

Polish Covered Bond Market

Prospects for future growth

16th October 2014

Warsaw



Mortgage banks in Poland



Key financial data	
Total assets (in PLN M)	4706,6
Loans and advances to customers	4117,0
CAR	15,00%

Covered Bonds	
Number of CBs series	22
Mortgage CBs series	19
Public sector CBs series	3
Outstanding amount(in PLN M)*	2820,0
Mortgage CBs series	2470,0
Public sector CBs series	350,0

Cover Pool	PLN M	O/C
Mortgage Cover Pool	3088,5	25,21%
Public Cover Pool	433,2	23,78%

Ratings	Rating	Outlook
Long Term Issuer Default Rating	A	Negative
Short Term Issuer Default Rating	F1	Negative
National Long Term Rating	-	
National Short Term Rating	-	
Support Rating	1	

Rating for CBs		
Mortgage Covered Bonds	A	Negative
Public sector Covered Bonds	A	Negative

Key financial data	
Total assets (in PLN M)	1796,2
Loans and advances to customers	1578,8
CAR	20,16%

Covered Bonds	
Number of CBs series	10
Mortgage CBs series	10
Public sector CBs series	-
Outstanding amount(in PLN M)*	1019,5
Mortgage CBs series	1019,5
Public sector CBs series	-

Cover Pool**	PLN M	O/C
Mortgage Cover Pool	1386,1	35,95%
Public Cover Pool	-	-

Ratings	Rating	Outlook
Long Term Issuer Default Rating	A-	Stable
Short Term Issuer Default Rating	F2	Stable
National Long Term Rating	AA(pol)	Stable
National Short Term Rating	F1+(pol)	Stable
Support Rating	1	

Rating for CBs		
Mortgage Covered Bonds	A	Stable
Public sector Covered Bonds	-	-

TOTAL (in PLN M)	
Total assets	6502,8 M
Loans and advances to customers	5695,8 M
CAR	-

TOTAL	
Number of CBs series	32 series
Mortgage CBs series	29 series
Public sector CBs series	3 series
Outstanding amount	3839,5 M
Mortgage CBs series	3489,5 M
Public sector CBs series	350 M

New Mortgage Bank in the process of being established



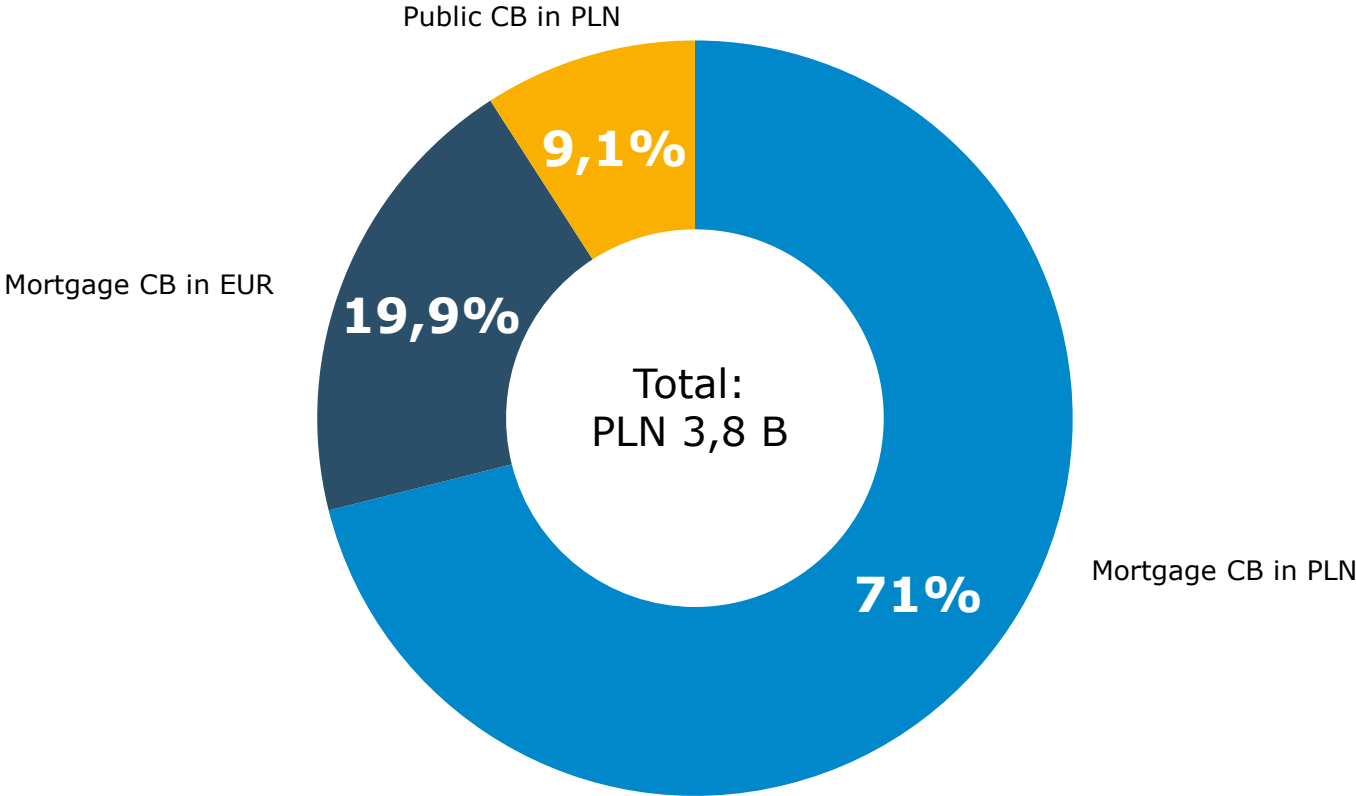
(KNF's consent on August 26, 2014)

3-4 institutions are considering establishing their Mortgage Banks

NOTE: *Outstanding amount calculated by using the NBP rate on October 14, 2014 (EUR: 4,1993). **Cover Pool data base LZ-II-10 Supplement (February 14, 2014).

