to interest on financial assets at fair value through profit or loss, including:		19 770	20 191
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:		4 179	4 268
- Loans and advances		4 179	4 268
Interest income on derivatives classified into banking book		5 279	8 114
Interest income on derivatives concluded under hedge accounting		10 312	7 809
Total interest income		223 683	210 781
Interest expense			
Financial liabilities measured at amortized cost, including:		(131 942)	(125 962)
- Issue of debt securities		(80 848)	(77 011)
- Loan received		(36 346)	(42 801)
- Subordinated liabilities		(4 929)	(5 170)
- Other financial liabilities with deferred payment		(9 481)	(697)
- Other financial liabilities		(338)	(283)
Total interest expense		(131 942)	(125 962)
Total net interest income		91 741	84 819

In the first half of 2019, interest income related to impaired financial assets amounted to PLN 6 368 thousand (in the first half of 2018: PLN 5 368 thousand).

6. Net fee and commission income

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Fee and commission income		
Credit-related fees and commissions	1 396	1 595
Total fee and commission income	1 396	1 595
Fee and commission expenses		
Cost of servicing loan products	(2 389)	(885)
Costs related to the debt securities issue program (covered bonds and bonds)	(1 225)	(572)
Commission expense from loan received and stand-by credit line	(710)	(695)
Costs of real estate analyses and valuations related to the lending activity	(441)	(185)
Commission for transfers, keeping bills	(45)	(39)
Other	(11)	(219)
Total fee and commission expense	(4 821)	(2 595)
Total fee and commission income	(3 425)	(1 000)

7. Net trading income

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Foreign exchange result		
Net exchange differences on translation	(5 501)	28 457
Valuation of foreign currency derivatives	5 391	(27 574)
Other net trading income and result on hedge accounting	3 741	(1 889)
Interest rate risk instruments	28	611
Hedge accounting, including:	3 713	(2 500)
- net profit on hedged items	(64 288)	(19 428)
- net profit on hedging instruments	68 001	16 928
Total net trading income	3 631	(1 006)

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

The Bank applies fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied. The result on hedged items and hedging instruments is presented in the following tables. The hedge is assessed on an ongoing basis and determined to have been highly effective. The Bank documents its own assessment of the effectiveness of fair value hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

8. Result from non-substantial modification

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Result from non-substantial modification for financial assets at amortized cost	(2 266)	(2 270)
Results from non-substantial modification on non-trading financial assets mandatorily measured at fair value through profit or loss	1	-
Result from non-substantial modification	(2 265)	(2 270)

9. Result from derecognition of financial instruments not measured at fair value through profit or loss

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Result on the sale of debt securities measured at fair value through other comprehensive income	-	149
Result on substantial modification for financial assets measured at amortized cost	217	909
Result from derecognition of financial instruments not measured at fair value through profit or loss	217	1 058

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

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Loans and advances	564	(1 961)
- corporate customers	564	(1 961)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	564	(1 961)

11. Other operating income

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Income from release of prior year provisions	665	482
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	147	10
Income from sales of services	54	75
Other	52	37
Total other operating income	918	604

12. Overhead costs

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Staff-related expenses	(13 046)	(14 846)
Material costs, including:	(8 287)	(10 727)
- costs of administration and real estate services	(2 984)	(4 329)
- IT cost	(3 749)	(3 687)
- marketing cost	(623)	(1 552)
- consulting services cost	(646)	(849)
- other overheads cost	(285)	(310)
Contributions and transfers to the Bank Guarantee Fund	(13 315)	(5 274)
Taxes and fees	(1 405)	(601)
Contributions to the Social Benefits Fund	(141)	(157)
Total overhead costs	(36 194)	(31 605)

Employee costs

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Wages and salaries	(10 493)	(12 058)
Social security expenses	(1 861)	(2 080)
Remuneration payment in the form of phantom shares settled in cash	(318)	(282)
Other employee benefits	(374)	(426)
Staff-related expenses, total	(13 046)	(14 846)

13. Other operating expenses

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Costs of enforcement proceedings	(270)	(134)
Loss on sales liquidation of tangible fixed assets and intangible assets	(141)	(2)
Write-downs of the value of inventories	-	(437)
Compensations, penalties and fines paid	-	(28)
Investments write-off	-	(24)
Donations	-	(9)
Loss on the sales of assets repossessed for debts (inventories) and costs of their maintenance	-	(2)
Other	(73)	(370)
Other operating expenses, total	(484)	(1 006)

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

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Financial assets at amortised cost, including:	(8 916)	(8 972)
- Loans and advances	(8 916)	(8 972)
<i>Stage 1</i>	(345)	(1 706)
<i>Stage 2</i>	(1 108)	2 305
<i>Stage 3</i>	(8 390)	(9 851)
<i>POCI</i>	927	280
Commitments and guarantees given	575	408
<i>Stage 1</i>	574	(247)
<i>Stage 2</i>	1	655
<i>Stage 3</i>	-	-
<i>POCI</i>	-	-
Net impairment losses on financial assets not measured at fair value through profit or loss	(8 341)	(8 564)

15. Earnings per share

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	17 206	16 622
Weighted average number of ordinary shares	3 295 359	3 210 000
Basic net profit per share (in PLN per share)	5.22	5.18
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted earnings per share	17 206	16 622
Weighted average number of ordinary shares	3 295 359	3 210 000
Diluted earnings per share (in PLN per share)	5.22	5.18

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

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

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

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

The Bank has the following derivative instruments in its portfolio:

- interest rate risk instruments: IRS (Interest Rate Swap),
- currency exchange rate risk instruments: FX SWAP contracts.

All derivative transactions are concluded for the purpose of securing the currency exchange and interest rate risk. The Bank is not engaged in trading; all derivative transactions are included in the Bank's portfolio.

	30.06.2019		31.12.2018	
	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading classified into banking book	3 324	77	4 045	2 032
Derivatives held for hedging	116 784	-	62 409	4 894
Offsetting effect	(74 343)	-	(29 796)	(4 894)
Total derivative financial instruments assets/liabilities	45 765	77	36 658	2 032

The offsetting effect beyond the valuation of derivatives includes collaterals received in connection with the derivative transactions subject to netting as at 30 June 2019 in the amount of the PLN 74 343 thousand (as at 31 December 2018 in the amount of PLN 24 902 thousand).

Fair value hedge accounting

The Bank applies fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied. The result on hedged items and hedging instruments is presented in the following tables. The hedge is assessed on an ongoing basis and determined to have been highly effective. The Bank documents its own assessment of the effectiveness of fair value hedging transactions, measured both prospectively and retrospectively from the time of their designation and throughout the period of duration of the hedging relationship between the hedging instrument and the hedged item.

