mBank Hipoteczny

mBank Hipoteczny S.A.

IFRS Condensed Financial Statements
for the first half of 2020

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 2020.

Selected financial data		in PLN `000		in EUR `000	
		Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019
I.	Interest income	208 099	223 683	46 855	52 165
II.	Fee and commission income	606	1 396	136	326
III.	Net trading income	240	3 631	54	847
IV.	Operating profit	19 931	42 967	4 488	10 020
V.	Profit before income tax	4 398	26 833	990	6 258
VI.	Net profit attributable to Owners of mBank Hipoteczny S.A.	1 194	17 206	269	4 013
VII.	Net cash flows from operating activities	1 167 621	(246 497)	262 901	(57 485)
VIII.	Net cash flows from investing activities	(6 735)	(10 421)	(1 516)	(2 430)
IX.	Net cash flows from financing activities	(1 160 020)	319 602	(261 189)	74 534
X.	Net increase/decrase in cash and cash equlvalents	866	62 684	195	14 618
XI.	Basic earnings per share / Diluted earnings per share (in PLN/EUR)	0,36	5,22	0,08	1,22

Selected financial data		in PLN `000			in EUR `000		
		As at			As at		
		30.06.2020	31.12.2019	30.06.2019	30.06.2020	31.12.2019	30.06.2019
I.	Total assets	13 122 781	13 187 908	13 602 817	2 938 375	3 096 843	3 199 157
II.	Amounts due to other banks	2 950 987	2 816 822	4 108 815	660 767	661 459	966 325
III.	Amounts due to customers	5 464	8 934	6 583	1 223	2 098	1 548
IV.	Equity attributable to Owners of mBank Hipoteczny S.A.	1 284 103	1 267 520	1 250 814	287 529	297 645	294 171
V.	Share capital	336 000	336 000	336 000	75 235	78 901	79 022
VI.	Number of shares	3 360 000	3 360 000	3 360 000	3 360 000	3 360 000	3 360 000
VII.	Book value per share / Diluted book value per share (in PLN/EUR)	382,17	377,24	372,27	85,57	88,58	87,55
VIII.	Total capital ratio (%)	18,52	18,23	17,43	18,52	18,23	17,43

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

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 30 June 2020: EUR 1 = PLN 4.4660, 31 December 2019: EUR 1 = PLN 4.2585 and 28 June 2019: EUR 1 = PLN 4.2520.
- 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 2020 and 2019: EUR 1 = PLN 4.4413 and EUR 1 = PLN 4.2880 respectively.

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IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed income statement

Total profit of mBank Hipoteczny S.A. for the first half of 2020 and the first half of 2019 relates to the result of continued operations.

	Note	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019
Interest income, including:		208 099	223 683
Interest income accounted for using the effecitve interest method		*190 710*	*203 913*
Income similar to interest on financial assets at fair value through profit or loss		*17 389*	*19 770*
Interest expense		*(124 813)*	*(131 942)*
Net interest income	5	**83 286**	**91 741**
Fee and commission income		606	1 396
Fee and commission expenses		(4 114)	(4 821)
Net fee and commission income	6	**(3 508)**	**(3 425)**
Net trading income, including:	7	240	3 631
Foreign exchange result		47	(110)
Gains or losses on financial assets and liabilities held for trading		(170)	28
Gains or losses from hedge accounting		363	3 713
Result from non-substancial modification	8	(3 307)	(2 265)
Result from derecognition of financial instruments not measured at fair value through profit or loss	9	(867)	217
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	(847)	564
Other operating income	11	584	918
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	14	(17 571)	(8 341)
Overhead costs	12	(33 251)	(36 194)
Depreciation		(4 270)	(3 395)
Other operating expenses	13	(558)	(484)
Operating result		**19 931**	**42 967**
Taxes on the Bank balance sheet items		(15 533)	(16 134)
Profit before income tax		**4 398**	**26 833**
Income tax	27	(3 204)	(9 627)
Net profit		**1 194**	**17 206**
Net profit attributable to shareholders of the mBank Hipoteczny S.A.		**1 194**	**17 206**
Weighted average number of ordinary shares / Diluted weighted average number of ordinary shares	15	**3 295 359**	**3 295 359**
Earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	15	**0,36**	**5,22**

Explanatory notes and selected explanatory data presented on pages 10 to 52 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of comprehensive income

	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019
Net profit	**1 194**	**17 206**
Other comprehensive income net of tax including:	**15 389**	**(2 251)**
Items that may be reclassified to the income statement		
Change in the valuation of debt financial instruments valued at fair value through other comprehensive income (gross)	6 062	(2 779)
Deferred tax on debt financial instruments measured at fair value through other comprehensive income	(1 153)	528
Change in the valuation of debt financial instruments measured at fair value through other comprehensive income (net)	4 909	(2 251)
Change in valuation due to cash flow hedge (gross)	12 938	-
Deferred tax due to cash flow hedges	(2 458)	-
Net cash flow hedge	10 480	-
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	**16 583**	**14 955**
Net total comprehensive income attributable to shareholders of the mBank Hipoteczny S.A.	**16 583**	**14 955**

Explanatory notes and selected explanatory data presented on pages 10 to 52 constitute an integral part of these condensed financial statements

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of financial position

ASSETS	Note	30.06.2020	31.12.2019
Cash and balances with the Central Bank		18 124	35 234
Financial assets held for trading and derivatives held for hedges	16	117 857	48 217
Non-trading financial assets mandatorily at fair value through profit or loss, including:	17	146 098	157 714
Loans and advances to customers	17	146 098	157 714
Financial assets at fair value through other comprehensive income	18	950 196	1 221 735
Financial assets at amortised cost, including:	19	11 800 595	11 642 344
Loans and advances to banks		212 770	13 912
Loans and advances to customers		11 587 825	11 628 432
Intangible assets	20	52 592	48 620
Tangible assets	21	15 895	16 301
Deferred income tax assets	27	14 193	10 123
Other assets	22	7 231	7 620
TOTAL ASSETS		**13 122 781**	**13 187 908**
LIABILITIES AND EQUITY			
Liabilities			
Financial liabilities held for trading and derivatives held for hedges	16	1 982	7 600
Financial liabilities measured at amortised cost, including:		11 803 093	11 883 589
Amounts due to banks	23	2 950 987	2 816 822
Amounts due to customers	23	5 464	8 934
Debt securities issued	24	8 646 335	8 857 401
Subordinated liabilities		200 307	200 432
Provisions	26	1 050	2 276
Current income tax liabilities		4 950	8 418
Other liabilities	25	27 603	18 505
TOTAL LIABILITIES		**11 838 678**	**11 920 388**
Equity			
Share capital:		**884 631**	**884 631**
Registered share capital		336 000	336 000
Share premium		548 631	548 631
Retained earnings:		**384 026**	**382 832**
Profit from the previous years		382 832	345 748
Profit for the current year		1 194	37 084
Other components of equity		**15 446**	**57**
TOTAL EQUITY		**1 284 103**	**1 267 520**
TOTAL LIABILITIES AND EQUITY		**13 122 781**	**13 187 908**
Total capital ratio (%)		**18,52**	**18,23**
Common Equity Tier 1 ratio		**15,72**	**15,45**
Book value		**1 284 103**	**1 267 520**
Number of shares		**3 360 000**	**3 360 000**
Book value per one share (in PLN)		**382,17**	**377,24**

Explanatory notes and selected explanatory data presented on pages 10 to 52 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of changes in equity

Changes in equity from 1 January 2020 to 30 June 2020

	Share capital		Retained earnings				Other components of equity			Total
	Registered share capital	Share premium	Other supplementary capital	General banking risk reserve	Retained profit from the previous years	Profit for the current period	Cash flow hedge	Valuation of financial assets at fair value through other comprehensive income	Actuarial gains and losses relating to post-employment benefits	
As at 1 January 2020	**336 000**	**548 631**	**300 948**	**44 800**	**37 084**	**-**	**(3 008)**	**3 041**	**24**	**1 267 520**
Net profit	-	-	-	-	-	1 194	-	-	-	1 194
Other comprehensive income (gross)	-	-	-	-	-	-	12 938	6 062	-	19 000
Deferred tax on other comprehensive income	-	-	-	-	-	-	(2 458)	(1 153)	-	(3 611)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1 194**	**10 480**	**4 909**	**-**	**16 583**
Transfer to general banking risk reserve	-	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	37 084	-	(37 084)	-	-	-	-	-
As at 30 June 2020	**336 000**	**548 631**	**338 032**	**44 800**	**-**	**1 194**	**7 472**	**7 950**	**24**	**1 284 103**

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 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**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000’s)

Changes in equity from 1 January 2019 to 31 December 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 period	Cash flow hedge	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	-	-	-	-	-	37 084	-	-	-	37 084
Other comprehensive income (gross)	-	-	-	-	-	-	(3 714)	(3 006)	24	(6 696)
Deferred tax on other comprehensive income	-	-	-	-	-	-	706	571	(4)	1 273
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**37 084**	**(3 008)**	**(2 435)**	**20**	**31 661**
Transfer to general banking risk reserve	-	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	27 866	-	(27 866)	-	-	-	-	-
Issue of shares	15 000	135 000	-	-	-	-	-	-	-	150 000
Share issue costs	-	(88)	-	-	-	-	-	-	-	(88)
As at 31 December 2019	**336 000**	**548 631**	**300 948**	**44 800**	**-**	**37 084**	**(3 008)**	**3 041**	**24**	**1 267 520**

Explanatory notes and selected explanatory data presented on pages 10 to 52 constitute an integral part of these condensed financial statements.

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

Condensed statement of cash flows

	Period from 01.01.2020 to 30.06.2020	Period from 01.01.2019 to 30.06.2019
A. Cash flows from operating activities	**1 173 521**	**(246 497)**
Profit before income tax	**4 398**	**26 833**
Adjustments:	***1 169 123***	***(273 330)***
Income taxes paid	(10 744)	(17 184)
Amortisation	4 270	3 395
Interest income (income statement)	(208 099)	(223 683)
Interest expense (income statement)	124 813	131 942
Interest received	136 918	210 910
Interest paid	(16 151)	(8 692)
Change in assets and liabilities held for trading and derivatives held for hedges	(55 813)	(11 455)
Change in loans and advances to customers	105 883	(1 136 066)
Changes in financial assets at fair value through other comprehensive income	106 974	10 442
Changes in other assets	388	(4 026)
Changes in amounts due to other banks	784 020	1 038 318
Changes in amounts due to customers	(2 154)	4 692
Changes in debt securities in issue	192 481	(271 266)
Changes in subordinated liabilities		
Changes in provisions	(1 226)	(579)
Changes in other liabilities	9 098	2 929
Result on disposal of intangible assets and tangible fixed assets	(151)	(27)
Other changes in intangible assets, tangible assets	(950)	(2 980)
Net cash generated from operating activities	**1 173 521**	**(246 497)**
B. Cash flows from investing activities	**(6 735)**	**(10 421)**
Investing activity inflows	**31**	**37**
Due to the disposal of intangible assets and tangible fixed assets	31	37
Investing activity outflows	**6 766**	**10 458**
Due to the purchase of intangible assets and tangible fixed assets	6 766	10 458
Net cash generated from investing activities	**(6 735)**	**(10 421)**
C. Cash flows from financing activities	**(1 160 020)**	**319 602**
Financing activity inflows	**98 941**	**721 513**
Due to the issue of debt securities	95 000	565 000
Due to share issue	-	149 912
Interest received from hedging derivative financial instruments	3 941	6 601
Financing activities outflows	**1 258 961**	**401 911**
Due to the repayment of loans and advances from banks	655 533	113 315
Due to the issue of debt securities	522 660	160 000
Due to lease payments	1 570	1 414
Interest paid from loans received, debt securities in issue, subordinated loans	79 198	127 182
Net cash from financing activities	**(1 160 020)**	**319 602**
Net increase / decrease in cash and cash equivalents, total (A+B+C)	**6 766**	**62 684**
Cash and cash equivalents as at the beginning of the reporting period, including:	**269 128**	**164 715**
Cash and balances with the central bank	35 234	16 294
Amounts due from other banks	13 912	58 432
Investment securities with maturity of up to 3 months from the date of purchase	219 982	89 989
Cash and cash equivalents as at the end of the reporting period, including:	**275 894**	**227 399**
Cash and balances with the central bank	18 124	744
Amounts due from other banks	212 770	18 753
Investment securities with maturity of up to 3 months from the date of purchase	45 000	207 902

Explanatory notes and selected explanatory data presented on pages 10 to 52 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 2020 the employment in the Bank was 125 FTEs and 134 persons (31 December 2019: 130 FTEs; 140 persons).