Markets shares of Covered Bond Market (1/2)

Total outstanding amount of Polish Covered Bonds

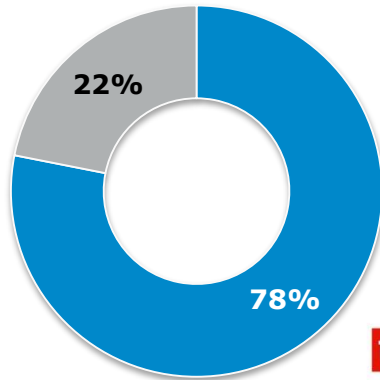


Please note: Data as of October 14, 2014. For EUR denominated CB total outstanding value calculated by using the NBP rate on October 14, 2014 (EUR 4,1993).

Markets shares of Covered Bond Market (2/2)

Total outstanding Mortgage CBs

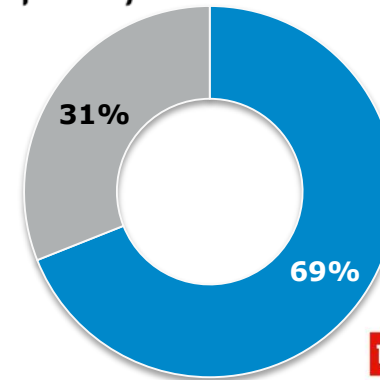
 Pekao Bank Hipoteczny



 mBank Hipoteczny

Outstanding Mortgage CBs in PLN

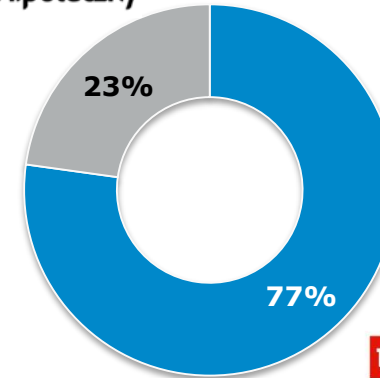
 Pekao Bank Hipoteczny



 mBank Hipoteczny

Outstanding Mortgage CBs in EUR

 Pekao Bank Hipoteczny



 mBank Hipoteczny

Mortgage Covered Bonds	Amount in M PLN
mBank Hipoteczny	2820,0
Mortgage CBs denominated in PLN	1880,0
Mortgage CBs denominated in EUR	590,0
Pekao Bank Hipoteczny	1019,5
Mortgage CBs denominated in PLN	845,2
Mortgage CBs denominated in EUR	174,3
TOTAL	3489,5

Please note: Data as of October 14, 2014. For EUR denominated CB total outstanding value calculated by using the NBP rate on October 14, 2014 (EUR 4,1993).

List of all trades done by mBank Hipoteczny

Total outstanding amount of all mBH Covered Bonds: 2,82 B PLN

Public Sector Covered Bonds – denominated in PLN

Series	Issue type	Issue date	Maturity date	Tenor	Outstanding amount (MM)	Base rate	Margin (bps)
PUA5	Public offer	2010-11-29	2015-11-30	5,0	100	WIBOR 6M	118
PUA6	Public offer	2012-07-27	2015-07-28	3,0	100	WIBOR 6M	130
PUA7	Public offer	2012-09-28	2016-09-28	4,0	150	WIBOR 6M	179

Total outstanding amount: **350MM PLN**

Mortgage Covered Bonds – denominated in PLN

Series	Issue type	Issue date	Maturity date	Tenor	Outstanding amount (MM)	Base rate	Margin (bps)
HPA11	Public offer	2010-09-28	2015-09-28	5,0	100	WIBOR 6M	136
HPA12	Public offer	2010-11-29	2014-11-28	4,0	100	WIBOR 6M	124
HPA13	Public offer	2011-04-28	2016-04-20	5,0	200	WIBOR 6M	114
HPA14	Public offer	2011-05-16	2015-05-15	4,0	100	WIBOR 6M	100
HPA15	Public offer	2011-06-15	2017-06-16	6,0	200	WIBOR 6M	98
HPA16	Public offer	2011-07-07	2015-07-07	4,0	100	WIBOR 6M	87
HPA18	Public offer	2012-04-20	2017-04-20	5,0	200	WIBOR 6M	129
HPA19	Public offer	2012-06-15	2018-06-15	6,0	200	WIBOR 6M	169
HPA20	Public offer	2012-11-30	2016-11-15	4,0	100	WIBOR 6M	170
HPA21	Public offer	2013-06-20	2019-06-21	6,0	80	WIBOR 6M	100
HPA22	Public offer	2014-07-28	2022-07-28	8,0	300	WIBOR 6M	93
HPA23	Public offer	2014-08-04	2023-02-20	8,6	200	WIBOR 6M	93

Total outstanding amount: **1 880M PLN**

Mortgage Covered Bonds – denominated in EUR

Series	Issue type	Issue date	Maturity date	Tenor	Outstanding amount (MM)	Base rate	Margin (bps)	Fixed coupon	Est. Margin of fixed issue (bps)
HPE1	Public offer	2012-10-19	2017-10-19	5,0	10	EURIBOR 6M	190	-	-
HPE2	Public offer	2013-07-26	2020-07-28	7,0	30	Fixed	-	2.75%	EURIBOR 6M + 120
HPE3	Public offer	2013-11-22	2018-10-22	4,9	50	EURIBOR 3M	113	-	-
HPE4	Public offer	2014-02-14	2018-02-15	4,0	7,5	EURIBOR 6M	80	-	-
HPE5	Public offer	2014-02-28	2029-02-28	15,0	8	Fixed	-	3.50%	EURIBOR 6M + 125
HPE6	Public offer	2014-03-17	2029-03-15	15,0	15	Fixed	-	3.50%	EURIBOR 6M + 125
HPE7	Public offer	2014-05-30	2029-05-30	15,0	20	Fixed	-	3.20%	EURIBOR 6M + 125

Total outstanding amount: **140,5MM EUR (~ 590M PLN)**

Data as of October 14, 2014. Please note that a significant portion of the transactions in 2011 with a spread of 98 and 87bps were retained by mBank.