Description of the hedging relation

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

Hedged items

The hedged items are fixed-interest rate mortgage covered bonds with the nominal value of EUR 576 900 thousand.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

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

The following tables present hedged items as at 30 June 2019, 31 December and 30 June 2018. The nominal value was presented in EUR thousands, while the liability amount measured at amortised cost, hedge accounting adjustments related to fair value of hedged items, the carrying amount of liability and change of fair value due to hedge accounting in PLN thousands. The item „Hedge accounting adjustments related to fair value of hedged items” concerning the adjustment to fair value mortgage covered bonds forming secured items within applied hedge accounting

As at 30.06.2019

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2019	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	Change of fair value due to hedge accounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	130 366	1 955	132 321	587
Mortgage covered bonds (EUR)	8 000	3.5%	2029-02-28	33 903	6 330	40 233	(2 038)
Mortgage covered bonds (EUR)	15 000	3.5%	2029-03-15	63 591	11 917	75 508	(3 836)
Mortgage covered bonds (EUR)	20 000	3.2%	2029-05-30	84 076	15 814	99 890	(5 174)
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	85 014	1 917	86 931	(476)
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	46 644	1 705	48 349	(1 423)
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	149 730	4 529	154 259	(7 224)
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	55 597	1 307	56 904	(2 868)
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	106 071	3 525	109 596	(2 109)
Mortgage covered bonds (EUR)	100 000	0.612%	2022-06-22	424 564	7 166	431 730	(3 830)
Mortgage covered bonds (EUR)	300 000	1.073%	2025-03-05	1 276 725	59 672	1 336 397	(35 897)
Total hedged items				2 456 281	115 837	2 572 118	(64 288)

The change of fair value resulting from hedge accounting for the transaction ended as at 31 December 2018 is PLN 373 thousand.

As at 31.12.2018

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2018	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	Change of fair value due to hedge accounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	129 886	2 541	132 427	1 015
Mortgage covered bonds (EUR)	8 000	3.5%	2029-02-28	34 879	4 292	39 171	(352)
Mortgage covered bonds (EUR)	15 000	3.5%	2029-03-15	65 423	8 081	73 504	(665)
Mortgage covered bonds (EUR)	20 000	3.2%	2029-05-30	86 367	10 640	97 008	(924)
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	86 402	1 441	87 843	(445)
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	47 459	282	47 742	(691)
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	150 513	(2 695)	147 818	(2 311)
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	55 887	(1 561)	54 326	(907)
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	107 757	1 416	109 172	(1 277)
Mortgage covered bonds (EUR)	100 000	0.612%	2022-06-22	430 591	3 336	433 927	(3 781)
Mortgage covered bonds (EUR)	300 000	1.073%	2025-03-05	1 295 900	23 775	1 319 676	(23 775)
Total hedged items				2 491 064	51 549	2 542 613	(34 113)

As at 30.06.2018

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2018	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability	Change of fair value due to hedge accounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	133 380	3 270	136 650	285
Mortgage covered bonds (EUR)	8 000	3.5%	2029-02-28	34 747	4 179	38 926	(238)
Mortgage covered bonds (EUR)	15 000	3.5%	2029-03-15	65 181	7 865	73 046	(450)
Mortgage covered bonds (EUR)	20 000	3.2%	2029-05-30	86 174	10 326	96 500	(610)
Mortgage covered bonds (EUR)	20 000	1.115%	2018-10-22	87 863	160	88 023	214
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	87 081	1 322	88 403	(327)
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	47 813	(127)	47 686	(282)
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	153 541	(4 301)	149 240	(705)
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	57 010	(2 202)	54 808	(265)
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	108 766	740	109 506	(601)
Mortgage covered bonds (EUR)	100 000	0.612%	2022-06-22	435 313	1 706	437 019	(2 151)
Mortgage covered bonds (EUR)	300 000	1.073%	2025-03-05	1 307 346	14 298	1 321 644	(14 298)
Total hedged items				2 604 215	37 236	2 641 451	(19 428)

The following tables present hedging items as at June 30, 2019, December 31, 2018 and June 30, 2018. The nominal value was presented in EUR thousands while the fair value and the change in the fair value due to hedge accounting in PLN thousands.

As at 30.06.2019

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	4 523	-	(917)
IRS (EUR)	8 000	2029-02-28	6 905	-	2 080
IRS (EUR)	15 000	2029-03-15	12 720	-	3 923
IRS (EUR)	20 000	2029-05-30	14 365	-	5 409
IRS (EUR)	20 000	2022-02-25	1 672	-	546
IRS (EUR)	11 000	2025-04-24	1 505	-	1 474
IRS (EUR)	13 000	2026-09-20	1 249	-	2 649
IRS (EUR)	35 000	2026-09-20	4 746	-	7 046
IRS (EUR)	24 900	2024-02-01	3 630	-	2 177
IRS (EUR)	100 000	2022-06-22	6 262	-	4 226
IRS (EUR)	300 000	2025-03-05	59 207	-	39 388
Total hedging items			116 784	-	68 001

As at 31.12.2018

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	4 506	-	(1 583)
IRS (EUR)	8 000	2029-02-28	5 436	-	296
IRS (EUR)	15 000	2029-03-15	9 952	-	575
IRS (EUR)	20 000	2029-05-30	10 346	-	928
IRS (EUR)	20 000	2022-02-25	1 626	-	587
IRS (EUR)	11 000	2025-04-24	340	-	752
IRS (EUR)	35 000	2026-09-20	-	(3 172)	2 468
IRS (EUR)	13 000	2026-09-20	-	(1 722)	964
IRS (EUR)	24 900	2024-02-01	1 976	-	1 350
IRS (EUR)	100 000	2022-06-22	3 357	-	4 083
IRS (EUR)	300 000	2025-03-05	24 870	-	21 681
Total hedging items			62 409	(4 894)	32 101

As at 30.06.2018

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge accounting
IRS (EUR)	30 000	2020-07-28	6 566	-	(539)
IRS (EUR)	8 000	2029-02-28	4 727	-	187
IRS (EUR)	15 000	2029-03-15	8 594	-	352
IRS (EUR)	20 000	2029-05-30	8 507	-	473
IRS (EUR)	20 000	2018-10-22	721	-	(207)
IRS (EUR)	20 000	2022-02-25	928	-	373
IRS (EUR)	11 000	2025-04-24	-	(421)	295
IRS (EUR)	35 000	2026-09-20	-	(3 958)	776
IRS (EUR)	13 000	2026-09-20	-	(2 056)	294
IRS (EUR)	24 900	2024-02-01	780	-	650
IRS (EUR)	100 000	2022-06-22	83	-	2 131
IRS (EUR)	300 000	2025-03-05	8 400	-	12 143
Total hedging items			39 306	(6 435)	16 928