Average employment in the first half of 2020 was 139 persons, in the first half of 2019 it was 141 persons.

These condensed financial statements were approved by the Management Board of mBank Hipoteczny S.A. on 4 August 2020.

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 2020. Comparative data presented in these condensed financial statements relate to the period on 31 December 2019 and to the period of 6 months ended on 30 June 2020.

These condensed financial statements are standalone financial statements.

Both as at 30 June 2020 and as at 31 December 2019 and as at 30 June 2019, 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 2019.

The data for the year 2019 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.
Due to the current situation with regard to COVID-19, based on the analyzes carried out at the moment, no significant uncertainty for the continuation of operations has been identified.

In the Bank's view, the areas of adverse effect of the epidemic on business processes are as follows: credit risk, liquidity risk, financial stability risk and operational risk. Based on internal analyses of current liquidity and stress scenarios concerning the development of the Bank's regulatory indicators in the future, in the opinion of the Board of Executives, the Bank does not identify significant uncertainties related to the assumption of continuing operations in the foreseeable future.

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

These financial statements include the requirements of all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the related with them interpretations which have been endorsed and binding for annual periods starting on 1 January 2020.

Standards and interpretations not yet approved by the European Union:

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

- Amendments to IFRS 16 Covid-19-Related Rent Concessions, published by International Accounting Standards Board on 28 May 2020, binding for annuals periods starting on or after 1 June 2020.

  Amendments to IFRS 16 provides practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

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

- IFRS 17, *Insurance contracts*, published by the International Accounting Standards Board ("IASB") on 18 May 2017, binding for annual periods starting on or after 1 January 2023.

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

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

- Amendments to IFRS 17, published by International Accounting Standards Board on 25 June 2020, binding for annuals periods starting on or after 1 June 2023.

  Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage. The profit recognition pattern for insurance contracts under IFRS 17 has been amended to reflect insurance coverage and any investment services provided. Insurance contracts are now required to be presented on the balance sheet at the portfolio level. The amendments addresses also accounting mismatches that arise when an entity reinsures onerous contracts and recognizes losses on the underlying contracts on initial recognition.

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

- Amendments to IAS 1, Classification of liabilities as current or non-current, published by IASB on 23 January 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.

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

- Amendment to IAS 1 Classification of Liabilities as Current or Non-Current- Deferral of Effective Date, published by IASB on 15 July 2020, binding for annuals periods starting on or after 1 January 2023.

  Amendment to IAS 1 provides entities an operational relief by deferring the effective date of the amendments to the Standard by one year to annual reporting periods beginning on or after 1 January 2023.

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

- Annual Improvements to IFRS Standards 2018-2020, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture.

  The amendment to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

  The amendment to IFRS 9 clarifies which fees the entity includes when it applies the '10 per cent test' in assessing whether to derecognize a financial liability. A entity includes only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other's behalf.

  The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives.

  The amendment to IAS 41 removes the requirement to exclude cash flows for taxation when measuring fair value of a biological asset using a parent value technique. This will ensure consistency with the requirements in IFRS 13 Fair Value Measurement.

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

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

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

- Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IAS 37 specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

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

- Amendments to IFRS 3 Reference to the Conceptual Framework, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022.

  Amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. They also added a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of conceptual framework) to identify the liabilities it has assumed in business combination. Moreover, the standard added an explicit statement that an acquirer does not recognize contingent asset acquired in a business combination.

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

- Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9, published by International Accounting Standards Board on 25 June 2020, binding for annuals periods starting on or after 1 June 2023.

  Amendments to IFRS 4 provides a temporary exemption that permits the insurer to apply IAS 39 rather than IFRS 9 Financial Instruments. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.

  The Bank is of the opinion that the application of the changes to the standard will have no significant 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.

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. If there is objective evidence of impairment of loan for exposures classified in a stage 3, the amount of impairment is calculated as a difference between balance sheet value for a given element of asset and current value of estimated future cash flows, discounted according to original effective interest rate of a given element of financial assets). If the current value of estimated cash flows for the portfolio of loans with recognized individual impairment changed by +/- 10%, as at 30 June 2020 the estimated amount of loan impairment would decrease by PLN 17 119 thousand or increase by PLN 23 835 thousand (as at 31 December 2019, the amount of estimated cash flows would decrease by o 13 601 or increase by 20 242). This estimate was made for a portfolio of loans in the case of which impairment is recognized on the basis of an individual analysis of future cash flows from recoveries from collateral (stage 3). The principles for measuring impairment are described in Note 2.8.
The amount of losses incurred in the first half of 2020 was higher than the amount of losses incurred in the corresponding period of last year. The main factor that caused the increase was the necessity to create a write-down for the identified defaults in the individual method and for the exposures covered by the portfolio method, which was caused by the impact of the COVID-19 pandemic.
The amount of losses incurred in the first half of 2020 was higher than the amount of losses incurred in the corresponding period of the previous year - an increase from PLN 7,629 thousand to PLN 19,798 thousand. The main factor that caused the increase was the necessity to create a write-down for the identified defaults in the individual method and for exposures covered by the portfolio method, which was caused by the impact of the COVID-19 pandemic.
The Bank made a judgment on the reclassification of write-downs to specific baskets, in particular with respect to the identification of a significant credit growth risk and identification of the reasons for the default in the individual method.

Impact of the COVID-19 pandemic on the Bank's operations

Assistance measures taken by the Bank following the COVID-19 pandemic

In the context of the crisis triggered by the COVID-19 pandemic, the bank offers its customers a range of assistance tools to support them in the difficult situation following the outbreak. The aim of these tools is to help customers to maintain their liquidity by reducing their financial burden in the short term.

The tools used by the Bank are consistent with the position of the Banks regarding the unification of the rules of offering assistance tools to banking sector customers. This position is a non-statutory moratorium within the meaning of the guidelines of the European Banking Authority on statutory and non-statutory moratoriums on loan repayments, which the Banks apply in connection with the

COVID-19 crisis. It was notified by the Polish Financial Supervision Authority to the European Banking Authority.

In the area of commercial banking, mBH has unchanged rules of qualifying borrowers for Forborne status in accordance with the Manual Principles for classification of receivables to Forborne status and Non-Performing category in the area of commercial banking of mBank Hipoteczny S.A. Between April 2020 and June 2020, 7 borrowers of the Bank were granted forborne status (total exposure is PLN 84.35 million).

In the area of retail banking - Following EBA guidelines, exposures in the 31+ DPD delay bands, on which the Bank agreed to grant aid, will be classified as Forborne unless we find no indication of the client's financial difficulties.The moratorium includes aid instruments granted from 13 March to 30 September 2020.

As regards the activity of the Retail Banking area, the Bank allowed its customers to apply for a deferral of capital or capital and interest payments of a part of instalments, for a period of up to 6 months indicated by them, with a possibility to extend the loan term by the moratorium's duration. Applications meeting the conditions set by the sector's position are considered in a simplified procedure, i.e. without the need to examine the customer's ability to repay the debt. The application process is supported by a mechanism of automatic verification of boundary conditions (inter alia, no arrears in repayment of more than one instalment, no grace period granted during the last 12 months, at least 6 months of repayment history). In case of a positive result of the verification, the customer's request is automatically accepted. Requests from customers who have not passed the automatic verification are considered by a credit analyst.

When granting a capital grace, the amount of capital outstanding after the grace period shall be divided, according to an algorithm (instalments equal to or decreasing - according to the agreement), over the outstanding period. In the case of an extension of the lending period, the outstanding period is longer, which results in lower instalments after the grace period than in the case of the capital grace without extending the lending period. In the case of granting a capital-interest grace for capital, the mechanism is identical to that of the capital grace, whereas the suspended interest is evenly distributed over the outstanding period after the grace period.

Assistance instruments under this moratorium shall be available to all retail clients whose delay in repayment of principal or interest does not exceed 30 days at the date of application for assistance and shall only apply to loans granted before 13 March 2020 which have not been reclassified as default.

The Bank also offers its customers support under the so-called "anti-crisis shield 4.0", in force since 23 June 2020, under which customers who lost their jobs or other main source of income after 13 March 2020 have the right to suspend for up to 3 months the loan repayment without charging interest during the suspension period. This facility is a statutory moratorium within the meaning of the European Banking Authority guidelines. The scale of applications for this form of assistance is insignificant at the moment. As of 30 June 2020, 23 applications for aid under this moratorium were submitted, of which aid was granted 19 borrowers. The gross carrying amount of their liabilities as at 30 June 2020 was PLN 2.3 million.

In the Commercial Banking business area in connection with COVID-19, the Bank allows all corporate clients to suspend the repayment of the capital part of instalments for a maximum period of 6 months. In addition, small and medium-sized enterprises, which are the Bank's customers, have the possibility to suspend the repayment of entire capital and interest instalments for up to 3 months.

Assistance instruments under these moratoria are available to all corporate customers who as at March 15, 2020, in accordance with the Bank's internal regulations, were not reclassified to the default category and only concern loans granted before 8 March 2020. In addition, when providing assistance, the Bank requires that collateral be maintained at least at the same level and distribution to the owner be limited.

The tables below present information on the scope of moratoria applied in the Bank under COVID-19.

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

	30.06.2020				
	Number of obligors	Number of obligors	Gross carrying amount	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Net carrying amount/fair value
Moratoriums	**2 578**	**2 578**	**2 765 452**	**(20 833)**	**2 750 360**
Individual customers	2 470	2 470	819 736	(1 845)	817 891
Corporate customers	108	108	1 945 716	(18 988)	1 932 469

	Performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: grace period of capital and interest	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Accumulated impairment
Moratoriums	**2 674 863**	**128 420**	**23 179**	**653 876**	**(15 846)**
Individual customers	816 306	7 372	23 179	73 410	(1 658)
Corporate customers	1 858 557	121 048	-	580 466	(14 188)

	Non-performing				
	Gross carrying amount	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days	Accumulated impairment	Inflows to non-performing exposures
Moratoriums	**90 590**	**43 991**	**44 095**	**(4 988)**	**334**
Individual customers	3 430	2 688	2 792	(187)	334
Corporate customers	87 160	41 303	41 303	(4 801)	-

In the face of an unprecedented situation caused by the COVID-19 pandemic, mBank Mortgage Bank, operating within the mBank Group, offered its clients a suspension of capital repayments. Each retail client of the Bank, regardless of their expected financial situation, could apply for assistance remotely, as part of an automatic application acceptance process.

The vast majority of clients who received support under the moratorium on suspension of payments only benefited from the suspension of the capital part of the instalment - about 94% of the total exposure covered by the moratorium. This means that clients are still required to pay their liabilities only with a lower instalment. Delay in payment of interest instalments is subject to standard overdue calculation. Overdue of such payment over 30 days results in classification into basket 2 and over 90 days into stage 3.In the case of commercial loans, the Bank used an individual approach in its assessment.