Total outstanding amount of all mBH Covered Bonds: 1,02 B PLN

Mortgage Covered Bonds – denominated in PLN

Series	Issue type	Issue date	Maturity date	Tenor	Outstanding amount (MM)	Base rate	Margin (bps)
LZ-II-01	Public offer	2010-12-28	2020-10-28	9,8	100	WIBOR 6M	100
LZ-II-02	Public offer	2011-03-14	2021-03-14	10,0	250	WIBOR 6M	118
LZ-II-03	Public offer	2011-06-22	2021-11-22	10,4	150	WIBOR 6M	111
LZ-II-04	Public offer	2012-02-22	2022-02-22	10,0	150	WIBOR 6M	130
LZ-II-05	Public offer	2012-08-09	2017-12-09	5,3	150	WIBOR 6M	130
LZ-II-07	Public offer	2012-12-18	2019-03-18	6,2	45,2	WIBOR 6M	95

Total outstanding amount: **845,2 M PLN**

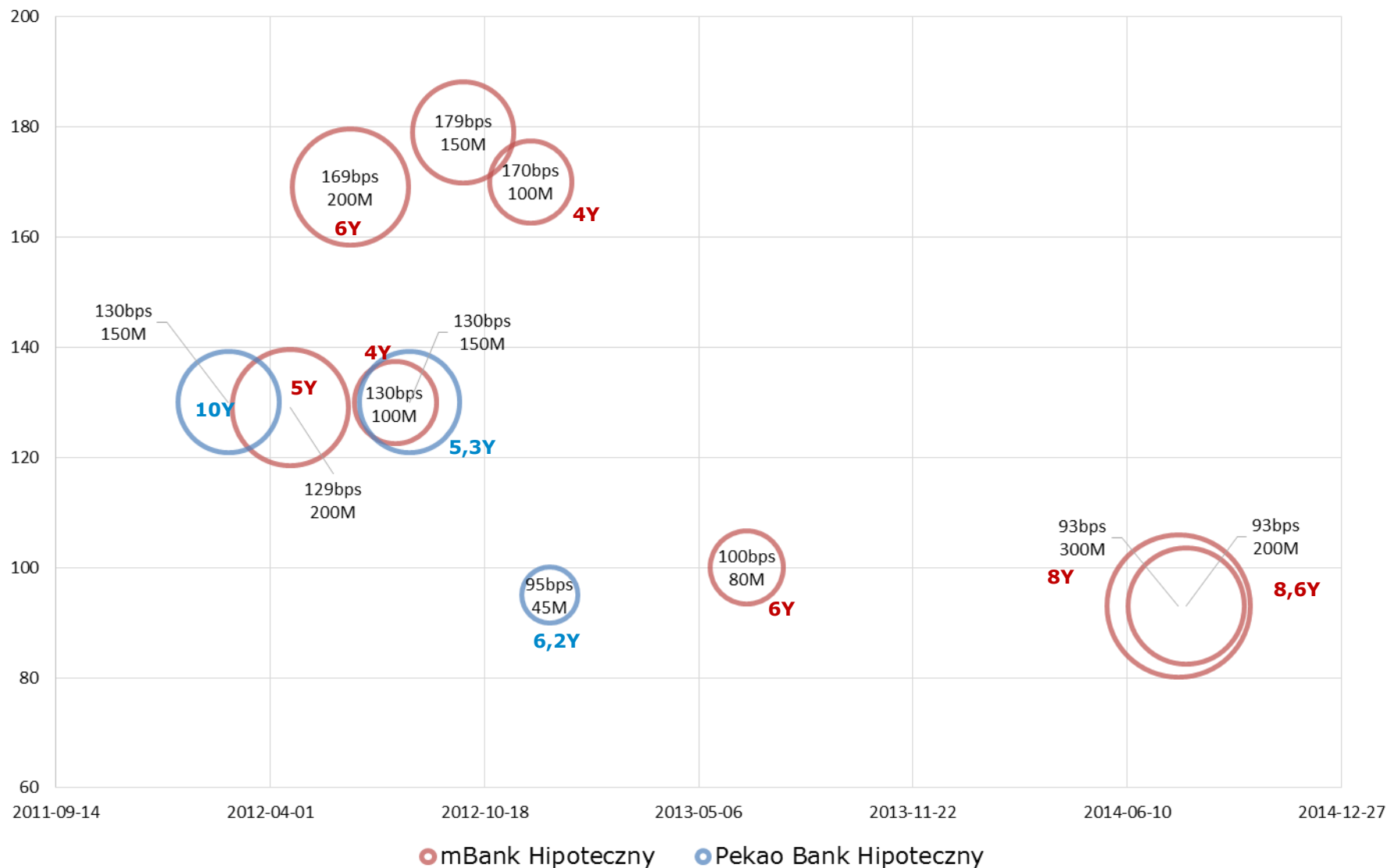
Mortgage Covered Bonds – denominated in EUR

Series	Issue type	Issue date	Maturity date	Tenor	Outstanding amount (MM)	Base rate	Margin (bps)	Fixed coupon	Est. Margin of fixed issue (bps)
LZ-II-06	Public offer	2012-10-11	2018-02-11	5,3	10	EURIBOR 6M	170	-	-
LZ-II-08	Public offer	2013-05-15	2019-05-15	6,0	4,5	EURIBOR 6M	125	-	-
LZ-II-09	Public offer	2013-12-30	2019-01-10	5,0	12	EURIBOR 6M	110	-	-
LZ-II-10	Public offer	2014-02-14	2021-02-12	7,0	15	-	-	2,45%	EURIBOR 6M + 101