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

Period	from 01.01.2019 to 30.06.2019	from 01.01.2018 to 30.06.2018
Interest income on derivatives concluded under hedge accounting of fair value (Note 5)	10 312	7 809
Net profit on hedged items (Note 7)	(64 288)	(19 428)
Net profit on hedging instruments (Note 7)	68 001	16 928
Total net profit on hedge accounting of fair value	14 025	5 309

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

	30.06.2019	31.12.2018
Loans and advances	179 477	208 181
- Corporate clients	179 477	208 181
Non-trading financial assets mandatorily at fair value through profit or loss, total	179 477	208 181

18. Financial assets at fair value through other comprehensive income

	30.06.2019	31.12.2018
Debt securities	1 173 542	1 069 392
- Central banks	207 903	89 989
- General governments, including: <i>pledged securities</i>	965 639	979 403
	201 075	202 894
Total financial assets at fair value through other comprehensive income	1 173 542	1 069 392
Short-term (up to 1 year)	567 057	377 879
Long-term (over 1 year)	606 485	691 513
Based on fixed interest rate	650 212	483 725
Based on floating interest rate	523 330	585 667

All debt securities were classified in stage 1, for which the Bank did not recognize the impairment write-off.

19. Financial assets at amortised cost

30.06.2019	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	18 753	18 753	-	-	-	-	-	-	-
Loans and advances to customers	12 102 412	10 646 357	1 232 829	264 533	51 450	(9 667)	(12 426)	(80 337)	9 673
Individual customers	7 261 006	6 288 307	967 897	22 542	447	(1 614)	(8 362)	(8 211)	-
Corporate customers	4 706 073	4 223 650	264 932	240 968	51 003	(8 022)	(4 064)	(72 067)	9 673
Public sector customers	105 024	104 091	-	1 023	-	(31)	-	(59)	-
Other financial institutions	30 309	30 309	-	-	-	-	-	-	-
Financial assets at amortised cost, total	12 121 165	10 665 110	1 232 829	264 533	51 450	(9 667)	(12 426)	(80 337)	9 673
Short-term (up to 1 year)	752 894								
Long-term (over 1 year)	11 368 271								

31.12.2018	Carrying value	Gross carrying amount				Accumulated impairment			
		Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans and advances to banks	58 432	58 432	-	-	-	-	-	-	-
Loans and advances to customers	10 930 534	9 641 442	1 083 595	287 028	8 521	(9 393)	(11 340)	(76 870)	7 551
Individual customers	6 194 760	5 299 566	893 655	18 705	475	(1 558)	(8 132)	(7 951)	-
Corporate customers	4 592 460	4 199 462	189 940	267 323	8 046	(7 802)	(3 208)	(68 852)	7 551
Public sector customers	111 371	110 471	-	1 000	-	(33)	-	(67)	-
Other financial institutions	31 943	31 943	-	-	-	-	-	-	-
Financial assets at amortised cost, total	10 988 966	9 699 874	1 083 595	287 028	8 521	(9 393)	(11 340)	(76 870)	7 551
Short-term (up to 1 year)	757 415								
Long-term (over 1 year)	10 231 551								

20. Intangible assets

	30.06.2019	31.12.2018
Concessions, patents, licences and similar assets, including:	7 752	8 670
- computer software	7 752	8 670
Intangible assets under development	35 155	31 351
Intangible assets, total	42 907	40 021

21. Tangible assets

	30.06.2019	31.12.2018
Fixed assets, including:	7 140	7 958
- equipment	5 198	6 002
- vehicles	-	8
- other fixed assets	1 942	1 948
Fixed assets under construction	1 530	720
The right-of-use, including;	7 154	n/a
- real estate	6 818	n/a
- cars	336	n/a
Total tangible assets	15 824	8 678

22. Other assets

	30.06.2019	31.12.2018
Other, including:	9 158	5 132
- other prepayments	4 028	2 597
- receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	4 009	1 733
- debtors	668	535
- income receivable	432	246
- other	21	21
Total other assets	9 158	5 132
Short-term (up to 1 year)	9 158	5 132

23. Financial liabilities measured at amortised cost – amounts due to banks and customers

30.06.2019	Liabilities due to banks	Total liabilities to customers	Individual customers	Corporate customers	Public sector customers
Credit and loans received	3 036 075	-	-	-	-
Other financial liabilities, including	1 072 740	6 583	151	6 389	43
Liabilities due to deferred payment	1 022 157	-	-	-	-
Liabilities due to cash collateral	46 535	497	49	448	-
Liabilities due to leasing	4 048	3 733	-	3 733	-
Other liabilities	-	2 353	102	2 208	43
Total	4 108 815	6 583	151	6 389	43
Short-term (up to 1 year)	528 648	6 162			
Long-term (over 1 year)	3 580 167	421			

31.12.2018	Liabilities due to banks	Total liabilities to customers	Individual customers	Corporate customers	Public sector customers
Loans and loans received	3 036 313	-	-	-	-
Other financial liabilities, including	143 565	3 099	138	2 918	43
Liabilities due to deferred payment	113 533	-	-	-	-
Liabilities due to cash collateral	30 032	498	49	449	-
Liabilities due to leasing	n/a	n/a	n/a	n/a	n/a
Other liabilities	-	2 601	89	2 469	43
Total	3 179 878	3 099	138	2 918	43
Short-term (up to 1 year)	210 537	2 677			
Long-term (over 1 year)	2 969 341	422			

24. Debt securities in issue

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

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

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

Principles for the admissible amount of the substitute collateral

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

Principles for the statutory over-collateralisation of covered bonds

The sum of nominal amounts of the Bank's claims:

- from loans secured with a mortgage and the Substitute collateral, entered in the register of collaterals of covered bonds, constituting the basis for issuing mortgage covered bonds, cannot be lower than 110% of the total amount of nominal values of the outstanding mortgage covered bonds, and the sum of nominal amounts of claims of the Bank secured by mortgages, constituting the basis for issuing mortgage covered bonds, cannot be lower than 85% of the total amount of nominal values of the outstanding mortgage covered bonds,
- in respect of loans granted to local self-government entities or loans secured by local self-government sureties and substitute collaterals entered in the register of collaterals of covered bonds, constituting the basis for issuing public covered bonds, cannot be lower than 110% of the total amount of nominal values of the public covered bonds currently in trading, and the sum of nominal amounts of liabilities of the Bank in respect of loans granted to local self-government entities or loans secured by local self-government sureties, constituting the basis for issuing public covered bonds, cannot be lower than 85% of the total amount.