Impact of the COVID-19 pandemic on the client's financial situation assessment process

In assessing the financial situation of corporate clients, the Bank uses only individual assessment as the most appropriate and precise (the Bank does not use a collective or sectorial approach).
The process of client and transaction risk monitoring takes into account the impact of the COVID-19 pandemic on the client's situation and the strength of the impact (i.e. temporary turbulence, long-term problem for the business model, etc.) as well as the plan to mitigate this impact implemented by the client. The Bank conducts sector analysis of clients that have applied for moratorium. Among those clients, the largest balance sheet exposure as at 30 June 2020 is held by clients operating in the following sectors: real estate activities, wholesale and retail trade, and manufacturing.
The client is placed on the Watch List (LW - list of clients under observation) based on standard criteria defined in the Bank internal regulations. With regard to clients who have submitted an application for assistance to the Bank, the list of criteria classifying to Watch List has been extended by an additional, discretionary premise in respect of COVID-19. On the basis of this premise, a risk analyst may put the client on the Watch List if, according to his opinion, problems arising from a pandemic may have a long-term nature and after its termination the customer may not return to the financial situation allowing the settlement of his obligations. Other criteria of the placement on Watch

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

List, defined in the Group's credit regulations, also apply to customers who have received support from the Group in connection with COVID-19. Placing a customer on Watch List results in customer classification to stage 2.
In the scope of retail customers risk assessment, the borrowers with granted assistance tools in the form of moratorium are still subject to scoring approach in accordance with the standard risk assessment process.

Description of the forbearance classification approach applied in the Group in relation to COVID-19

According to the statement of the European Banking Authority on the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures published on 25 March 2020, saying that the use of COVID-19 aid tools in the form of repayment moratorium, meeting the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis published on 2 April 2020 does not automatically classify exposures to default and forbearance, as well as according to the UKNF (Polish Financial Supervision Authority) statement published as a part of the Supervisory Impulse Package for Security and Development that UKNF will apply a flexible approach to the application of EBA guidelines for unsupported and restructured exposures, the Group does not classify the granting of the moratoria due to the COVID-19 crisis as forbearance, with the exception of corporate clients, for whom there is applied an approach based on individual assessment whether classification of such client's exposure as forborne is required, in accordance with the Group's internal regulations.
Due to the deterioration of the economic situation in the country resulting from the COVID-19 epidemic, the Bank has taken additional actions aimed at including this information in the expected credit losses.

Due to the uncertainty caused by dynamic situation changes, the Group's activities were spread over time and in particular covered:

1. Review of sectors and individual clients of the corporate portfolio, in particular clients under observation, in order to verify the potential increase in the probability of failure to implement the restructuring plans, which was already carried out in March as the first activity of the Group as part of taking into account the impact of the epidemic on clients' financial situation,

2. Updating models of the relationship between the long-term PD parameter and macroeconomic variables, based on historical data and the currently observed economic situation, in the second quarter of 2020,

3. Updating macroeconomic forecasts, taking into account the impact of COVID-19 and state aid actions, affecting long-term PD, EAD and LGD parameters, as well as the level of exposure allocation to stage 2, in particular by increasing the expected level of allocation for some portfolios due to the expected increase in the loss ratio, in the second quarter of 2020,

4. Restoration of macroeconomic scenario weights of 60% for the baseline scenario, 20% for the optimistic and 20% for the pessimistic respectively, in the expected credit loss model, while taking into account the current macroeconomic forecasts implemented directly in the risk parameters, in the second quarter of 2020.

Deterioration of the economic situation in the country related to the COVID-19 epidemic resulted in recognition of additional write-offs for expected credit losses in the amount of PLN 21,268 thousand in the portfolio valued at amortised cost, of which PLN 20,568 thousand in the commercial portfolio and PLN 700 thousand in the retail portfolio.

Due to the fact that the changes in risk parameters following the outbreak of the COVID-19 pandemic were implemented over a period of several months in a very dynamically changing macroeconomic environment, the Bank decided to present the total value of their impact on the date of 30 June 2020 as shown in the table below.

	30.06.2020	
	Individual customers	Corporate customers
Financial assets at amortised	**700**	**14 670**
Stage 1	150	-
Stage 2	450	4 020
Stage 3	100	10 650
Assets measured at fair value through profit or loss	**-**	**-**

As at 30 June 2020, the Bank did not apply management adjustments (overlays).

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

The Bank will continue the analysis of the impact of COVID-19 and state aid programs on the result on the cost of credit risk in subsequent quarters.

The table below presents the projections of key macroeconomic indicators adopted as at 30 June 2020 and 31 December 2019:

Scenario MYP 31.12.2019	Base		Optimistic		Pessimistic	
Probability	60%		20%		20%	
	2020	Average for the next two years	2020	Average for the next two years	2020	Average for the next two years
Unemployment rate/end of year	3,9%	4,0%	3,0%	3,5%	6,5%	8,0%

Scenario MYP 30.06.2020	Base		Optimistic		Pessimistic	
Probability	60%		20%		20%	
	2020	Average for the next two years	2020	Average for the next two years	2020	Average for the next two years
Unemployment rate/end of year	7,0%	5,5%	3,3%	2,9%	9,2%	11,9%

The reason for changes in the key values in the Bank's risk models were changes in macroeconomic indicators in the wake of the COVID-19 pandemic. The Bank's predictions concerning the future macroeconomic situation were mainly influenced by the gradually introduced government support measures in the area of monetary, fiscal and labour markets policy aimed at counteracting the COVID-19 crisis.

Significant measures have been taken to protect revenues and reduce job losses and bankruptcies, and to manage the negative feedback loop between the real and financial sector. In the Bank's view, the LA support for businesses will halt the rise in unemployment to around 7% after the first wave of redundancies that occurred in March and April and will start to decline in the following years.

The Bank's macroeconomic forecasts were significantly influenced by the European Council's launch of negotiations with the Member States on the long-term EU budget for 2021-2027 and on a European recovery plan to support EU citizens, businesses and countries in recovering from the economic crisis caused by the COVID-19 pandemic. The EC's estimates for the allocation of funds for Poland influenced the estimated GDP growth from 2021 onwards.

The Bank will continue the analysis of the impact of COVID-19 on the result on credit risk cost in subsequent quarters.

<u>Significant modification</u>

Significant modification - a change in the contractual terms of a financial instrument, which leads to the removal of the modified asset from the balance sheet and recognition of a new one. Modified assets are derecognised in the net amount, i.e. including previously recognised expected credit losses for credit risk (in the case of assets with recognised impairment). The new asset is recognised 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 of whether a given modification of financial assets is material or immaterial depends on meeting qualitative and quantitative criteria, which are described in Note 2.6. of the financial statements of mBank Hipoteczny S.A. for 2019 published on 27 March 2020.

<u>Description of the assumptions adopted for calculation of the effective interest rate and significant modification</u>

The solutions applied so far under aid schemes did not meet the criteria of a significant modification applied in the Bank with respect to financial assets.

In particular, there were no situations in which the Bank, as a beneficiary of aid programmes, would use aid programmes that would change the conditions of the Bank's financial liabilities.

A change in the loan repayment schedule as a result of credit holidays means, from the point of view of the accounting principles applied by the Bank, an insignificant modification, which causes the following effects:

- if the credit holiday period is not part of the agreement, then the introduction of the holiday causes a change in cash flows under the agreement and the Bank recalculates the gross carrying amount of the financial asset and recognises the profit or loss from the modification in the profit and loss account;

- if the credit holiday period is a feature of an existing contract (the existing contract allows for an equivalent grace period), there is a change in the expected cash flows and the need to recognise a cumulative adjustment to the gross carrying amount of the financial asset, recognised on the other hand in the profit and loss account as interest income.

The Bank identifies a negative result on account of an insignificant modification in the amount of PLN 3,307 thousand (Note 8), including a positive result of PLN 540 thousand in connection with the application of aid programmes due to the COVID-19 pandemic.

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.

Since 1 January 2020 nBank Hipoteczny S.A. joined the Tax Capital Group ("PGK") based on Corporate Income Tax Act. PGK consists of: mBank S.A. as a parent company and representing PGK to the extent provided for by tax law and other subsidiaries of the mBank Group: mFinance S.A. and mLeasing Sp. z o. o. In the year preceding the establishment of PGK, no tax losses occurred in the companies constituting it. The PGK agreement was concluded for 4 years.

Principles for determination of the income tax expense

In interim financial statements – starting form 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.

The fair value of financial instruments not listed on active markets is determined using valuation techniques. All models are approved before use and calibrated to ensure that the results obtained reflect actual data and comparable market prices. Whenever possible, the models use only observable data from an active market. The methods of determining fair value of financial instruments are described in Note 4 of the Financial Statements of mBank Hipoteczny S.A. for 2019 published on 27 March 2020.

Early repayment of retail loans

In a judgment of 11 September 2019 in a case concerning a consumer credit repaid in full early, the CJEU ruled that 'the consumer's right to reduce the total cost of the credit in the event of early repayment includes all costs which have been imposed on the consumer'. As at 31 June 2020, the provision shown under provisions for future liabilities (Note 26) concerning the costs for potential refunds of commissions for early repayment of loans made before the date of the CJEU judgment was PLN 317 thousand (as at 31 December 2019: PLN 473 thousand). In connection with the change in the estimates of expected future cash flows, a provision of PLN 234 thousand was created as at 31 December 2019. Initially, the group model referred to the entire credit portfolio, which resulted in an overestimation, so in the first quarter of 2020, the group model was adjusted to take into account only part of the portfolio that will prepay in the future. After the change to the group model, as at 30 June 2020, the provision on this account was PLN 82 thousand.

As a result of the events described above, the total impact of early repayments of retail loans on the Bank's gross profit in the first half of 2020 amounted to PLN 142 thousand and increased interest income.

The above estimates are burdened with significant uncertainty as regards the number of customers who will apply to the Bank for the reimbursement of commissions on early repayments made before the CJEU judgment, as well as the expected prepayment rate for future loans.

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 bankwhose 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 2020, the sale of commercial loans was transferred to mBank S.A.

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.,
   - for 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 segment's revenues come from maintaining the liquidity portfolio and reallocating internal interest costs from the retail and corporate banking segments. The segment's costs relate to obtaining financing and, from 2018, they also include some administrative costs.

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.

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

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

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

Profit before tax for each operating segments of the Bank is presented with the reconciliation to the positon of the income statements, prepared for the purposes of statements.
Other assets not allocated to segments include intangible assets, property, plant and equipment, deferred tax assets and other assets.
In these interim financial statements, the Bank observes the same accounting principles and calculation methods as in its last annual financial statements published on 27 March 2020

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

Period from 01.01.2020 to 30.06.2020	Corporate Banking	Retail Banking	Treasure Segment	Total
Net interest income	**39 604**	**46 643**	**(2 961)**	**83 286**
Net fee and commission income	**(1 057)**	**(671)**	**(1 780)**	**(3 508)**
Other operating income/expenses	(297)	338	(15)	26
Net trading income	-	-	240	240
Result from non-substancial modification	(3 051)	(256)	-	(3 307)
Result from derecognition of financial instruments not measured at fair value through profit or loss	(867)	-	-	(867)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	(847)	-	-	(847)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(16 683)	(888)	-	(17 571)
Overhead costs	(14 590)	(14 997)	(3 664)	(33 251)
Depreciation	(849)	(3 121)	(300)	(4 270)
Tax on the Bank's balance sheet items	(5 799)	(9 734)	-	(15 533)
Segment result (gross)	**(4 436)**	**17 314**	**(8 480)**	**4 398**

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-substancial 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**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

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

	Corporate Banking	
	30.06.2020	31.12.2019
Segment Assets	4 152 190	4 268 893
Segment Liabilities	17 205	20 510

	Retail Banking	
	30.06.2020	31.12.2019
Segment Assets	7 549 648	7 485 063
Segment Liabilities	21 457	17 624

	Treasure Segment	
	30.06.2020	31.12.2019
Segment Assets	1 331 032	1 351 720
Segment Liabilities	11 800 016	11 882 254

	30.06.2020	31.12.2019
Other assets not allocated to segments	89 911	82 232

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

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5. Net interest income

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Interest income		
Interest income accounted for using effecitive intrest method:	**190 710**	**203 913**
Interest income of financial assets measured at amortized cost, including:	181 120	193 571
- Loans and advances	*180 741*	*193 156*
- Cash and short-term placements	*122*	*333*
- Cash collaterals	*257*	82
Interest income on financial assets at fair value through other comprehensive income	9 590	10 342
-Debt securities	9 590	10 342
Income similar to interest on financial assets at fair value through profit or loss, including:	**17 389**	**19 770**
Non-trading financial assets mandatorily measured at fair value through profit or loss, including:	2 403	4 179
- Loans and advances	*2 403*	*4 179*
Interest income on derivatives classified into banking book	2 493	5 279
Interest income on derivatives concluded under hedge accounting	12 493	10 312
Total interest income	**208 099**	**223 683**
Interest expense		
Financial liabilities measured at amortized cost, including:	(110 825)	(131 942)
- Issue of debt securities	(75 243)	(80 848)
- Loan received	(28 359)	(36 346)
- Subordinated labilities	(4 807)	(4 929)
- Other financial liabilities with deferred payment	(2 162)	(9 481)
- Interest expense on leasing	(19)	-
- Other financial liabilities	(235)	(338)
- Interest expenses on derivatives condluded under the cash flow hedge	(13 988)	-
Total interest expense	**(124 813)**	**(131 942)**
Total net interest income	**83 286**	**91 741**

In the first half of 2020, interest income related to impaired financial assets amounted to PLN 4 002 thousand (in the first half of 2019: PLN 6 368 thousand).