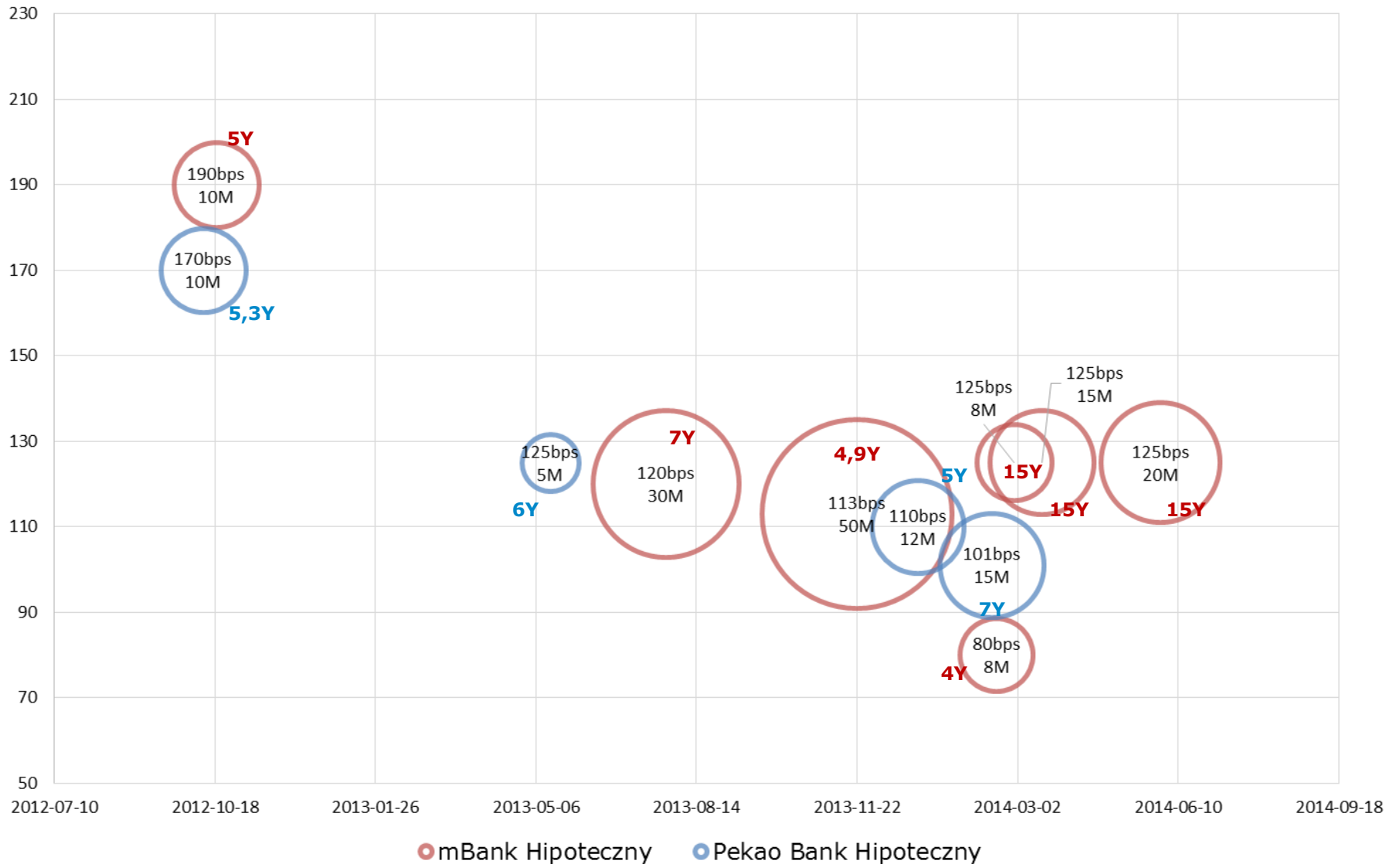
Total outstanding amount: **41,5M EUR (~ 174M PLN)**

Data as of October 14, 2014.

Spread over WIBOR 6M at issue date for Mortgage CBs in PLN



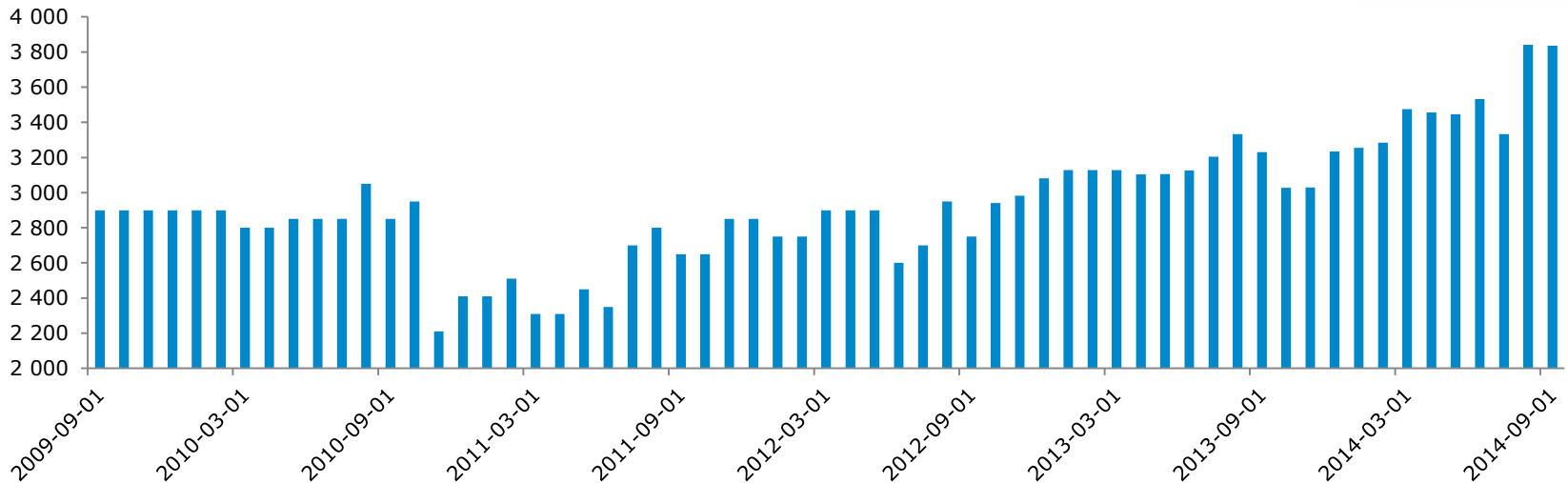
Spread over EURIBOR 6M at issue date for Mortgage CBs in EUR