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

According to the Act on covered bonds and mortgage banks, the Bank can refinance loans secured by a mortgage and acquired liabilities of other banks resulting from mortgage-secured loans granted with means obtained from issuance of covered bonds; the refinancing in respect of a single loan or single liability cannot exceed the amount equivalent to 60% of the mortgage lending value of the real property, and in the case of residential real property - 80% of the mortgage lending value. The tables below show data related to the issuance of covered bonds as at 30 June 2019 and as at 31 December 2018.

Mortgage covered bonds	30.06.2019	31.12.2018
1. Nominal value of covered bonds listed on the market	7 155 779	7 170 670
2. The nominal value of receivables entered in the collateral register of covered bonds underlying the issue of covered bonds (value on not matured capital)	9 993 426	9 349 392
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionally underlying the issue of covered bonds (Substitute collateral)	140 957	119 500
4. Level of collateral the covered bonds by receivables (2/1)	139.66%	130.38%
5. Total covered bonds collateral level (2+3) / 1	141.63%	132.05%
6. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 60% of the mortgage lending value of real estate for commercial real estate	3 708 090	3 502 082
7. The value of receivables as collateral issue of mortgage covered bonds to the part which not exceeding 80% of the mortgage lending value of real estate for residential property	5 400 704	4 927 634
Permissible value of Substitute collateral	30.06.2019	31.12.2018
1. Cash invested in treasury bonds	200 000	200 000
2. Interests from covered bonds on the market which will be paid in the next 6 months (Surplus)	59 043	80 500
3. Permissible value of Substitute collateral (1-2)	140 957	119 500
Mortgage covered bonds	30.06.2019	31.12.2018
Nominal value of issued mortgage bonds under the polish programme for the issuance	5 880 179	5 880 670
Nominal value of issued mortgage bonds under the international programme for the issuance	1 275 600	1 290 000

The total nominal amount of the covered bonds in trading under the polish mortgage bonds issue programme as at 30 June 2019 as and 31 December 2018 was listed on two markets under Catalyst: the regulated market of Securities BondSpot maintained by BondSpot S.A. and the regulated parallel stock exchange market of Warsaw Stock Exchange.

The total nominal amount of the covered bonds in trading under the international mortgage bonds issue programme as at 30 June 2019 and 31 December 2018 was listed on the regulated market maintained by the Luxembourg Stock Exchange.

As at 30.06.2019

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2019	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (PLN)	30 000	2.75%	Mortgage covered bonds register	28.07.2020	130 366	1 955	132 321
Mortgage covered bonds (PLN)	8 000	3.5%	Mortgage covered bonds register	28.02.2029	33 903	6 330	40 233
Mortgage covered bonds (PLN)	15 000	3.5%	Mortgage covered bonds register	15.03.2029	63 591	11 917	75 508
Mortgage covered bonds (PLN)	20 000	3.2%	Mortgage covered bonds register	30.05.2029	84 076	15 814	99 890
Mortgage covered bonds (PLN)	300 000	2.72%	Mortgage covered bonds register	28.07.2022	302 865	-	302 865
Mortgage covered bonds (PLN)	200 000	2.72%	Mortgage covered bonds register	20.02.2023	201 495	-	201 495
Mortgage covered bonds (PLN)	50 000	0.56%	Mortgage covered bonds register	15.10.2019	212 819	-	212 819
Mortgage covered bonds (PLN)	200 000	2.57%	Mortgage covered bonds register	28.04.2022	200 536	-	200 536
Mortgage covered bonds (PLN)	20 000	1.135%	Mortgage covered bonds register	25.02.2022	85 014	1 917	86 931
Mortgage covered bonds (PLN)	250 000	2.66%	Mortgage covered bonds register	16.10.2023	250 735	-	250 735
Mortgage covered bonds (PLN)	11 000	1.285%	Mortgage covered bonds register	24.04.2025	46 644	1 706	48 349
Mortgage covered bonds (PLN)	50 000	0.381%	Mortgage covered bonds register	24.06.2020	212 485	-	212 485
Mortgage covered bonds (PLN)	500 000	2.82%	Mortgage covered bonds register	10.09.2020	500 441	-	500 441
Mortgage covered bonds (PLN)	255 000	2.87%	Mortgage covered bonds register	20.09.2021	254 850	-	254 850
Mortgage covered bonds (PLN)	300 000	2.92%	Mortgage covered bonds register	05.03.2021	300 313	-	300 313
Mortgage covered bonds (PLN)	50 000	0.548%	Mortgage covered bonds register	21.06.2021	212 383	-	212 383
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	28.04.2020	50 221	-	50 221
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	28.04.2020	100 444	-	100 444
Mortgage covered bonds (PLN)	35 000	1.183%	Mortgage covered bonds register	20.09.2026	149 730	4 529	154 259
Mortgage covered bonds (PLN)	13 000	1.18%	Mortgage covered bonds register	20.09.2026	55 597	1 307	56 904
Mortgage covered bonds (PLN)	24 900	0.94%	Mortgage covered bonds register	01.02.2024	106 071	3 525	109 596
Mortgage covered bonds (PLN)	500 000	2.47%	Mortgage covered bonds register	10.09.2022	499 742	-	499 742
Mortgage covered bonds (PLN)	1 000 000	2.54%	Mortgage covered bonds register	15.09.2023	998 440	-	998 440
Mortgage covered bonds (PLN)	100 000	0.612%	Mortgage covered bonds register	22.06.2022	424 564	7 166	431 730
Mortgage covered bonds (PLN)	300 000	1.073%	Mortgage covered bonds register	05.03.2025	1 276 724	59 672	1 336 397
Mortgage covered bonds (PLN)	208 000	2.30%	Mortgage covered bonds register	10.06.2024	207 940	-	207 940
Mortgage covered bonds (PLN)	51 100	2.30%	Mortgage covered bonds register	10.06.2024	50 960	-	50 960
Mortgage covered bonds (PLN)	40 000	2.30%	Mortgage covered bonds register	10.06.2024	39 988	-	39 988
Mortgage covered bonds (PLN)	900	2.30%	Mortgage covered bonds register	10.06.2024	900	-	900
Mortgage covered bonds (PLN)	10 000	2.30%	Mortgage covered bonds register	10.06.2024	9 961	-	9 961
Mortgage covered bonds (PLN)	100 000	2.52%	Mortgage covered bonds register	20.12.2028	99 780	-	99 780
Bonds (PLN)	200 000	2.16%	no collateral	14.08.2019	201 018	-	201 018
Bonds (PLN)	50 000	2.17%	no collateral	09.01.2020	50 233	-	50 233
Bonds (PLN)	65 000	2.39%	no collateral	21.01.2022	65 601	-	65 601
Bonds (PLN)	100 000	2.17%	no collateral	25.03.2020	99 999	-	99 999
Bonds (PLN)	200 000	2.17%	no collateral	27.07.2020	199 940	-	199 940
Bonds (PLN)	100 000	2.32%	no collateral	28.06.2021	99 926	-	99 926
Debt securities in issue (carrying value)					7 880 296	115 837	7 996 133