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6. Net fee and commission income

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Fee and commission income		
Credit-related fees and commissions	606	1 396
Total fee and commission income	**606**	**1 396**
Fee and commission expenses		
Cost of servicing loan products	(2 258)	(2 389)
Costs related to the debt securities issue program (covered bonds and bonds)	(1 256)	(1 225)
Commission expense from loan received and stand-by credit line	(471)	(710)
Costs of real estate analyses and valuations related to the lending activity	(62)	(441)
Commission for transfers, keeping bills	(53)	(45)
Other	(14)	(11)
Total fee and commission expense	**(4 114)**	**(4 821)**
Total fee and commission income	**(3 508)**	**(3 425)**

All income and expenses relating to fees and commissions presented in the table above relate to items not measured at fair value through profit or loss.
The costs of servicing credit products increased as a result of a new outsourcing agreement with mBank S.A. for after-sales service of the commercial portfolio (in the amount of PLN 1 550 thousand). The cost of servicing related to the debt securities issue program mainly includes the rating of the letters in the amount of PLN 1 256 thousand.

7. Net trading income

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Foreign exchange result	**47**	**(110)**
Net exchange differences on translation	2 267	(5 501)
Valuation of foreign currency derivatives	(2 220)	5 391
Other net trading income and result on hedge accounting	**193**	**3 741**
Interest rate risk instruments	(170)	28
Hedge accounting, including:	363	3 713
- net profit on hedged items	(25 811)	(64 288)
- net profit on hedging instruments	26 247	68 001
- net profit on hedging instruments of CF	(73)	-
Total net trading income	**240**	**3 631**

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.

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8. Result from non-substancial modification

period	od 01.01.2020 do 30.06.2020	od 01.01.2019 do 30.06.2019
Financial assets modified during the period (expected credit losses over the lifetime)		
Before modification, valued at amortised cost)	590 366	790 354
Net profit/loss due to modifications	(3 307)	(2 265)

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

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Result on substancial modification for financial assets measured at amortized cost	(867)	217
Result from derecognition of financial instruments not measured at fair value through profit or loss	**(867)**	**217**

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

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Loans and advances	(846)	564
- corporate customers	(846)	564
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	**(846)**	**564**

11. Other operating income

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Income from release of prior year provisions	519	665
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	8	147
Compensation, penalties and fines received	5	
Income from sales of services	32	54
Other	20	52
Total other operating income	**584**	**918**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

12. Overhead costs

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Staff-related expenses	(12 730)	(13 046)
Material costs, including:	(8 432)	(8 287)
- costs of administration and real estate services	(2 658)	(2 984)
- IT cost	(4 514)	(3 749)
- marketing cost	(220)	(623)
- consulting services cost	(830)	(646)
- other overheads cost	(210)	(285)
Contributions and transfers to the Bank Guarantee Fund	(10 902)	(13 315)
Taxes and fees	(1 023)	(1 405)
Contributions to the Social Benefits Fund	(164)	(141)
Total overhead costs	**(33 251)**	**(36 194)**

The"costs of administration and real estate services" item includes costs related to short-term leasing contracts, costs related to low value assets leasing contracts and costs related to variable elements of remuneration (not included in the leasing obligation). The total cost of leasing included in general administrative costs as at 30 June 2020 amounted to PLN 201 thousand (as at 30 June 2019: PLN 530 thousand).

Employee costs

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Wages and salaries	(10 400)	(10 493)
Social security expenses	(1 897)	(1 861)
Remuneration payment in the form of phantom shares settled in cash	(198)	(318)
Other employee benefits	(235)	(374)
Staff-related expenses, total	**(12 730)**	**(13 046)**

13. Other operating expenses

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Costs of enforcement proceedings	(345)	(270)
Loss on sales liquidation of tangible fixed assets and intagible assets	(151)	(141)
Write-downs of the value of inventories		-
Compensations, penalties and fines paid		-
Investments write-off	(18)	-
Donations		-
Loss on the sales of assets repossessed for debts (inventories) and costs of their maintenance		-
Other	(44)	(73)
Other operating expenses, total	**(558)**	**(484)**

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

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

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Financial assets at amortised cost, including:	**(18 670)**	**(8 916)**
- Loans and advances	**(18 670)**	**(8 916)**
Stage 1	*7 094*	*(345)*
Stage 2	*(5 617)*	*(1 108)*
Stage 3	*(20 660)*	*(8 390)*
POCI	*513*	*927*
Commitments and guarantees given	**1 099**	**575**
Stage 1	*950*	*574*
Stage 2	*149*	*1*
Stage 3	-	-
POCI	-	-
Net impairment losses on financial assets not measured at fair value through profit or loss	**(17 571)**	**(8 341)**

The Bank applies an individual approach to all exposures under CRE financing. Each PD renewal involves a reassessment of the Borrower's current situation, location and technical values of the financed property, current lease status, etc. Renewals of PDs made in the first half of 2020 were performed with utmost care, and the release of provisions in individual cases was associated with the reduction of risk of the assessed exposures, e.g. due to an increase in the level of leased space, renewal of lease agreements, extension of lease periods, improvement of financial data and economic and financial situation of the Borrower and/or the project sponsor.

15. Earnings per share

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Basic:		
Net profit from activities attributable to shareholders of mBank Hipoteczny S.A.	2 796	17 206
Weighted average number of ordinary shares	3 295 359	3 295 359
Basic net profit per share (in PLN per share)	**0,85**	**5,22**
Diluted:		
Net profit attributable to shareholders of mBank Hipoteczny S.A., applied during the estimation of diluted earnings per share	2 796	17 206
Weighted average number of ordinary shares	3 295 359	3 295 359
Diluted earnings per share (in PLN per share)	**0,85**	**5,22**

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.

	30.06.2020		31.12.2019	
	assets	liabilities	assets	liabilities
Derivative financial instruments held for trading classified into banking book	1 872	2 037	5 756	252
Derivatives held for hedging	197 464	-	111 251	7 524
Offsetting effect	(81 479)	(55)	(68 791)	(177)
Total derivative financial instruments assets/liabilities	**117 857**	**1 982**	**48 216**	**7 599**

The offsetting effect beyond the valuation of derivatives includes collaterals received in connection with the derivative transactions subject to netting as at 30 June 2020 in the amount of the PLN 81 424 thousand (as at 31 December 2019 in the amount of PLN 68 613 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.

<u>Description of the hedging relation</u>

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.

<u>Hedged items</u>

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

<u>Hedging instruments</u>

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

<u>Presentation of the result from hedged and hedging transactions</u>

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 30.06.2020

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 acounting
Mortgage covered bonds (EUR)	30 000	2.75%	2020-07-28	137 359	132	137 491	885
Mortgage covered bonds (EUR)	8 000	3.5%	2029-02-28	35 683	7 161	42 845	(1 282)
Mortgage covered bonds (EUR)	15 000	3.5%	2029-03-15	66 901	13 495	80 397	(2 424)
Mortgage covered bonds (EUR)	20 000	3.2%	2029-05-30	88 457	18 065	106 522	(3 344)
Mortgage covered bonds (EUR)	20 000	1.135%	2022-02-25	89 447	1 289	90 736	124
Mortgage covered bonds (EUR)	11 000	1.285%	2025-04-24	49 043	1 963	51 007	(548)
Mortgage covered bonds (EUR)	35 000	1.183%	2026-09-20	58 431	1 894	60 324	(1 110)
Mortgage covered bonds (EUR)	13 000	1.18%	2026-09-20	157 355	6 365	163 720	(2 954)
Mortgage covered bonds (EUR)	24 900	0.94%	2024-02-01	111 463	3 446	114 909	(659)
Mortgage covered bonds (EUR)	100 000	0.612%	2022-06-22	446 211	5 090	451 301	(567)
Mortgage covered bonds (EUR)	300 000	1.073%	2025-03-05	1 341 710	64 191	1 405 901	(13 930)
Total hedged items				**2 582 060**	**123 092**	**2 705 153**	**(25 810)**

As at 31.12.2019

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2019	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 acounting
Mortgage covered bonds (EUR)	30 000	2,75%	28.07.2020	129 018	1 018	130 036	1 524
Mortgage covered bonds (EUR)	8 000	3,50%	28.02.2029	34 581	5 879	40 460	(1 587)
Mortgage covered bonds (EUR)	15 000	3,50%	15.03.2029	64 855	11 072	75 927	(2 990)
Mortgage covered bonds (EUR)	20 000	3,20%	30.05.2029	85 624	14 721	100 345	(4 081)
Mortgage covered bonds (EUR)	20 000	1,135%	25.02.2022	85 700	1 412	87 112	28
Mortgage covered bonds (EUR)	11 000	1,285%	24.04.2025	47 038	1 415	48 453	(1 133)
Mortgage covered bonds (EUR)	13 000	1,180%	20.09.2026	55 370	784	56 154	(2 345)
Mortgage covered bonds (EUR)	35 000	1,183%	20.09.2026	149 116	3 411	152 527	(6 106)
Mortgage covered bonds (EUR)	24 900	0,94%	01.02.2024	106 759	2 787	109 546	(1 371)
Mortgage covered bonds (EUR)	100 000	0,61%	22.06.2022	426 641	4 524	431 165	(1 188)
Mortgage covered bonds (EUR)	300 000	1,073%	05.03.2025	1 285 875	50 260	1 336 135	(26 485)
Mortgage covered bonds (EUR)	300 000	0,242%	15.09.2025	1 274 659		1 274 659	-
Total hedged items				**3 745 236**	**97 283**	**3 842 519**	**(45 734)**

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 following tables present hedging items as at June 30, 2020, December 31, 2019 and June 30, 2019. 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.