Listing of Covered Bonds

- All covered bonds in Poland are listed on Catalyst market on BS Regulated Market (RR) and GPW Regulated Market (RR) platforms (apart from two series of covered bonds issued by Pekao Bank Hipoteczny that are listed on BS RR only)
- minimum denominations of all covered bonds listed on Catalyst market amount to PLN 1000

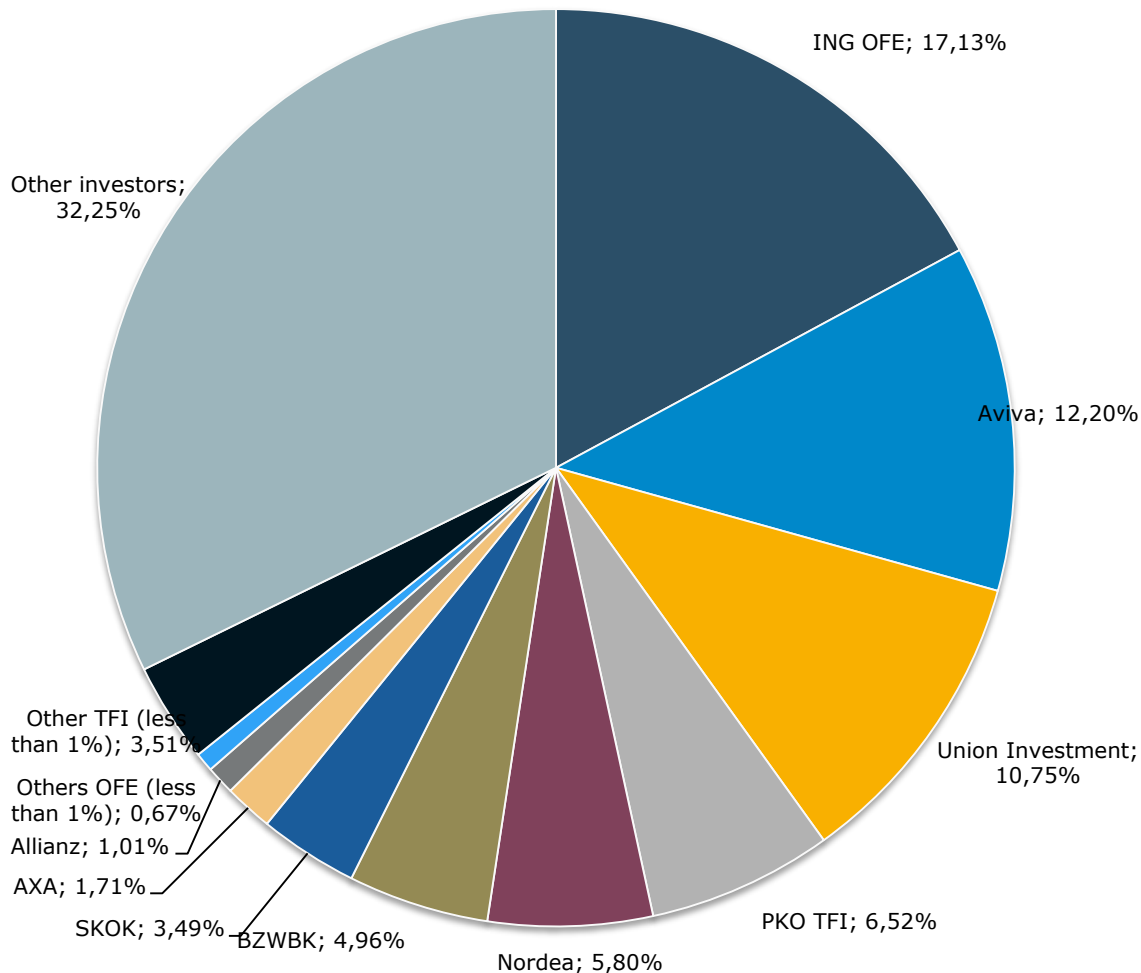
Value of Covered Bond issues on Catalyst market (in million PLN)



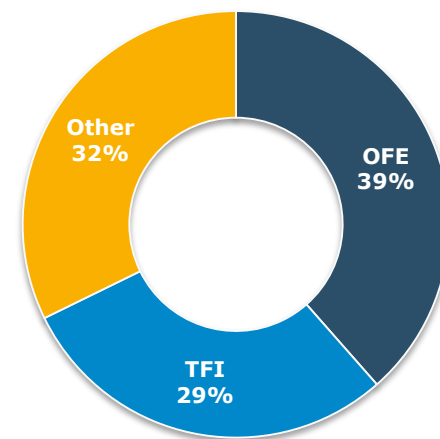
NOTE: Data as of 30.09.2014, source: Catalyst reports

Investor distribution of covered bonds denominated in PLN (1/2)

All covered bonds, data as of 2012YE

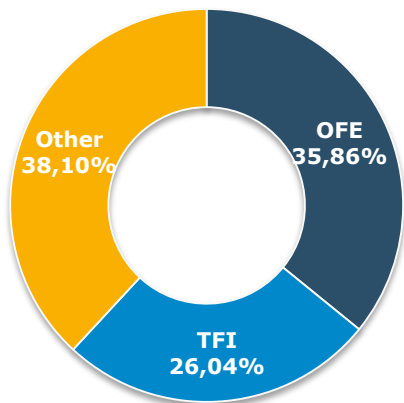


Rank	TOP 10 Investors	Type	Amount ('000 PLN)
1	ING OFE	OFE	517 247
2	Aviva	OFE	368 437
3	Union Investment	TFI	324 750
4	PKO TFI	TFI	197 000
5	Nordea	OFE	175 087
6	BZWBK	TFI	149 928
7	SKOK	TFI	105 500
8	AXA	OFE	51 706
9	Allianz	OFE	30 546
10	BPH TFI	TFI	23 500