As at 31.12.2018

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2018	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (PLN)	80 000	2.79%	Mortgage covered bonds register	2019-06-21	80 061	-	80 061
Mortgage covered bonds (EUR)	30 000	2.75%	Mortgage covered bonds register	2020-07-28	129 886	2 541	132 427
Mortgage covered bonds (EUR)	8 000	3.5%	Mortgage covered bonds register	2029-02-28	34 878	4 293	39 171
Mortgage covered bonds (EUR)	15 000	3.5%	Mortgage covered bonds register	2029-03-15	65 423	8 081	73 504
Mortgage covered bonds (EUR)	20 000	3.2%	Mortgage covered bonds register	2029-05-30	86 368	10 640	97 008
Mortgage covered bonds (PLN)	300 000	2.71%	Mortgage covered bonds register	2022-07-28	302 786	-	302 786
Mortgage covered bonds (PLN)	200 000	2.71%	Mortgage covered bonds register	2023-02-20	201 474	-	201 474
Mortgage covered bonds (EUR)	50 000	0.552%	Mortgage covered bonds register	2019-10-15	215 161	-	215 161
Mortgage covered bonds (PLN)	200 000	2.57%	Mortgage covered bonds register	2022-04-28	200 491	-	200 491
Mortgage covered bonds (EUR)	20 000	1.135%	Mortgage covered bonds register	2022-02-25	86 402	1 441	87 843
Mortgage covered bonds (PLN)	250 000	2.66%	Mortgage covered bonds register	2023-10-16	250 682	-	250 682
Mortgage covered bonds (EUR)	11 000	1.285%	Mortgage covered bonds register	2025-04-24	47 460	282	47 742
Mortgage covered bonds (EUR)	50 000	0.381%	Mortgage covered bonds register	2020-06-24	214 827	-	214 827
Mortgage covered bonds (PLN)	500 000	2.82%	Mortgage covered bonds register	2020-09-10	500 331	-	500 331
Mortgage covered bonds (PLN)	255 000	2.87%	Mortgage covered bonds register	2021-09-20	254 815	-	254 815
Mortgage covered bonds (PLN)	300 000	2.92%	Mortgage covered bonds register	2021-03-05	300 248	-	300 248
Mortgage covered bonds (EUR)	50 000	0.559%	Mortgage covered bonds register	2021-06-21	214 729	-	214 729
Mortgage covered bonds (PLN)	50 000	2.91%	Mortgage covered bonds register	2020-04-28	50 932	-	50 932
Mortgage covered bonds (PLN)	100 000	2.91%	Mortgage covered bonds register	2020-04-28	101 869	-	101 869
Mortgage covered bonds (EUR)	35 000	1.183%	Mortgage covered bonds register	2026-09-20	150 513	(2 695)	147 818
Mortgage covered bonds (EUR)	13 000	1.18%	Mortgage covered bonds register	2026-09-20	55 887	(1 561)	54 326
Mortgage covered bonds (EUR)	24 900	0.94%	Mortgage covered bonds register	2024-02-01	107 756	1 416	109 172
Mortgage covered bonds (PLN)	500 000	2.47%	Mortgage covered bonds register	2022-09-10	499 633	-	499 633
Mortgage covered bonds (PLN)	1 000 000	2.54%	Mortgage covered bonds register	2023-09-15	998 229	-	998 229
Mortgage covered bonds (EUR)	100 000	0.612%	Mortgage covered bonds register	2022-06-22	430 591	3 336	433 927
Mortgage covered bonds (EUR)	300 000	1.073%	Mortgage covered bonds register	2025-03-05	1 295 901	23 775	1 319 676
Mortgage covered bonds (PLN)	208 000	2.30%	Mortgage covered bonds register	2024-06-10	207 921	-	207 921
Mortgage covered bonds (PLN)	51 100	2.30%	Mortgage covered bonds register	2024-06-10	50 944	-	50 944
Mortgage covered bonds (PLN)	40 000	2.30%	Mortgage covered bonds register	2024-06-10	39 985	-	39 985
Mortgage covered bonds (PLN)	900	2.30%	Mortgage covered bonds register	2024-06-10	900	-	900
Mortgage covered bonds (PLN)	10 000	2.30%	Mortgage covered bonds register	2024-06-10	9 957	-	9 957
Bonds (PLN)	20 000	3.23%	no collateral	2019-01-16	20 298	-	20 298
Bonds (PLN)	60 000	3.17%	no collateral	2019-01-21	60 368	-	60 368
Bonds (PLN)	200 000	2.16%	no collateral	2019-08-14	200 980	-	200 980
Bonds (PLN)	50 000	2.17%	no collateral	2020-01-09	50 224	-	50 224
Short-term issues (with original maturity up to 1 year)							
Bonds (PLN)	300 000	2.14%	no collateral	2019-06-27	299 984	-	299 984
Debt securities in issue (carrying value)					7 818 894	51 549	7 870 443

25. Other liabilities

	30.06.2019	31.12.2018
Other liabilities (due to)	31 771	28 842
- accrued expenses	24 426	21 652
- settlements due to tax from Bank balance sheet items	2 790	2 300
- provision for holiday equivalents	1 017	1 147
- deferred income	1 496	1 521
- settlements with insurers	1 203	1 241
- liabilities due to income tax on salaries, Social Security contributions and VAT	826	754
- other	13	227
Other liabilities, in total	31 771	28 842

26. Provisions

	30.06.2019	31.12.2018
Provisions (due to)	1 978	2 557
- off-balance sheet contingent liabilities granted	1 735	2 313
- provisions for retirement and disability benefits	155	155
- reserves for litigation	88	89
Provision, in total	1 978	2 557

27. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2019	31.12.2018	30.06.2018
As at the beginning of the period	57 411	44 658	44 658
Impact of the implementation of IFRS 9 on 1 January 2018	-	4 997	4 997
Restated opening balance	57 411	49 655	49 655
- Changes recognized in the income statement	12 233	7 780	3 518
- Changes recognized in other comprehensive income	25	(24)	50
As at the end of the period	69 669	57 411	53 223

Deferred income tax liabilities	30.06.2019	31.12.2018	30.06.2018
As at the beginning of the period	(44 825)	(34 086)	(34 086)
Impact of the implementation of IFRS 9 on 1 January 2018	-	(1 861)	(1 861)
Restated opening balance	(44 825)	(35 947)	(35 947)
- Changes recognized in the income statement	(11 112)	(10 368)	(6 628)
- Changes recognized in other comprehensive income	503	(371)	(242)
- Other changes	-	1 861	1 861
As at the end of the period	(55 434)	(44 825)	(40 956)

Income tax	30.06.2019	31.12.2018	30.06.2018
Current income tax	(10 725)	(17 586)	(4 753)
Adjustments in respect of current income tax from previous years	(23)	717	717
Deferred income tax recognised in the income statement	1 121	(2 588)	(3 110)
Income tax recognised in the income statement	(9 627)	(19 457)	(7 146)
Recognised in other comprehensive income	528	(395)	(192)
Other changes	-	1 861	1 861
Total income tax	(9 099)	(19 852)	(5 477)

28. Fair value of assets and liabilities

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

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

The main and the most advantageous markets must be both available to the Bank.