IFRS Condensed Financial Statements for the first half of 2020 PLN (000's)

As at 30.06.2020

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge acounting
IRS (EUR)	30 000	2020-07-28	2 266	-	(1 177)
IRS (EUR)	8 000	2029-02-28	7 915	-	1 330
IRS (EUR)	15 000	2029-03-15	14 662	-	2 526
IRS (EUR)	20 000	2029-05-30	17 086	-	3 420
IRS (EUR)	20 000	2022-02-25	1 242	-	(56)
IRS (EUR)	11 000	2025-04-24	1 777	-	541
IRS (EUR)	13 000	2026-09-20	2 238	-	1 144
IRS (EUR)	35 000	2026-09-20	7 281	-	3 051
IRS (EUR)	24 900	2024-02-01	3 648	-	693
IRS (EUR)	100 000	2022-06-22	4 824	-	580
IRS (EUR)	300 000	2025-03-05	64 498	-	14 197
Total hedging items			**127 437**	**-**	**26 247**

As at 31.12.2019

Derivatives	Nominal value	End of transaction	Fair value of asset	Fair value of liabilities	Change of fair value due to hedge acounting
IRS (EUR)	30 000	28.07.2020	2 403	-	(2 154)
IRS (EUR)	8 000	28.02.2029	7 172	-	1 727
IRS (EUR)	15 000	15.03.2029	13 238	-	3 278
IRS (EUR)	20 000	30.05.2029	15 044	-	4 711
IRS (EUR)	20 000	25.02.2022	1 791	-	123
IRS (EUR)	11 000	24.04.2025	1 556	-	1 212
IRS (EUR)	13 000	20.09.2026	745	-	2 467
IRS (EUR)	35 000	20.09.2026	3 286	-	6 459
IRS (EUR)	24 900	01.02.2024	3 446	-	1 439
IRS (EUR)	100 000	22.06.2022	5 551	-	2 201
IRS (EUR)	300 000	05.03.2025	57 019	-	30 239
Total hedging items			**111 251**	**-**	**51 702**

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 acounting
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**

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

Period	from 01.01.2020 to 30.06.2020	from 01.01.2019 to 30.06.2019
Interest income on derivatives concluded under hedge accounting of fair value (Note 5)	12 493	10 312
Net profit on hedged items (Note 7)	(25 810)	(64 288)
Net profit on hedging instruments (Note 7)	26 247	68 001
Total net profit on hedge accounting of fair value	**12 930**	**14 025**

Cash flow hegde accounting

The Bank began applying hedge accounting in terms of cash flow in November 2019. The purpose of the hedging strategy is to eliminate the risk of volatility of cash flows generated by mortgage loans in PLN due to changes in reference interest rates and mortgage bonds denominated in a convertible currency due to exchange rate changes using currency interest rate swaps (CIRS).

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

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

As hedging instruments, the Bank uses CIRS derivative transactions in which, as a party to the transaction, it pays variable interest flows in PLN increased by a margin, and receives fixed interest rates in EUR and the denominations are exchanged at the beginning and at the end of the transaction. As transactions concluded by a mortgage bank, CIRS transactions are subject to entry in the Register of covered bond collateral. In addition, if the bank's bankruptcy is announced by the court, it will not be immediately terminated, it will last until the end of the original maturity on the conditions specified on the date of the transaction (they will not be extended beyond the original maturity).
In accordance with the adopted methodology, the Bank hedges the interest rate risk and currency risk within one economic relationship between the concluded CIRS transactions and part of the loan portfolio in PLN and mortgage bonds financing them in EUR. For the purposes of cash flow hedge accounting, the Bank simultaneously establishes two hedging relationships:

- by decomposing the part of the actual CIRS transaction securing the portfolio of loans in PLN with a variable interest rate (hedging against interest rate risk) and
- by decomposing the actual portion of the CIRS transaction securing the liability in EUR (protection against currency risk).

For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank uses the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the risk being hedged
in the form of a derivative. The valuation principles are analogous to the principles for the valuation of interest rate derivatives.

SECURED POSITIONS	NOMINAL VALUE OF SECURED POSITIONS	POSITION IN THE FINANCIAL POSITION	CHANGES TO THE FAIR VALUE OF PROTECTED ITEMS
30.06.2020			
Loans in PLN with a variable interest rate	1 278 930	Loans in PLN with a variable interest rate	(79 447)
Mortgage bonds issued in a convertible currency at a fixed rate	1 339 800	Liabilities due to issued mortgage bonds	6 966

SECURED POSITIONS		NOMINAL VALUE OF SECURED POSITIONS	POSITION IN THE FINANCIAL POSITION	CHANGES TO THE FAIR VALUE OF PROTECTED ITEMS
30.06.2020				
CIRS	Fixed leg EUR	1 339 800	Other equity items	(7 039)
	Variable leg PLN	1 278 930		77 060

The average fixed foot rate for the fixed leg was 0.24%.
The average fixed nominal weighted rate for the variable leg in PLN was 2.42%.

30.06.2020	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
INTEREST RATE RISK						
Interest rate swap (CIRS) transaktions hedging the cash flows available from loans with variable interest rates denominated in PLN						
Nominal value (in thousand PLN)	-	-	-	-	1 339 800	**1 339 800**
Average interest rate on a fixed leg	-	-	-	-	0,242%	

In the case of established relationships, the period in which cash flows are expected and when they should be expected to influence the results is the period from November 2019 to September 2025.

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

The main sources of security inefficiencies may be:

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

Changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognized directly in other comprehensive income in the portion that forms the effective portion of the hedge. The ineffective portion of the hedge is recognized in the income statement in the position 'Result on financial instruments measured at fair value' or 'Result on exchange position'. In addition, amounts charged directly to other comprehensive income are transferred to the profit and loss account respectively of the item 'Net interest income' and 'Net foreign exchange gains' in the same period or periods in which the inflow of the hedged transaction is referred to the profit and loss account and precipitate.

The note below presents other comprehensive income from the cash flow hedge and the ineffective portion of the cash flow hedge for the period from January 1 to June 30, 2020. In the same period of 2019, the Bank did not apply cash flow hedge accounting.

CUMULATED OTHER TOTAL REVENUE FOR PROTECTION OF CASH FLOWS AND IMPACT ON OTHER TOTAL INCOME	Ending year 30.06.2020
Accumulated other comprehensive income from cash flow hedges at the beginning of the gross period	**(3 714)**
Profits / (Losses) recognized in other comprehensive income in the period	**61 200**
The amount transferred during the period from other comprehensive income to the profit and loss account	**(48 262)**
- Net interest income	13 988
- Result on exchange position	(62 250)
Accumulated other comprehensive income from cash flow hedges at the end of the gross period	**9 224**
Tax effect	(1 752)
Accumulated other comprehensive income from cash flow hedges at the end of the net period	**7 472**
Ineffective portion of cash flow hedges recognized in the income statement	(73)
Impact during the period on other gross comprehensive income	**12 938**
Deferred tax due to cash flow hedges	(2 458)
Impact during the period on other net comprehensive income	**10 480**

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	the period from 01.01.2020 to 30.06.2020
Gains/losses recognised in comprehensive income (gross) during the reporting period, including:	
Unrealised gains/losses included in other comprehensive income (gross)	**12 938**
Results of cash flow hedge accounting recognised in the income statement	**48 189**
- amount included as interest income in income statement during the reporting period (Note 5)	(13 988)
- foreign exchange result	62 250
- ineffective portion of hedge recognised included in other net trading income in income statement (Note 7)	(73)
Impact on other comprehensive income in the reporting period (gross)	**61 127**

The above data refers to a change in the unrealised valuation.

BALANCE SHEET / FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR PROTECTING CASH FLOWS	Assets
30.06.2020	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk - Relation A)	77 773
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk - Relation B)	(7 746)
Total	**70 027**

BALANCE SHEET / FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR PROTECTING CASH FLOWS	Liabilities
31.12.2019	
IRS (decomposed part of the actual CIRS transaction hedging against interest rate risk - Relation A)	1 265
CIRS (decomposed part of the actual CIRS transaction as hedging against currency risk - Relation B)	6 259
Total	**7 524**

NOMINAL VALUE OF SECURITY INSTRUMENTS BY DURATION FOR IMPLEMENTATION	up to 1 month	over 1 month to 3 months	over 1 year to 5 years	over 5 years Total	Total
30.06.2020					
CIRS					
PLN float sale	-	-	-	1 278 930	**1 278 930**
Fixed EUR purchase (original currency)	-	-	-	300 000	**300 000**

<u>Estimates and evaluations</u>
The fair value of derivatives is determined using valuation models based on discounted future cash flows from a given financial instrument. The variables in the model and the assumptions used for the valuation include, where available, data from observable markets (e.g. interbank deposit rates, exchange rates, IRS transaction quotes and CCBS). The fair value of derivatives takes into account own credit risk DVA (debit value adjustment) and counterparty credit risk CVA (credit value adjustment). The process of calculation of CVA and DVA adjustments includes the choice of the method of determining the spread for the counterparty's or Bank's credit risk as well as estimating the probability of the counterparty's or Bank's insolvency and the recovery rate. Moreover, in order to reflect the impact of non-standard transaction parameters on the valuation level, the model uses historical prices used in CIRS transactions with similar parameters, for which quotes can be obtained from active markets.
<u>Calculation of estimates</u>
The Bank conducted a simulation to determine the possible impact of changes in yield curves on the valuation of transactions.

ESTIMATED CHANGE IN VALUATION WITH A PARALLEL INCOME SHIFT	Scenario + 50 bp.	Scenario -50 bp.
30.06.2020		
CIRS	(34 987)	35 006

<u>Impact of the IBOR reform</u>

In connection with the amendments to IFRS 9, IAS 39 and IFRS 7, Reform of interest rate indices, described in Note 2.26, the Group took the opportunity to apply these amendments earlier in 2019

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and did not verify the effectiveness of the hedging relationship under hedge accounting. The amendments introduce temporary reliefs that allow the Bank to continue hedge accounting in the period of uncertainty before replacing the existing reference interest rate index with an alternative risk-free interest rate.
As a result of the ongoing reform of the reference interest rate index and its replacement with an alternative risk-free interest rate, the Bank established a project to manage the change in any of its agreements that may be affected. The table below shows the nominal values and weighted average maturity of derivatives in hedging relationships affected by the IBOR reform, analysed at interest rates. Derivative hedging instruments ensure a close approximation of the scope of risk exposure managed by the Bank through hedging relationships.

30.06.2020	Nominal value	Weighted average maturity (in years)
Foreign Currency Interest Rate Swap Contracts (CIRS)		
LIBOR EUR (3 months)	1 339 800	5,2
Total foreign currency interest rate swap (CIRS)	1 339 800	-

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

	30.06.2020	31.12.2019
Loans and advances	**146 098**	**157 714**
- Corporate clients	146 098	157 714
Non-trading fnancial assets mendatorily at fair value through profit or loss, total	**146 098**	**157 714**

18. Financial assets at fair value through other comprehensive income

	30.06.2020	31.12.2019
Debt securities	**950 196**	**1 221 735**
- Central banks	45 000	219 982
- General governments, including:	905 196	1 001 753
pledged securities	-	*202 070*
Total financial assets at fair value through other comprehensive income	**950 196**	**1 221 735**

Short-term (up to 1 year)	402 022	483 414
Long-term (over 1 year)	548 174	738 321

Based on fixed interest rate	376 915	577 846
Based on floating interest rate	573 281	643 889

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

30.06.2020	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	212 770	212 770	-	-	-	-	-	-	-
Loans and advances to customers	**11 587 826**	**10 150 016**	**1 202 835**	**315 393**	**25 345**	**(6 873)**	**(19 210)**	**(79 618)**	**(62)**
Individual customers	7 563 923	7 084 415	463 541	34 166	1 059	(2 226)	(4 679)	(12 281)	(72)
Corporate customers	3 900 261	2 942 404	739 294	280 159	24 286	(4 620)	(14 531)	(66 741)	10
Public sector customers	91 557	91 112	-	1 068	-	(27)	-	(596)	-
Other financial institutions	32 085	32 085	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 800 596**	**10 362 786**	**1 202 835**	**315 393**	**25 345**	**(6 873)**	**(19 210)**	**(79 618)**	**(62)**

Short-term (up to 1 year)	312 984
Long-term (over 1 year)	11 487 612

In the first half of 2020, the Bank sold credit receivables with the total gross balance sheet value of PLN 53,989 thousand classified in the basket 3. The obtained prices of PLN 11,700 thousand were included in the principal and interest payments, as stipulated in the sales agreements. The uncovered capital and interest in the amount of PLN 42,289 thousand was written off against previously created provisions for particular receivables. In 2019, the Bank did not sell any receivables.