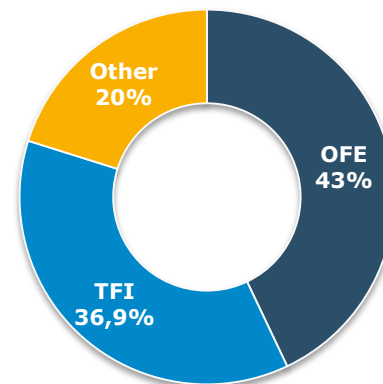


Investor distribution of covered bonds denominated in PLN (2/2)

All covered bonds, data as of 2012YE



Rank	TOP 10 Investors	Type	Amount ('000 PLN)
1	ING OFE	OFE	440 659
2	Aviva	OFE	185 907
3	Union Investment	TFI	155 350
4	PKO TFI	TFI	152 000
5	Nordea	OFE	120 935
6	BZWBK	TFI	97 928
7	SKOK	TFI	77 000
8	AXA	OFE	37 542
9	BPH TFI	TFI	23 500
10	Skarbiec	TFI	23 000



Rank	TOP 10 Investors	Type	Amount ('000 PLN)
1	Aviva	OFE	182 529
2	Union Investment	TFI	169 400
3	ING OFE	OFE	76 589
4	Nordea	OFE	54 152
5	BZWBK	TFI	52 000
6	PKO TFI	TFI	45 000
7	Allianz	OFE	30 546
8	SKOK	TFI	28 500
9	AXA	OFE	14 164
10	Polsat	OFE	5 031

Largest ever CB issues done by Polish Mortgage Bank

Issuer	mBank Hipoteczny S.A.
Series	HPA22
Book Runner	mBank S.A.
Format	Mortgage Covered Bonds under Polish Law
ISIN	PLRHNHP00391
Issue rating	A (Fitch)
Issue size	PLN 300M
Issue date	28th July 2014
Maturity date	28 th July 2022
Coupon Payment	Semi-Annual, floating
Coupon	WIBOR 6M + 93bps
Listing	WSE/BondSpot - Catalyst market

Issuer	mBank Hipoteczny S.A.
Series	HPA23
Book Runner	mBank S.A.
Format	Mortgage Covered Bonds under Polish Law
ISIN	PLRHNHP00399
Issue rating	A (Fitch)
Issue size	PLN 200M
Issue date	4th August 2014
Maturity date	20th February 2023
Coupon Payment	Semi-Annual, floating
Coupon	WIBOR 6M + 93bps
Listing	WSE/BondSpot - Catalyst market

Two last transactions of mBank Hipoteczny amounted to PLN 0,5B and formed the largest ever covered bonds issues denominated in Polish zloty.

Tuesday, August 12, 2014

New Polish law lifts demand for MBank covered bonds

Poland's MBank Hipoteczny has issued its fifth and sixth covered bond deals of the year, the largest issues denominated in Polish zloty in the asset class.

By Bill Thornhill 14 Aug 2014

The transactions will benefit from a new Polish covered bond law, which is expected to be implemented in January 2015 and which should offer a considerable rating uplift. That prospect boosted demand, allowing the issuer to double the size of the deal.

MBank Hipoteczny had plumped for euros with its previous covered bonds this year, allowing it to target European investors. But for its fifth and sixth transactions it wanted to sell to its domestic investor base with longer dated bonds. The borrower had initially planned to raise Z200m (\$64.0m).

MBank closed on a Z300m eight year covered bond at 93bp over Wibor on July 28 and on a Z200m 8.5 year on August 4 at the same spread. The total size equated to around €160m, which is not large by western European standards but is for a domestic Polish deal.

The bonds have a single-A rating with Fitch only, which is the same as the issuer's unsecured rating. However, the bank hopes that both ratings will gain an uplift thanks to the legislation changes.

The new law will eliminate withholding tax for international investors, include a minimum level of over-collateralisation that could be 10% and will obligate issuers to carry a liquidity buffer in the cover pool, which could cover six months of interest rate payments.

There are also several changes to the bankruptcy law that will mean if an issuer is declared insolvent the maturity of the bonds can be extended for one year. If the issuer is unable to meet an amortisation test the bonds could switch to a pass-through structure.

Poland's MBank Hipoteczny has issued its fifth and sixth covered bond deals of the year which combined to form the largest ever issues denominated in Polish zloty. The deal will benefit from the new Polish covered bond law, which should be implemented in January 2015 and which is likely to offer a considerable rating uplift. That prospect boosted demand allowing the issuer to increase the deal size by more than double.

MBank Hipoteczny has issued four deals denominated in euros that were targeted at European investors but for its fifth and sixth transactions it targeted the domestic investor base with longer dated bonds. The borrower had initially planned to raise Z200m.

"In order to better match our assets, we wanted to extend duration of covered bonds sold to domestic investors," said Karol Prazmo, head of funding at MBank. "This is consistent with our euro denominated transactions in the first half of the year"

After building a total order book of Z1bn, the borrower opted to increase the total issued over the two deals to Z500m.

Increased on demand

"Due to demand we ended up issuing much more than we had planned," said Prazmo.

The borrower closed on a Z300m 8 year covered bond at 93bp over Wibor on July 28 and closed on a Z200m 8.5 year on August 4 at the same spread.

The total size equated to around €160m which is not large by western European standards but is by domestic standards.

Largest ever issued in Poland

"This is the largest ever covered bond issued in Poland and it was priced inside comparable senior unsecured paper in the domestic market," said Prazmo.

On July 17 Polish bank BZWBK issued a three year senior deal at 100bp over 6m Wibor.