Following market practices the Bank values open positions in financial instruments using either the mark-to-market approach or is applying pricing models well established in market practice (mark-to-model method) which use as inputs market prices or market parameters, and in few cases parameters estimated internally by the Bank. All significant open positions in derivatives (currency or interest rates) are valued by marked-to-model using prices or parameters observable in the market.

The following sections present key assumptions and methods used by the Bank for estimation of the fair values of financial instruments.

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

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

Loans and advances to banks

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

Receivables due to loans and advances granted to clients

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

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

Financial assets at fair value through other comprehensive income.

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

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

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

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

Financial instruments representing liabilities include the following:

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

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

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

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

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

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

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

Financial assets and liabilities	30.06.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Cash and balances with the central bank	744	744	16 294	16 294
Amounts due from other banks	18 753	18 753	58 432	58 432
Loans and advances to customers, including:	12 102 412	12 629 132	10 930 534	11 373 116
Individual customers	7 262 321	7 673 120	6 194 760	6 520 829
Corporate customers	4 704 759	4 817 339	4 592 460	4 705 467
Public sector customers	105 023	108 364	111 371	114 877
Other financial institutions	30 309	30 309	31 943	31 943
Total financial assets	12 121 909	12 648 629	11 005 260	11 447 842
Financial liabilities at amortised cost				
Amounts due to other banks	4 108 815	4 108 815	3 179 878	3 179 878
Amounts due to customers, including:	6 583	6 583	3 099	3 099
Corporate customers	6 389	6 389	2 918	2 918
Individual customers	151	151	138	138
Public sector customers	43	43	43	43
Debt securities in issue	7 996 133	8 006 728	7 870 443	7 890 107
Subordinated liabilities	200 379	200 379	200 406	200 406
Total financial liabilities	12 311 910	12 322 505	11 253 826	11 273 490

The table below presents the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 30 June 2019.

30.06.2019	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and derivatives held for hedges	45 765	-	45 765	-
Derivative financial instruments, including:	45 765	-	45 765	-
Derivative financial instruments held for trading:	3 324	-	3 324	-
- Interest instruments	3 324	-	3 324	-
Derivative financial instruments held for hedging:	42 441	-	42 441	-
- Derivatives designated as fair value hedges	42 441	-	42 441	-
Non-trading financial assets mandatorily at fair value through profit or loss	179 477	-	-	179 477
Loans and advances to customers	179 477	-	-	179 477
- Corporate customers	179 477	-	-	179 477
Financial assets at fair value through other comprehensive income	1 173 542	965 639	207 903	-
- Treasury bonds	965 639	965 639	-	-
- Money bills	207 903	-	207 903	-
TOTAL FINANCIAL ASSETS	1 398 784	965 639	253 668	179 477
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	77	-	77	-
Derivative financial instruments held for trading:	77	-	77	-
- Currency instruments	77	-	77	-
TOTAL FINANCIAL LIABILITIES	77	-	77	-
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	1 398 784	965 639	253 668	179 477
TOTAL FINANCIAL LIABILITIES	77	-	77	-

The table below presents the fair value hierarchy of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values as of 31 December 2018.

31.12.2018	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
RECURRING FAIR VALUE MEASUREMENTS				
FINANCIAL ASSETS				
Financial assets held for trading and derivatives held for hedges	36 658	-	36 658	-
Derivative financial instruments, including:	36 658	-	36 658	-
Derivative financial instruments held for trading:	4 045	-	4 045	-
- Interest instruments	2 895	-	2 895	-
- Currency instruments	1 150	-	1 150	-
Derivative financial instruments held for hedging:	32 613	-	32 613	-
- Derivatives designated as fair value hedges	32 613	-	32 613	-
Non-trading financial assets mandatorily at fair value through profit or loss	208 181	-	-	208 181
Loans and advances to customers	208 181	-	-	208 181
- Corporate customers	208 181	-	-	208 181
Financial assets at fair value through other comprehensive income	1 069 392	979 043	89 989	-
- Treasury bonds	979 403	979 043	-	-
- Money bills	89 989	-	89 989	-
TOTAL FINANCIAL ASSETS	1 314 231	979 043	126 647	208 181
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	2 032	-	2 032	-
Derivative financial instruments held for trading:	2 032	-	2 032	-
- Currency instruments	2 032	-	2 032	-
TOTAL FINANCIAL LIABILITIES	2 032	-	2 032	-
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	1 314 231	979 043	126 647	208 181
TOTAL FINANCIAL LIABILITIES	2 032	-	2 032	-

With regard to financial instruments valued in repetitive way to the fair value classified as level 1 and 2 in hierarchy of fair value, any cases in which transfer between these levels may occur, are monitored by appropriate department on the basis of internal rules.

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

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed financial statements for the first half of 2019 and comparative data for 6 months of 2018, as at 31 December 2018, fulfil the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

In addition, selected explanatory information provide additional information in accordance with Decree of the Minister of Finance dated 29 March 2018 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws 2018, item 757).

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

For a detailed description of the Bank's accounting policies, see Notes 2 and 3 to these condensed financial statements for the first half of 2019. Accounting policies adopted by the Bank were applied consistently with respect to all the reporting periods presented in the financial statements, except for:

- accounting policies applied in connection with the implementation of IFRS 16 on 1 January 2019 which are presented in Section "New standards, interpretations and amendments to published standards" of Note 2;
- the principles for determination of the income tax expense in interim financial statements, change in presentation of selected items in the income statement and statement of cash flows which has been presented under Note 2 "Comparative data".

3. Seasonal or cyclical nature of the business

In the first half of 2019, as well as in the comparative periods presented, business operations of the Bank did not involve significant events that would be subject to seasonal or cyclical variations.

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

The implementation IFRS 16

From 1 January 2019, the Bank has implemented the International Financial Reporting Standard - IFRS 16: "Leases", whose impact on the statement of financial situation of the Bank as at 1 January 2019 has been presented under Note 2.26.