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Movements in expected credit losses allowance

	As at the beginning of the period	Transfer do Stage 1	Transfer do Stage 2	Transfer do Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes in credit risk	Write-offs	Other movements	As at the end of the period
Loans and advances to customers	**(117 961)**	**-**	**-**	**-**	**(227)**	**(2 654)**	**(14 395)**	**35 374**	**-**	**(99 863)**
Stage 1	(12 093)	(1 779)	1 194	3	(137)	143	5 797	0	(1)	**(6 873)**
Stage 2	(13 394)	1 689	(1 446)	2 890	(90)	140	(8 997)	0	(2)	**(19 210)**
Stage 3	(92 527)	90	252	(2 873)		(2 937)	(17 000)	35 374	3	**(79 618)**
POCI	53			(20)			(95)			**(62)**
Expected credit losses allowance, total	**(117 961)**	**-**	**-**	**-**	**(227)**	**(2 654)**	**(20 295)**	**35 374**	**-**	**(105 763)**

Explanation of changes in the gross carrying amount impacting the changes on expected credit losses allowance

	As at the beginning of the period	Transfer do Stage 1	Transfer do Stage 2	Transfer do Stage 3	New financial assets originated or purchased	Financial assets derecognised during the period	Changes due to modifications not resulting in derecognition (net)	Utilization	Other movements	As at the end of the period
Loans and advances to banks	**13 912**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**198 858**	**212 770**
Stage 1	13 912	-	-	-	-	-	-	-	198 858	212 770
Loans and advances to customers	**11 746 393**	**-**	**-**	**-**	**392 306**	**(228 918)**	**(180 252)**	**(35 414)**	**(527)**	**11 693 588**
Stage 1	10 491 496	192 686	(508 002)	(2 106)	375 459	(206 714)	(192 279)	-	(526)	**10 150 014**
Stage 2	940 227	(192 059)	510 320	(67 236)	16 847	(12 951)	7 689	-	(1)	**1 202 836**
Stage 3	290 266	(627)	(2 318)	68 760	-	(9 253)	3 979	(35 414)		**315 393**
POCI	24 404	-	-	582	-	-	359			**25 345**
Financial assets at amortised cost, gross	**11 760 305**	**-**	**-**	**-**	**392 306**	**(228 918)**	**(180 252)**	**(35 414)**	**198 331**	**11 906 358**

31.12.2019	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	13 912	13 912	-	-	-	-	-	-	-
Loans and advances to customers	**11 628 432**	**10 491 496**	**940 227**	**290 266**	**24 404**	**(12 093)**	**(13 394)**	**(92 527)**	**53**
Individual customers	7 500 054	6 957 216	529 232	31 282	434	(1 976)	(5 159)	(10 975)	-
Corporate customers	3 997 349	3 404 203	410 995	257 938	23 970	(10 088)	(8 235)	(81 487)	53
Public sector customers	98 407	97 455	-	1 046	-	(29)	-	(65)	-
Other financial institutions	32 622	32 622	-	-	-	-	-	-	-
Financial assets at amortised cost, total	**11 642 344**	**10 505 408**	**940 227**	**290 266**	**24 404**	**(12 093)**	**(13 394)**	**(92 527)**	**53**

Short-term (up to 1 year)	724 009
Long-term (over 1 year)	10 918 335

20. Intangible assets

	30.06.2020	31.12.2019
Concessions, patents, licences and similar assets, including:	**31 157**	**11 972**
- computer software	31 157	11 972
Intangible assets under development	**21 435**	**36 648**
Intangible assets, total	**52 592**	**48 620**

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21. Tangible assets

	30.06.2020	31.12.2019
Fixed assets, including:	**7 317**	**7 951**
- equipment	5 993	6 338
- vehicles	-	-
- other fixed assets	1 324	1 613
Fixed assets under construction	**1 714**	**1 711**
The right-of-use, including;	**6 864**	**6 639**
- real estate	6 193	6 166
- cars	671	473
Total tangible assets	**15 895**	**16 301**

22. Other assets

	30.06.2020	31.12.2019
Other, including:	**7 231**	**7 620**
- other prepayments	3 457	3 355
- receivables from the portfolio of retail loans acquired as part of cooperation with mBank S.A.	2 846	3 160
- income receivable	97	120
- debtors	819	972
- other	12	13
Total other assets	**7 231**	**7 620**
Short-term (up to 1 year)	7 231	7 620

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

30.06.2020	Liabilities due to banks	Total liabilities to customers	Individual customers	Corporate customers	Public sector customers
Credit and loans received	**2 457 206**	**-**	**-**	**-**	**-**
Other financial liabilities, including	**493 781**	**5 464**	**157**	**5 265**	**42**
Liabilities due to deferred payment	**383 432**	**-**	**-**	**-**	**-**
Liabilities due to cash collateral	106 062	560	49	511	-
Liabilities due to leasing	4 287	3 088	-	3 088	-
Other liabilities	-	1 816	108	1 666	42
Total	**2 950 987**	**5 464**	**157**	**5 265**	**42**
Short-term (up to 1 year)	216 111	5 018			
Long-term (over 1 year)	2 734 877	446			

Deferred liabilities act as bridge financing for the portfolio of credit receivables taken over from mBank S.A. The value of this category of liabilities will increase after taking over subsequent tranches of the pooling and decrease after the issue of mortgage bonds or in case of repayments of tranches from liquidity surpluses. The initial maturity of the deferred liability is up to 24 months until the date of the pooling transfer.

In the first half of 2020, the Bank took over 4 pooling tranches resulting in a deferred liability for the total amount of PLN 382 million. At the same time, the Bank repaid 2 tranches of liabilities from 2019 for the total amount of PLN 296 million from liquidity surpluses.

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31.12.2019	Liabilities due to banks	Total liabilities to customers	Individual customers	Corporate customers	Public sector customers
Loans and loans received	**2 469 049**	**-**	**-**	**-**	**-**
Other financial liabilities, including	**347 773**	**0**	**139**	**8 752**	**43**
Liabilities due to deferred payment	47 035	-	-	-	-
Liabilities due to cash collateral	296 413	-	49	443	-
Liabilities due to leasing	*4 325*	-	-	*2 742*	-
Other liabilities	-	0	90	5 567	43
Total	**2 816 822**	**8 934**	**139**	**8 752**	**43**
Short-term (up to 1 year)	67 266				
Long-term (over 1 year)	2 758 490				

In the item other financial liabilities with a deferred payment date, they relate to the liability resulting from the agreement on the transfer of the portfolio of retail loans secured by a mortgage, concluded with mBank S.A. on November 30th 2018.

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 2020 and as at 31 December 2019.

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Mortgage covered bonds	30.06.2020	31.12.2019
1. Nominal value of covered bonds listed on the market	8 054 535	8 225 129
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)	10 144 361	10 232 614
3. Cash in Bank, as a treasury bonds, entered in the collateral register of covered bonds additionaly underlying the issue of covered bonds (Substitute collateral)	164 610	118 409
4. Level of collateral the covered bonds by receivables (2/1)	1	1
5. Total covered bonds collateral level (2+3) / 1	1	1
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	2 973 235	3 301 729
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	6 337 895	6 098 962

Permissible value of Substitute collateral	30.06.2020	31.12.2019
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	81 591
3. Permissible value of Substitute collateral (1-2)	140 957	118 409

The total nominal amount of the covered bonds in trading under the polish mortgage bonds issue programme as at 30 June 2020 as and 31 December 2019 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 2020 and 31 December 2019 was listed on the regulated market maintained by the Luxembourg Stock Exchange.

As at 30.06.2020

Debt financial instruments by type	Nominal value	Interest rate as at 30.06.2020	Guarantee / collateral	Redemption date	Liability amount measured at amortised cost	Hedge accounting adjustments related to fair value of hedged items	Carrying amount of liability
Long-term issues (with original maturity of over 1 year)							
Mortgage covered bonds (EUR)	30 000	2,75%	Mortgage covered bonds register	28.07.2020	137 359	132	137 491
Mortgage covered bonds (EUR)	8 000	3,5%	Mortgage covered bonds register	28.02.2029	35 683	7 161	42 845
Mortgage covered bonds (EUR)	15 000	3,5%	Mortgage covered bonds register	15.03.2029	66 901	13 495	80 397
Mortgage covered bonds (EUR)	20 000	3,2%	Mortgage covered bonds register	30.05.2029	88 457	18 065	106 522
Mortgage covered bonds (PLN)	300 000	2,72%	Mortgage covered bonds register	28.07.2022	303 069	-	303 069
Mortgage covered bonds (PLN)	200 000	2,72%	Mortgage covered bonds register	20.02.2023	201 630	-	201 630
Mortgage covered bonds (PLN)	200 000	1,49%	Mortgage covered bonds register	28.04.2022	200 294	-	200 294
Mortgage covered bonds (EUR)	20 000	1,135%	Mortgage covered bonds register	25.02.2022	89 447	1 289	90 736
Mortgage covered bonds (PLN)	250 000	1,590%	Mortgage covered bonds register	16.10.2023	250 323	-	250 323
Mortgage covered bonds (EUR)	11 000	1,285%	Mortgage covered bonds register	24.04.2025	49 043	1 963	51 007
Mortgage covered bonds (PLN)	500 000	1,370%	Mortgage covered bonds register	10.09.2020	500 333	-	500 333
Mortgage covered bonds (PLN)	255 000	1,420%	Mortgage covered bonds register	20.09.2021	254 894	-	254 894
Mortgage covered bonds (PLN)	300 000	1,47%	Mortgage covered bonds register	05.03.2021	300 187	-	300 187
Mortgage covered bonds (EUR)	50 000	0,481%	Mortgage covered bonds register	21.06.2021	223 204	-	223 204
Mortgage covered bonds (EUR)	13 000	1,18%	Mortgage covered bonds register	20.09.2026	58 431	1 894	60 324
Mortgage covered bonds (EUR)	35 000	1,183%	Mortgage covered bonds register	20.09.2026	157 355	6 365	163 720
Mortgage covered bonds (EUR)	24 900	0,94%	Mortgage covered bonds register	01.02.2024	111 463	3 446	114 909
Mortgage covered bonds (PLN)	500 000	1,02%	Mortgage covered bonds register	10.09.2022	499 621	-	499 621
Mortgage covered bonds (PLN)	1 000 000	1,090%	Mortgage covered bonds register	15.09.2023	998 525	-	998 525
Mortgage covered bonds (EUR)	100 000	0,612%	Mortgage covered bonds register	22.06.2022	446 211	5 090	451 301
Mortgage covered bonds (EUR)	300 000	1,073%	Mortgage covered bonds register	05.03.2025	1 341 710	64 191	1 405 901
Mortgage covered bonds (PLN)	208 000	0,85%	Mortgage covered bonds register	10.06.2024	207 832	-	207 832
Mortgage covered bonds (PLN)	51 100	0,85%	Mortgage covered bonds register	10.06.2024	50 958	-	50 958
Mortgage covered bonds (PLN)	40 000	0,85%	Mortgage covered bonds register	10.06.2024	39 968	-	39 968
Mortgage covered bonds (PLN)	900	0,85%	Mortgage covered bonds register	10.06.2024	899	-	899
Mortgage covered bonds (PLN)	10 000	0,85%	Mortgage covered bonds register	10.06.2024	9 963	-	9 963
Mortgage covered bonds (PLN)	100 000	1,07%	Mortgage covered bonds register	20.12.2028	99 765	-	99 765
Mortgage covered bonds (EUR)	300 000	0,242%	Mortgage covered bonds register	15.09.2025	1 338 832	-	1 338 832
Bonds (PLN)	65 000	2,39%	no collateral	21.01.2022	65 637	-	65 637
Bonds (PLN)	200 000	2,17%	no collateral	27.07.2020	200 001	-	200 001
Bonds (PLN)	100 000	2,32%	no collateral	28.06.2021	99 955	-	99 955
Bonds (PLN)	35 000	1,62%	no collateral	03.01.2022	35 110	-	35 110
Bonds (PLN)	60 000	1,77%	no collateral	03.01.2023	60 184	-	60 184
Debt securities in issue (carrying value)			-		**8 523 243**	**123 092**	**8 646 335**