Bloomberg

MBank Unit Sells Covered Bonds to Raise Long-Term Funding

By Marta Waldoch

Aug. 12 (Bloomberg) -- MBank SA's mortgage unit sold 500 million zloty (\$160 million) of covered bonds this month to increase long-term funding and continue lending growth at Poland's fourth-largest lender.

MBank Hipoteczny SA, which initially planned sell 200 million zloty of the notes, decided to increase the amount after demand exceed 1 billion zloty, Karol Prazmo, the head of company's treasury department, said in a phone interview yesterday. The mortgage-backed bonds were sold at 93 basis points over the Warsaw Interbank Offered Rate, or Wibor, and had maturities of 8 to 8.5 years, he said.

The transaction "not only" helped the bank "cut the financing costs, but also better match maturity and currency of assets and liabilities," Prazmo said.

Polish banks are turning to the covered bond market while under pressure from domestic and European watchdogs to better match funding maturities with that of loans. The Polish government is also working on a law to ease banks' access to mortgage-backed securities, which when passed is expected to boost their share of home-loan finance to 7 percent from 0.7 percent in five years, according to the country's financial market regulator.

MBank issued 710.7 million zloty of covered bonds in January to Aug. 4, including the current sale, and maintains its plan to sell a total of 1 billion zloty of such notes this year and about 1.5 billion zloty in 2015, Prazmo said.

PLN market - price differentiation between Covered vs. Senior unsecured issuance achieved

MID 2012 PERSPECTIVE

- Relatively no difference in pricing between senior unsecured and covered bonds - 3 year covered bonds from mBH and 3 year senior unsecured from mBank would have both priced at around 6mWIBOR+150bps

Issuer	Debt type	Issue type	Issue date	Maturity date	Tenor	Outstanding amount	Base rate	Margin (bps)
mBH	Mortgage CB	Public offer	2012-06-15	2018-06-15	6Y	PLN 200M	WIBOR 6M	169
mBH	Mortgage CB	Public offer	2012-11-30	2016-11-15	4Y	PLN 100M	WIBOR 6M	170
mBank	Senior Unsecured	Private Placement	2012-11-23	2015-11-23	3Y	PLN 450M	WIBOR 6M	

MID 2014 PERSPECTIVE

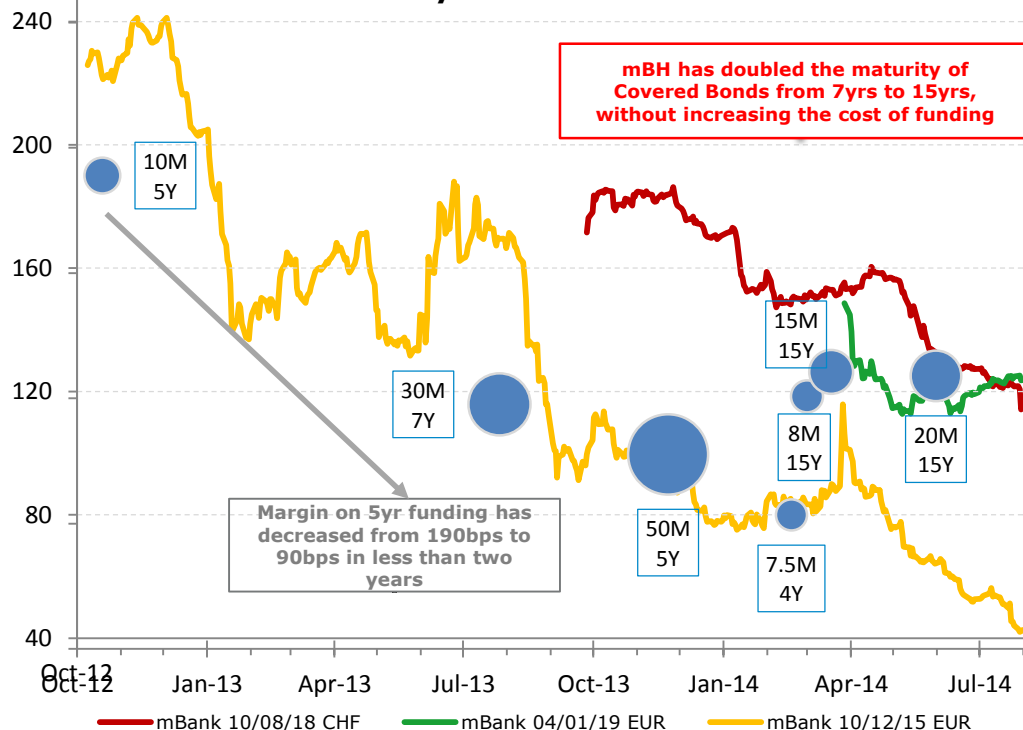
- Material difference in pricing between senior unsecured and covered bonds
- mBank has not issued any senior unsecured in PLN in 2014
- However, if we compare the BZWBK 3 year senior unsecured issuance vs. mBH 8year covered bond issuance, the mBH issuance was not only 5 years (almost 3x) longer, but also cheaper
- We initially went out with a PLN 200mln transaction however, because of the strong interest, we closed on PLN 500mln via two trades – largest amount ever for covered bonds in Poland. The size of the two order books was north of PLN 1bln.