The amount of contribution to the Bank Guarantee Fund in 2019

In accordance with the Resolution of the Banking Guarantee Fund dated April 11, 2019, regarding the determination of the amount of contributions to the resolution fund for 2019 Bank recognized in the income statement on the current period a contribution in the amount of PLN 13 315 thousand (for 2018 in the amount of PLN 5 274 thousand).

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

Events as indicated above did not occur in the Bank.

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

In the first half of 2019 Bank issued mortgage bonds in the amount of PLN 100 000 thousand and bonds in the amount of PLN 465 000 thousand. In the same period, the Bank redeemed mortgage bonds in the amount of PLN 80,000 thousand, long-term bonds in the amount of PLN 80,000 thousand and short-term bonds in the amount of PLN 300,000 thousand. Data regarding the issue of debt securities are presented in Note 24 "Debt securities issued" of these condensed financial statements.

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

On 2 April 2019, the Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A., adopted the resolution on division of the 2018 net profit which does not provide for the payment of dividend for the year 2018.

8. Significant events after the end of the first half of 2019, which are not reflected in the condensed financial statements

On 11 July 2019, the Polish Financial Supervision Authority in Luxembourg accepted the new foreign prospectus of mBank Hipoteczny S.A. establishing a covered bond issue programme in the amount of EUR 3.000.000.000.

9. Effect of changes in the structure of the entity in the first half of 2019, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

- In January 2019, the sale of commercial loans was transferred to mBank S.A. The Bank's commercial loan portfolio will be expanded by way of purchase of debt claims from mBank S.A. As a result, the commercial loan sales division was transferred to mBank S.A. and the Management Board member, Mr Grzegorz Trawiński, responsible for this division, resigned from the position of the Management Board member of mBank Hipoteczny S.A. and became the director of the Real Estate Financing Department at mBank S.A.
- By virtue of Resolution No 19/2019 of the Supervisory Board of mBank Hipoteczny S.A. of 26 March 2019, Mr. Krzysztof Dubejko was appointed Member of the Management Board of mBank Hipoteczny S.A. in charge of Financial Markets. Previously, this function was performed by the President of the Management Board. As a result, the Bank's organizational structure has changed accordingly.

Following the change, the composition of the Bank's Management Board is as follows:

1.	Piotr Cyburt	-	Chairman of the Board
2.	Krzysztof Dubejko	-	Member of the Management Board for Financial Markets
3.	Andrzej Kulik	-	Member of the Management Board for Risk Management relevant to the Bank's operations
4.	Marcin Wojtachnio	-	Member of the Board for Loans, Accounting and IT

10. Changes in contingent liabilities

In the first half of 2019, as well as in the comparative periods presented, there were no significant changes in contingent liabilities of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Bank. Neither there were also any material changes in contingent liabilities of nature other than credit liabilities.

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

In the first half of 2019, events as indicated above did not occur in the Bank.

12. Revaluation write-offs on account of impairment of tangible fixed assets, intangible assets, or other assets as well as reversals of such write-offs

In the first half of 2019, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

13. Revaluation write-offs on account of impairment of financial assets

Data regarding write-offs on account of impairment of financial assets are presented under Note 14 of these condensed financial statements.

14. Reversals of provisions against restructuring costs

In the first half of 2019, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

15. Acquisitions and disposals of tangible fixed asset items

In the first half of 2019, as well as in the comparative periods presented, there were no material transactions of acquisition or disposal of any tangible fixed assets.

16. Material liabilities assumed on account of acquisition of tangible fixed assets

In the first half of 2019, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

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

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

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

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

19. Corrections of errors from previous reporting periods

In the statement of cash flows for the first half of 2018, the Bank adjusted cash flows from financing and operating activities by removing other financial liabilities with deferred payments under the agreement for the transfer of the portfolio of loans secured with mortgage on real estate in the amount of PLN 310,520 thousand from cash flows from financing activities due to the absence of cash flows in this item, and transferring these cash flows to operating activities. The change has no effect on the change in net cash, nor does it affect the income statement and the statement of financial position. The restatement of the statement of cash flows is presented in Section "Comparative figures" of Note 2.

20. Information on changes in the economic situation and operating conditions that have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether these assets and liabilities are included in the fair value or in the adjusted purchase price (amortized cost)

In the first half of 2019, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

21. Default or infringement of a loan agreement or failure to initiate composition proceedings

In the first half of 2019, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

22. 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 halfly report compared to the forecast

mBank Hipoteczny S.A. did not publish a performance forecast for the year 2019.

23. Registered share capital

The total number of ordinary shares as at 30 June 2019 was 3 360 000 shares (31 December 2018: 3 210 000 shares) at PLN 100 nominal value each. All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (STRUCTURE) AS AT 30 JUNE 2019							
Share type	Type of privilege	Type of limitation	Number of shares	Series / issue at par value (PLN)	Means of covering share capital	Registration date	Right to dividend
registred	-	-	500 000	50 000 000	cash	16.04.1999	01.01.2000
registred	-	-	850 000	85 000 000	cash	20.09.2000	01.01.2001
registred	-	-	400 000	40 000 000	cash	24.04.2006	01.01.2006
registred	-	-	1 000 000	100 000 000	cash	08.01.2013	01.01.2013
registred	-	-	100 000	10 000 000	cash	30.12.2014	01.01.2015
registred	-	-	140 000	14 000 000	cash	19.08.2015	01.01.2016
registred	-	-	100 000	10 000 000	cash	01.08.2016	01.01.2017
registred	-	-	120 000	12 000 000	cash	03.04.2017	01.01.2017
registred	-	-	150 000	15 000 000	cash	09.05.2019	01.01.2019
Total number of shares			3 360 000				
Total registered share capital				336 000 000			

On 7 March 2019, the Extraordinary General Meeting passed a resolution to increase the Bank's share capital and disapply the existing shareholder's pre-emptive rights. Under the resolution, the share capital of mBank Hipoteczny S.A. was increased by PLN 15,000 thousand, to PLN 336,000 thousand, through the issue of 150,000 ordinary registered shares with a par value of PLN 100 and issue price of PLN 1,000 per share. The new shares were offered for subscription to mBank S.A. in a private placement. The shares were paid for in full on 20 March 2019. On 9 May 2019, the registry court entered the increased share capital into the register of entrepreneurs. On 19 June 2019, the Polish Financial Supervision Authority granted consent for the classification of new shares to Common Equity Tier 1 capital.

24. Change in Bank shares and rights to shares held by managers and supervisors

As at the date of publishing the condensed financial statements for the first half of 2019 and as the end of the previous periods presented in the statements, the Members of the Bank's Management Board had no and they have no options for the Bank's shares.

In the first half of 2019, as well as in the comparative periods presented, Member of the Bank's Supervisory Board held no shares of the Bank and no options for the Bank's shares.