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As at 31.12.2019

Debt financial instruments by type	Nominal value	Interest rate as at 31.12.2019	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)	50 000	2,91%	Mortgage covered bonds register	28.04.2020	50 969		50 969
Mortgage covered bonds (EUR)	100 000	2,91%	Mortgage covered bonds register	28.04.2020	101 938		101 938
Mortgage covered bonds (EUR)	50 000	0,29%	Mortgage covered bonds register	24.06.2020	212 869		212 869
Mortgage covered bonds (EUR)	30 000	2,75%	Mortgage covered bonds register	28.07.2020	129 019	1 017	130 036
Mortgage covered bonds (EUR)	500 000	2,80%	Mortgage covered bonds register	10.09.2020	500 627		500 627
Mortgage covered bonds (PLN)	300 000	2,91%	Mortgage covered bonds register	05.03.2021	300 426		300 426
Mortgage covered bonds (PLN)	50 000	0,47%	Mortgage covered bonds register	21.06.2021	212 772		212 772
Mortgage covered bonds (EUR)	255 000	2,850%	Mortgage covered bonds register	20.09.2021	254 966		254 966
Mortgage covered bonds (PLN)	20 000	1,14%	Mortgage covered bonds register	25.02.2022	85 700	1 412	87 112
Mortgage covered bonds (EUR)	200 000	2,570%	Mortgage covered bonds register	28.04.2022	200 624		200 624
Mortgage covered bonds (PLN)	100 000	0,61%	Mortgage covered bonds register	22.06.2022	426 641	4 524	431 165
Mortgage covered bonds (EUR)	300 000	2,720%	Mortgage covered bonds register	28.07.2022	303 000		303 000
Mortgage covered bonds (EUR)	500 000	2,450%	Mortgage covered bonds register	10.09.2022	499 917		499 917
Mortgage covered bonds (PLN)	200 000	2,72%	Mortgage covered bonds register	20.02.2023	201 600		201 600
Mortgage covered bonds (PLN)	1 000 000	2,52%	Mortgage covered bonds register	15.09.2023	998 859		998 859
Mortgage covered bonds (PLN)	250 000	2,66%	Mortgage covered bonds register	16.10.2023	250 827		250 827
Mortgage covered bonds (EUR)	24 900	0,940%	Mortgage covered bonds register	01.02.2024	106 759	2 787	109 546
Mortgage covered bonds (PLN)	208 000	2,28%	Mortgage covered bonds register	10.06.2024	207 983		207 983
Mortgage covered bonds (PLN)	51 100	2,28%	Mortgage covered bonds register	10.06.2024	50 983		50 983
Mortgage covered bonds (EUR)	40 000	2,280%	Mortgage covered bonds register	10.06.2024	39 997		39 997
Mortgage covered bonds (EUR)	900	2,28%	Mortgage covered bonds register	10.06.2024	900		900
Mortgage covered bonds (EUR)	10 000	2,28%	Mortgage covered bonds register	10.06.2024	9 967		9 967
Mortgage covered bonds (PLN)	300 000	1,07%	Mortgage covered bonds register	05.03.2025	1 285 874	50 261	1 336 135
Mortgage covered bonds (PLN)	11 000	1,29%	Mortgage covered bonds register	24.04.2025	47 038	1 415	48 453
Mortgage covered bonds (EUR)	300 000	0,242%	Mortgage covered bonds register	15.09.2025	1 274 659		1 274 659
Mortgage covered bonds (EUR)	13 000	1,180%	Mortgage covered bonds register	20.09.2026	55 370	784	56 154
Mortgage covered bonds (PLN)	35 000	1,18%	Mortgage covered bonds register	20.09.2026	149 116	3 411	152 527
Mortgage covered bonds (PLN)	100 000	2,50%	Mortgage covered bonds register	20.12.2028	99 807		99 807
Mortgage covered bonds (PLN)	8 000	3,50%	Mortgage covered bonds register	28.02.2029	34 581	5 879	40 460
Mortgage covered bonds (PLN)	15 000	3,50%	Mortgage covered bonds register	15.03.2029	64 855	11 072	75 927
Mortgage covered bonds (PLN)	20 000	3,20%	Mortgage covered bonds register	30.05.2029	85 624	14 721	100 345
Bonds (PLN)	50 000	2,17%	no collateral	09.01.2020	50 249		50 249
Bonds (PLN)	100 000	2,16%	no collateral	25.03.2020	100 018		100 018
Bonds (PLN)	200 000	2,16%	no collateral	27.07.2020	200 002		200 002
Bonds (PLN)	100 000	2,31%	no collateral	28.06.2021	99 956		99 956
Bonds (PLN)	65 000	2,39%	no collateral	21.01.2022	65 626		65 626
Debt securities in issue (carrying value)					**8 760 118**	**97 283**	**8 857 401**

25. Other liabilities

	30.06.2020	31.12.2019
Other liabilities (due to)	**27 603**	**18 505**
- accrued expenses	21 468	12 872
- settlements due to tax from Bank balance sheet items	2 581	2 568
- provision for holiday equivalents	865	896
- deferred income	362	63
- settlements with insurers	1 044	1 151
- liabilities due to income tax on salaries, Social Security contributions and VAT	825	680
- other	458	275
Other liabilities, in total	**27 603**	**18 505**

26. Provisions

	30.06.2020	31.12.2019
Provisions (due to)	**1 050**	**2 276**
- off-balance sheet contingent liabilities granted	498	1 568
- provisions for future liabilities	317	473
- provisions for retirement and disability benefits	147	147
- reserves for litigation	88	88
Provision, in total	**1 050**	**2 276**

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27. Assets and liabilities for deferred income tax

Deferred income tax assets	30.06.2020	31.12.2019	30.06.2019
As at the beginning of the period	**64 344**	**57 411**	**57 411**
- Changes recognized in the income statement	891	6 183	12 233
- Changes recognized in other comprehensive income	12 439	750	25
As at the end of the period	**77 674**	**64 344**	**69 669**

Deferred income tax liabilities	30.06.2020	31.12.2019	30.06.2019
As at the beginning of the period	**(54 221)**	**(44 825)**	**(44 825)**
- Changes recognized in the income statement	6 523	(9 918)	(11 112)
- Changes recognized in other comprehensive income	(15 783)	522	503
As at the end of the period	**(63 481)**	**(54 221)**	**(55 434)**

Income tax	30.06.2020	31.12.2019	30.06.2019
Current income tax	(10 543)	(18 226)	(10 725)
Adjustments in respect of current income tax from previous years	(75)	(23)	(23)
Deferred income tax recognised in the income statement	7 414	(3 735)	1 121
Income tax recognised in the income statement	**(3 204)**	**(21 984)**	**(9 627)**
Recognised in other comprehensive income	(3 611)	1 272	528
Total income tax	**(6 815)**	**(20 712)**	**(9 099)**

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.

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

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

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

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

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

Financial assets at fair value through other comprehensive income.

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

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

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

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

Financial instruments representing liabilities include the following:

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

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

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

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

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

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

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

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Financial assets and liabilities	30.06.2020		31.12.2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost				
Cash and balances with the central bank	**18 124**	**18 124**	**35 234**	**35 234**
Amounts due from other banks	**212 770**	**212 770**	**13 912**	**13 912**
Loans and advances to customers, including:	**11 587 825**	**12 104 959 085**	**11 628 432**	**12 163 792**
Individual customers	7 563 923	8 024 091 000	7 500 053	7 951 968
Corporate customers	3 900 261	3 986 473 000	3 997 350	4 078 548
Public sector customers	91 556	94 363 000	98 407	100 654
Other financial institutions	32 085	32 085	32 622	32 622
Total financial assets	**11 818 719**	**12 105 189 979**	**11 677 578**	**12 212 938**
Financial liabilities at amortised cost				
Amounts due to other banks	**2 950 987**	**2 950 987**	**2 816 822**	**2 816 822**
Amounts due to customers, including:	**5 464**	**5 464**	**8 934**	**8 934**
Corporate customers	5 265	5 265	8 752	8 752
Individual customers	157	157	139	139
Public sector customers	42	42	43	43
Debt securities in issue	**8 646 335**	**8 650 832**	**8 857 401**	**8 850 860**
Subordinated liabilities	**200 307**	**200 307**	**200 432**	**200 432**
Total financial liabilities	**11 803 093**	**11 807 590**	**11 883 589**	**11 877 048**

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 2020.

30.06.2020	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	**199 336**	**-**	**129 309**	**70 027**
Derivative financial instruments, including:	**199 336**	**-**	**129 309**	**70 027**
Derivative financial instruments held for trading:	**1 872**	**-**	**1 872**	**-**
- Interest rate derivatives	95	-	95	-
- Foreign exchange derivatives	1 777	-	1 777	-
Derivative financial instruments held for hedging:	**197 464**	**-**	**127 437**	**70 027**
- Derivatives designated as cash flow hedges	**45 958**	**-**	**45 958**	**-**
Derivatives designated as fair value hedges	70 027	-	-	70 027
Non-trading financial assets mandatorily at fair value through profit or loss	**146 098**	**-**	**-**	**146 098**
Loans and advances to custumers	**146 098**	**-**	**-**	**146 098**
Corporate customers	146 098	-	-	146 098
Financial assets at fair value through other comprehensive income	**950 196**	**905 196**	**45 000**	**-**
- Treasury bonds	45 000	-	45 000	-
- Money bills	905 196	905 196	-	-
TOTAL FINANCIAL ASSETS	**1 295 630**	**905 196**	**174 309**	**216 125**

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30.06.2020	including:	Level 1 Prices quoted in active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**1 982**	**-**	**1 982**	**-**
Derivative financial instruments held for trading:	**1 982**	**-**	**1 982**	**-**
- Interest rate derivatives	-	-	-	-
- Foreign exchange derivatives	1 982	-	1 982	-
Derivative financial instruments held for hedging:	**-**	**-**	**-**	**-**
-Derivatives designated as fair value hedges	**-**	**-**	**-**	**-**
- Derivatives designated as cash flow hedges	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**1 982**	**-**	**1 982**	**-**
RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 214 151**	**905 196**	**92 830**	**216 125**
TOTAL FINANCIAL LIABILITIES	**1 982**	**-**	**1 982**	**-**

	Derivative financial instruments	
	Assets and Liabilities Measured at Fair Value Based on Level 3 - changes from 1 January to 30 June 2020	Assets Measured at Fair Value Based on Level 3 - changes from 1 January to 31 December 2019
As at the beginning of the period	**(7 524)**	-
Gains and losses for the period:	**77 551**	(7 524)
Recognised in profit or loss:	64 613	(3 810)
Net trading income	64 613	(3 810)
Recognised in other comprehensive incor	12 938	(3 714)
Cash flow hedges	12 938	(3 714)
As at the end of the period	**70 027**	**(7 524)**

<u>Derivatives designated as cash flow hedges</u>
The derivative designated as a cash flow hedge is a CIRS (Cross-Currency Interest Rate Swap), which was classified at level 3 of the fair value hierarchy, where the Bank pays a variable rate based on WIBOR and receives a fixed rate in EUR. In the case of announced bankruptcy of mBank Hipoteczny S.A., the CIRS transaction is not completed and continues until the date of completion of the transaction in accordance with the parameters set on the transaction date. Moreover, the transaction in question is characterised by a high denomination and a unilateral obligation to make a security deposit, where mBank Hipoteczny S.A. is exempt from the obligation to make it.
Pursuant to the requirement of IFRS 13, for exposures for which no quotations from an active market are available, the Bank calibrates the discount rate based on the fair value as at the date of initial recognition (i.e. the "purchase" price of the exposure). The calibration margin reflects the measurement of costs related to the maintenance of the exposure in the portfolio and market expectations about the profit margin realized on assets similar to the exposure being measured.
Level 3 includes the valuation of CIRS contracts concluded under cash flow hedge accounting for the portfolio of mortgage loans in PLN and mortgage bonds issued by the Bank (more information in Note 16). As at 30 June 2020, the valuation of those contracts was positive (assets) and amounted to PLN 70,027 thousand, whereas as at 31 December 2019 the valuation was negative (liabilities) and amounted to PLN 7,524 thousand.
For the purposes of cash flow hedge accounting, the Bank enters into two hedging relationships simultaneously:

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

- by decomposing the part of the actual CIRS transaction securing the obligation in EUR (hedging against currency risk).

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For the purpose of calculating changes in the fair value of future cash flows of items being hedged, the Bank applies the "hypothetical derivative" method, which assumes the possibility of reflecting the hedged item and the characteristics of the hedged risk.
in the form of a derivative. The rules of valuation are analogous to those of interest rate derivatives.

Due to the properties of a CIRS transaction concluded by the Bank, containing non-standard and non-quoted price components, the margin on the leg paid by the Bank was higher than the margin of a standard, analogous CIRS transaction, which is resolved in the case of bankruptcy of a counterparty with a bilateral exchange of margin. This fact was confirmed by an independent quotation of CIRS transactions obtained by the Bank. At the same time, before concluding the transaction, the Bank checked other market quotations of high-rated counterparties and they showed convergence with the finally obtained transaction quotation. Thus the transaction was classified as a transaction concluded on market conditions, not having an option character, free of additional fees at the time of its conclusion and was considered a transaction in which there are parameters unobservable on an active market influencing its valuation.
Due to the non-standard character of the CIRS transaction concluded by the Bank, the valuation of this transaction consists of three elements - the value of discounted expected flows from the CIRS transaction, CVA/DVA adjustments and linear depreciation over time until the maturity date of the difference between the valuation of a non-standard CIRS transaction (including CVA/DVA adjustments corresponding to the nature of this transaction) and the valuation of a standard CIRS transaction (including CVA/DVA adjustments resulting from the profile of this transaction) determined on the transaction date. The amount depreciated on a straight-line basis, taken into account in the valuation of IRS transactions, determined at the time of concluding the transaction is PLN 7,216 thousand, whereas, as at 30 June 2020, the amount remaining to be amortized on a straight-line basis was PLN 6,413 thousand. As at the end of June, the value of CVA/DVA was PLN 87 thousand, while that of DVA - PLN 1,999 thousand..Due to the fact that at the moment of establishing the NPV relation of the original CIRS transaction was transferred to the IRS transaction, therefore DVA as a significant valuation component was included in its valuation, and CVA due to its insignificant value was included in the valuation of the CIRS transaction.

For a CIRS transaction concluded by the Bank for the purpose of cash flow hedge accounting, there is no active market that would reflect the valuation of a transaction with similar characteristics. Commonly available quotations of CIRS transactions refer to contracts that are settled at the moment of counterparty's bankruptcy, take into account bilateral collateral with a margin and have a denomination that is actively traded on the market. In the Bank's opinion, these are arguments for the fact that there are no prices on the actively available market that can properly reflect the fair value of the CIRS transaction concluded by the Bank.
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 2019.

31.12.2019	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	**48 217**	**-**	**48 217**	**-**
Derivative financial instruments, including:	**48 217**	**-**	**48 217**	**-**
Derivative financial instruments held for trading:	**5 756**	**-**	**5 756**	**-**
- Interest rate derivatives	3 299	-	3 299	-
- Foreign exchange derivatives	2 457	-	2 457	-
Derivative financial instruments held for hedging:	**42 461**	**-**	**42 461**	**-**
Derivatives designated as fair value hedges	42 461	-	42 461	-
Non-trading financial assets mandatorily at fair value through profit or loss	**157 714**	**-**	**-**	**157 714**
Loans and advances to custumers	**157 714**	**-**	**-**	**157 714**
Corporate customers	157 714	-	-	157 714
Financial assets at fair value through other comprehensive income	**1 221 735**	**1 221 735**	**-**	**-**
- Treasury bonds	1 001 753	1 001 753	-	-
- Money bills	219 982	219 982	-	-
TOTAL FINANCIAL ASSETS	**1 427 666**	**1 221 735**	**48 217**	**157 714**

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31.12.2019	including:	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market data	Other valuation techniques
FINANCIAL LIABILITIES				
Derivative financial instruments, including:	**7 600**	**-**	**76**	**7 524**
Derivative financial instruments held for trading:	**253**	**-**	**253**	**-**
- Interest rate derivatives	177	-	177	-
- Foreign exchange derivatives	76	-	76	-
Derivative financial instruments held for hedging:	**7 347**	**-**	**(177)**	**7 524**
-Derivatives designated as fair value hedges	**(177)**	**-**	**(177)**	**-**
- Derivatives designated as cash flow hedges	7 524	-	-	7 524
TOTAL FINANCIAL LIABILITIES	**7 600**	**-**	**76**	**7 524**

RECURRING FAIR VALUE MEASUREMENTS				
TOTAL FINANCIAL ASSETS	**1 427 666**	**1 221 735**	**48 217**	**157 714**
TOTAL FINANCIAL LIABILITIES	**7 600**	**-**	**76**	**7 524**

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

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

The fair value of loans and advances to customers has been calculated on the basis of discounted expected cash flows, taking into account potential losses incurred on account of credit risk, determined taking into account, among others:

- repayment schedule,

- the uncertainty of flows over the entire projected lifetime of the exposure, resulting from credit risk, by modifying contract flows with the long-term credit risk parameters Lt PD and Lt LGD,

- at the rate to discount risk factors excluding the credit component (risk-free rate, liquidity margin, cost of capital, fixed cost mark-up)

other factors that would be taken into account by the potential buyer of the exposure (cost mark-ups and profit margin expected by market participants) when calibrating the discount rate used in the valuation process - the so-called calibration margin.

Selected explanatory information

1. Compliance with international financial reporting standards

The presented condensed financial statements for the first half of 2020 and comparative data for 6 months of 2019, as at 31 December 2019, fulfil the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" relating to interim financial reports.

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

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

The accounting principles adopted by the Bank have been applied consistently for all periods presented in the financial statements. The Bank's accounting principles are presented in Notes 2 and 3 to these condensed financial statements for the first half of 2020.

3. Seasonal or cyclical nature of the business

In the first half of 2020, 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

In the first half of 2020, the Bank's results were significantly affected by the Covid-19 pandemic. Detailed information in this respect is presented in Note 3 "Major estimates and judgments made in connection with the application of accounting principles".

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 2020, the Bank issued long-term bonds in the amount of PLN 95,000 thousand and redeemed long-term bonds in the amount of PLN 150,000 thousand. At the same time, the Bank redeemed mortgage bonds in the amount of PLN 372,660 thousand. Data on the issue of debt securities are presented in Note 24. of these condensed financial statements.

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

On 27 April 2020, the Ordinary General Shareholders' Meeting of mBank Hipoteczny S.A., adopted the resolution on division of the 2019 net profit which does not provide for the payment of dividend for the year 2019.

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

Events as indicated above did not occur in the Bank.

9. Effect of changes in the structure of the entity in the first half of 2020, including business combinations, acquisitions or disposal of subsidiaries, long-term investments, restructuring, and discontinuation of business activities

Events as indicated above did not occur in the Bank.

10. Changes in contingent liabilities

In the first half of 2020, 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 2020, 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 2020, 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 2020, 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 2020, 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 2020, 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 first half of 2020, events as indicated above did not occur in the Bank

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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)

As part of activities undertaken in Poland and worldwide in connection with the Covid-19 pandemic in March and April 2020, the Monetary Policy Council reduced interest rates by a total of 100 basis points, which affected the valuation of assets and liabilities to fair value. The Covid-19 pandemic also caused a rapid slowdown in economic activity in the second quarter of 2020. Measures aimed at reducing the spread of the virus, introduced gradually since mid-March, froze activity in many sectors of the economy. This also affected the fair value of loans and credits. For more information on the impact on the valuation of loans, see note 3 "Major estimates and judgments made in connection with the application of accounting rules".

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

In the first half of 2020, 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 2020.

23. Registered share capital

The total number of ordinary shares as at 30 June 2020 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 2020							
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**			

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 2020 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 2020, 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 2020, 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.

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26. Off-balance sheet liabilities

Off-balance sheet liabilities as at 30 June 2020 and 31 December 2019.

		30.06.2020	31.12.2019
1.	**Off-balance sheet liabilities granted and received**	**1 077 547**	**1 230 213**
	Liabilities granted	**295 945**	**449 612**
	1. Financial liabilities::	295 945	449 612
	a) Lending commitments	295 945	449 612
	b) Operating lease liabilities	-	9 209
	Liabilities received:	**781 602**	**780 601**
	Financial liabilities received	781 602	780 601
2.	**Derivative financial instruments (nominal value of contracts)**	**10 981 841**	**10 535 056**
	1. Interest rate derivatives	7 458 691	7 463 252
	2. Foreign exchange derivatives	3 523 150	3 071 804
	Total off-balance sheet items	**12 059 388**	**11 765 269**

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 2020, 31 December 2019 and and related costs and income in the periods from 1 January to 30 June 2020, 1 January to 30 June 2019.

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 2020, recognized in the profit and loss account of the Bank in this period, amounted to PLN 1 772 thousand (in the period from 1 January to 30 June 2019: PLN 1 720 thousand). With respect to the Members of the Bank's Management Board, the remuneration cost also includes the cost of provision for remuneration under the incentive scheme.

The table below presents the amounts of the Bank's transactions with related entities. The amounts of transactions include assets, liabilities as at 30 June 2020 and 31 December 2019 and related costs and income in the periods from 1 January to 30 June 2020 and 1 January to 30 June 2019.

(PLN '000)	mBank Group companies*		mBank S.A.		Commerzbank Group companies**	
As at the end of the period	**30.06.2020**	**31.12.2019**	**30.06.2020**	**31.12.2019**	**30.06.2020**	**31.12.2019**
Statement of finacial position						
Assets	671	472	263 708	65 088	-	-
Liabilities	676	475	3 894 364	3 513 907	519 112	674 627
Contingent liabilities						
Commitments received	-	-	781 602	780 601	-	-
Derivatives (purchase, sales)						
IRS contracts	-	-	928 928	1 185 768	-	-
FX SWAP contracts	-	-	901 740	508 083	-	-

(PLN '000)	mBank Group companies*		mBank S.A.		Commerzbank Group companies**	
As at the end of the period	**30.06.2020**	**30.06.2019**	**30.06.2020**	**30.06.2019**	**30.06.2020**	**30.06.2019**
Income statement						
Interest income	161	172	6 059	9 160	-	-
Interest expense	(6)	(3)	(41 821)	(56 060)	(2 013)	(2 281)
Fee and commission expenses	(4)	-	(2 720)	(3 296)	-	-
Result on trading activities	-	-	4 164	17 943	-	-
General administrative costs	(257)	(116)	(670)	(568)	-	-

* 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.

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

In the first half of 2020, 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 19 March 2020, Mr Paweł Przybyłek resigned as Member of the Supervisory Board of mBank Hipoteczny S.A. with effect from 19 March 2020.

On 24 April 2020, Mr Cezary Kocik resigned as Member of the Supervisory Board of mBank Hipoteczny S.A. with effect from 15 May 2020.

By Resolution No. 1 of the Extraordinary General Meeting of Shareholders of May 15, 2020 Mr. Łukasz Witkowski 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	-	Przewodniczący Rady Nadzorczej
2.	Lidia Jabłonowska-Luba	-	Wiceprzewodnicząca Rady Nadzorczej
3.	Andreas Boeger	-	Członek Rady Nadzorczej
4.	Paweł Graniewski	-	Niezależny Członek Rady Nadzorczej
5.	Michał Popiołek	-	Członek Rady Nadzorczej
6.	Mariusz Tokarski	-	Niezależny Członek Rady Nadzorczej
7.	Łukasz Witkowski	-	Członek Rady Nadzorczej

30. Other information

- Profit distribution for 2019

  On 27 March 2020, the Ordinary General Meeting of mBank Hipoteczny S.A. adopted a resolution on the distribution of the net profit for 2019. The Bank's net profit earned in 2019 in the amount of PLN 37,084 thousand was allocated in full to the Bank's supplementary capital.