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

In the first half of 2019, as well as in the comparative periods presented, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority which represent at least 10% of the Bank's equity. In the presented reporting periods there were no significant cases brought by the Bank or against the Bank, nor has the Bank created any provisions for pending litigation.

26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2019 and 31 December 2018.

	30.06.2019	31.12.2018
1. Off-balance sheet liabilities granted and received	2 044 385	2 596 327
Liabilities granted	963 903	1 515 637
1. Financial liabilities::	963 903	1 515 637
a) Lending commitments	963 903	1 506 428
b) Operating lease liabilities	n/a	9 209
Liabilities received:	1 080 482	1 080 690
Financial liabilities received	1 080 482	1 080 690
2. Derivative financial instruments (nominal value of contracts)	6 009 035	6 786 709
1. Interest rate derivatives	5 205 958	5 261 340
2. Foreign exchange derivatives	803 077	1 525 369
Total off-balance sheet items	8 053 420	9 383 036

27. Transactions with related parties

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

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

The values of the Bank's transactions with related entities are presented in the tables below. The amounts of transactions include assets, liabilities as at 30 June 2019, 31 December 2018 and and related costs and income in the periods from 1 January to 30 June 2019, 1 January to 30 June 2018.

The total cost of remuneration of the members of the Bank's Supervisory Board and the members of the Management Board performing their functions from 1 January to 30 June 2019, recognized in the profit and loss account of the Bank in this period, amounted to PLN 1 720 thousand (in the period from 1 January to 30 June 2018: PLN 1 875 thousand). With respect to the Members of the Bank's Management Board, the remuneration cost also includes the cost of provision for remuneration under the incentive scheme.

mBank Hipoteczny S.A.

IFRS Condensed Financial Statements for the first half of 2019

PLN (000's)

The table below presents the amounts of the Bank's transactions with related entities. The amounts of transactions include assets, liabilities as at 30 June 2019 and 31 December 2018 and related costs and income in the periods from 1 January to 30 June 2019 and 1 January to 30 June 2018.

(PLN '000)	mBank Group companies*		mBank S.A.		Commerzbank Group companies**	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
As at the end of the period						
Statement of financial position						
Assets	335	-	63 841	94 756	-	-
Liabilities	337	-	4 801 911	3 880 031	853 553	933 822
Contingent liabilities						
Commitments received	-	-	1 080 482	1 080 690	-	-
Commitments granted	-	394	-	4 321	-	-
Derivatives (purchase, sales)						
IRS contracts	-	-	1 184 416	1 194 400	-	-
FX SWAP contracts	-	-	792 448	1 498 271	-	-

(PLN '000)	mBank Group companies*		mBank S.A.		Commerzbank Group companies**	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
As at the end of the period						
Income statement						
Interest income	172	181	9 160	11 598	-	-
Interest expense	3	-	(56 060)	(56 670)	(2 281)	(3 069)
Fee and commission expenses	-	(104)	(3 296)	(1 652)	-	-
Result on trading activities	-	-	17 943	(23 674)	-	-
Other operating income	-	-	54	75	-	-
General administrative costs	(116)	(459)	(568)	(1 436)	-	-

* The item "mBank Group companies" includes transactions with the following mBank Group companies: mFinanse S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance S.A., mLeasing Sp. z o.o.

** The item "Commerzbank Group companies" includes transactions of acquisition of mortgage covered bonds on the secondary market by Commerzbank AG and Comdirect Bank AG.

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

In the first half of 2019, as well as in the comparative periods presented, events as indicated above did not occur at the Bank.

29. Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance and their changes as well as information relevant to an assessment of the issuer's capacity to meet its liabilities

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

On 11 March 2019, Mr Jakub Fast resigned as Member of the Supervisory Board of mBank Hipoteczny S.A. with effect from 31 March 2019.

By virtue of Resolution No 3 of the Extraordinary General Meeting of 28 May 2019, Mr Paweł Przybyłek was appointed member of the Supervisory Board of mBank Hipoteczny S.A.

Following the change, the composition of the Supervisory Board of mBank Hipoteczny S.A. is as follows:

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

■ Termination of an agreement with Fitch Ratings (Fitch Polska S.A.) with respect to the rating of mortgage bonds

On 25 May 2019, the Management Board of mBank Hipoteczny S.A. terminated the agreement with the Fitch Polska S.A. (Fitch Ratings) rating agency which concerned the covered bonds issued by the Bank. Thus, Fitch Ratings revoked the rating of covered bonds issued by mBank Hipoteczny S.A. which were rated A with a stable outlook. At the same time, covered bonds issued by mBank Hipoteczny S.A. are rated Aa3 by Moody's Investors Service.

30. Other information

■ Verification activities performed by the Tax Office

On 16 April 2019, the Bank received a request from the First Mazovian Tax Office to submit documents as part of the verification activities performed by the Tax Office with respect to the correctness of preparation of CIT-8 and CIT-8/0 tax returns for 2017. The documents concerned the purchase of consulting services, payments to non-residents and transfer pricing documentation for 2017.

■ Distribution of profit for 2018

On 2 April 2019, the Annual General Meeting of mBank Hipoteczny S.A. passed a resolution on the allocation of the net profit for 2018. The net profit earned by the Bank in 2018, amounting to PLN 41.237 thousand, was allocated as follows:

- 1) PLN 13 371 thousand – to the coverage of loss brought forward, resulting from the implementation of IFRS 9;
- 2) PLN 27 866 thousand – to the Bank's supplementary capital.

■ Appointment of the Remuneration Committee

On 18 April 2019, the Supervisory Board of mBank Hipoteczny S.A. resolved to appoint the Remuneration Committee composed of the following members:

1.	Frank Bock	-	Chairman
2.	Andreas Boeger	-	Vice-chairman
3.	Lidia Jabłonowska-Luba	-	Member of the Remuneration Committee
4.	Cezary Kocik	-	Member of the Remuneration Committee

■ Inspection by the Office of the Polish Financial Supervision Authority

Between 28 January and 26 February 2019, a comprehensive inspection was carried out at the Bank by the Office of the Polish Financial Supervision Authority, on the basis of a notification dated 10 January 2019. The inspection, carried out as at 31 December 2018, covered the following areas:

- 1) asset quality / credit risk management,
- 2) Liquidity risk management and financing,
- 3) Management of general interest rate risk in the non-trading book and market risk management,
- 4) Operational risk management,
- 5) Capital adequacy,
- 6) Bank management.

The results of the inspection showed that the Bank organised and formalised the process of managing various risks, but a number of irregularities were found in individual areas of operation. The Bank received post-inspection recommendations and notified the PFSA of the deadlines and actions to be taken in order to implement the recommendations. The results of the inspection do not have a material impact on these financial statements.