Issuer	Debt type	Issue type	Issue date	Maturity date	Tenor	Outstanding amount	Base rate	Margin (bps)
mBH	Mortgage CB	Public offer	2014-07-28	2022-07-28	8Y	PLN 300M	WIBOR 6M	93
mBH	Mortgage CB	Public offer	2014-08-04	2023-02-20	8,5Y	PLN 200M	WIBOR 6M	93
BZWBK	Senior Unsecured	Private Placement	2014-07-17	2017-07-17	3Y	PLN 450M	WIBOR 6M	100
Getin Noble	Senior Unsecured	Public offer	2014-06-30	2017-06-30	3Y	PLN 350M	WIBOR 6M	170
Alior Bank	Senior Unsecured	Public offer	2014-04-11	2016-04-11	2Y	PLN 180M	WIBOR 6M	145
Bank Millennium	Senior Unsecured	Public offer	2014-03-28	2017-03-28	3Y	PLN 500M	WIBOR 6M	140
Credit Agricole	Senior Unsecured	Private Placement	2014-03-21	2017-03-21	3Y	PLN 300M	WIBOR 3M	100

EUR market - significant reduction of mBank's cost of funding while lengthening liabilities

Series	Issue type	Issue date	Maturity date	Currency	Outstanding amount (MM)	Base rate	Margin (bps)	Fixed coupon	Est. Margin of fixed issue (bps)
HPE1	Public offer	2012-10-19	2017-10-19	EUR	10	EURIBOR 6M	190	-	-
HPE2	Public offer	2013-07-26	2020-07-28	EUR	30	Fixed	-	2,75%	EURIBOR 6M + 120
HPE3	Public offer	2013-11-22	2018-10-22	EUR	50	EURIBOR 3M	113	-	-
HPE4	Public offer	2014-02-14	2018-02-15	EUR	7,5	EURIBOR 6M	80	-	-
HPE5	Public offer	2014-02-28	2029-02-28	EUR	8	Fixed	-	3,50%	EURIBOR 6M + 125
HPE6	Public offer	2014-03-17	2029-03-15	EUR	15	Fixed	-	3,50%	EURIBOR 6M + 125
HPE7	Public offer	2014-05-30	2029-05-30	EUR	20	Fixed	-	3,20%	EURIBOR 6M + 125

Spread; ASW
Spread on EUR-denominated mortgage covered bonds issued by mBH and secondary level for mBank senior unsecured



■ SUBSTANTIAL SPREAD TIGHTENING:

Recent issuance in EUR at a cost of EURIBOR+[80bps-125bps] for funding with maturities in the 4-15 year range is materially cheaper than comparable senior unsecured and one of the lowest costs of funding for a bank based in Poland in the last 5 years. However, there is still a material difference in scale in terms of what we can execute in covered vs. senior unsecured.

■ ACCESS TO THE DOMESTIC AND INTERNATIONAL MARKETS:

enables the group to be opportunistic in funding tools

■ DIVERSIFICATION OF FUNDING SOURCES FROM GROUP PERSPECTIVE:

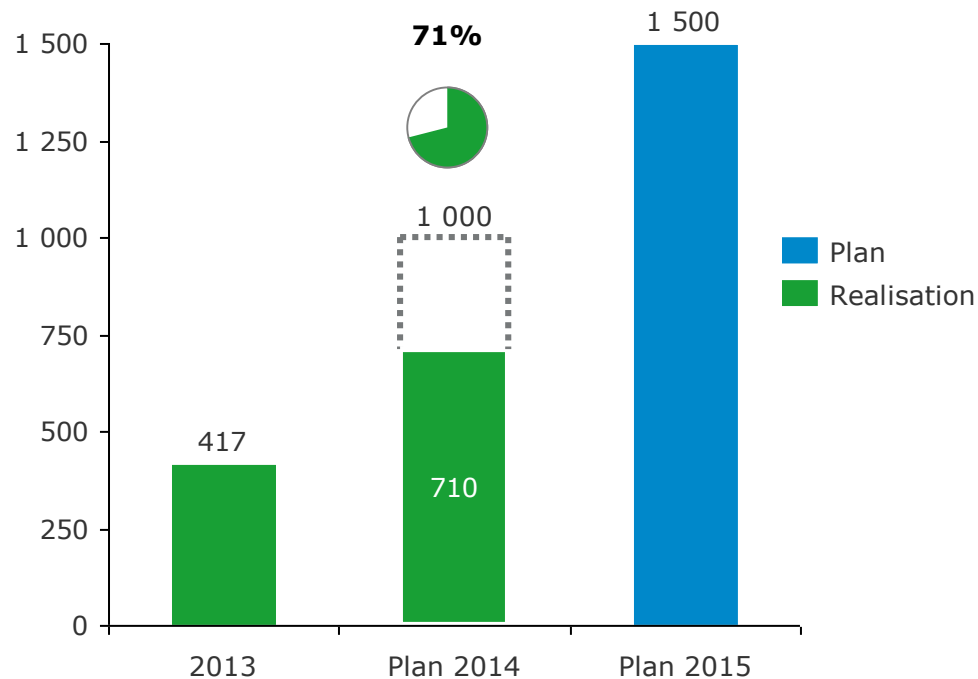
The credit crisis has demonstrated that institutions that have access to funding from client deposits, the senior unsecured market and the covered bond market are at a competitive advantage

■ LONG TERM FUNDING:

Covered Bonds with **typical maturities of 5-15 years** are the ideal product for funding long dated retail mortgages

CBs issuance plan for mBank Hipoteczny

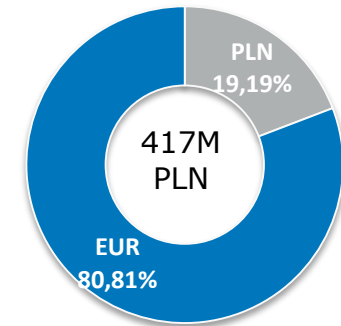
Mortgage CBs Issuance targets for 2014-2018 (in million PLN)



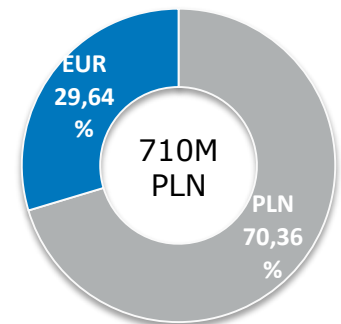
Please note that:

- mBH executed 71% issuance target for this year following the closing of the PLN trades.
- Current pipeline is two EUR trades totalling EUR 50M+, therefore proportion of EUR trades in 2014 will increase.
- Following the change in legislation, mBH should have a comparative advantage of delivering cheap and long term EUR funding for mBank Group

Issuance in 2013 (broken down by currency)

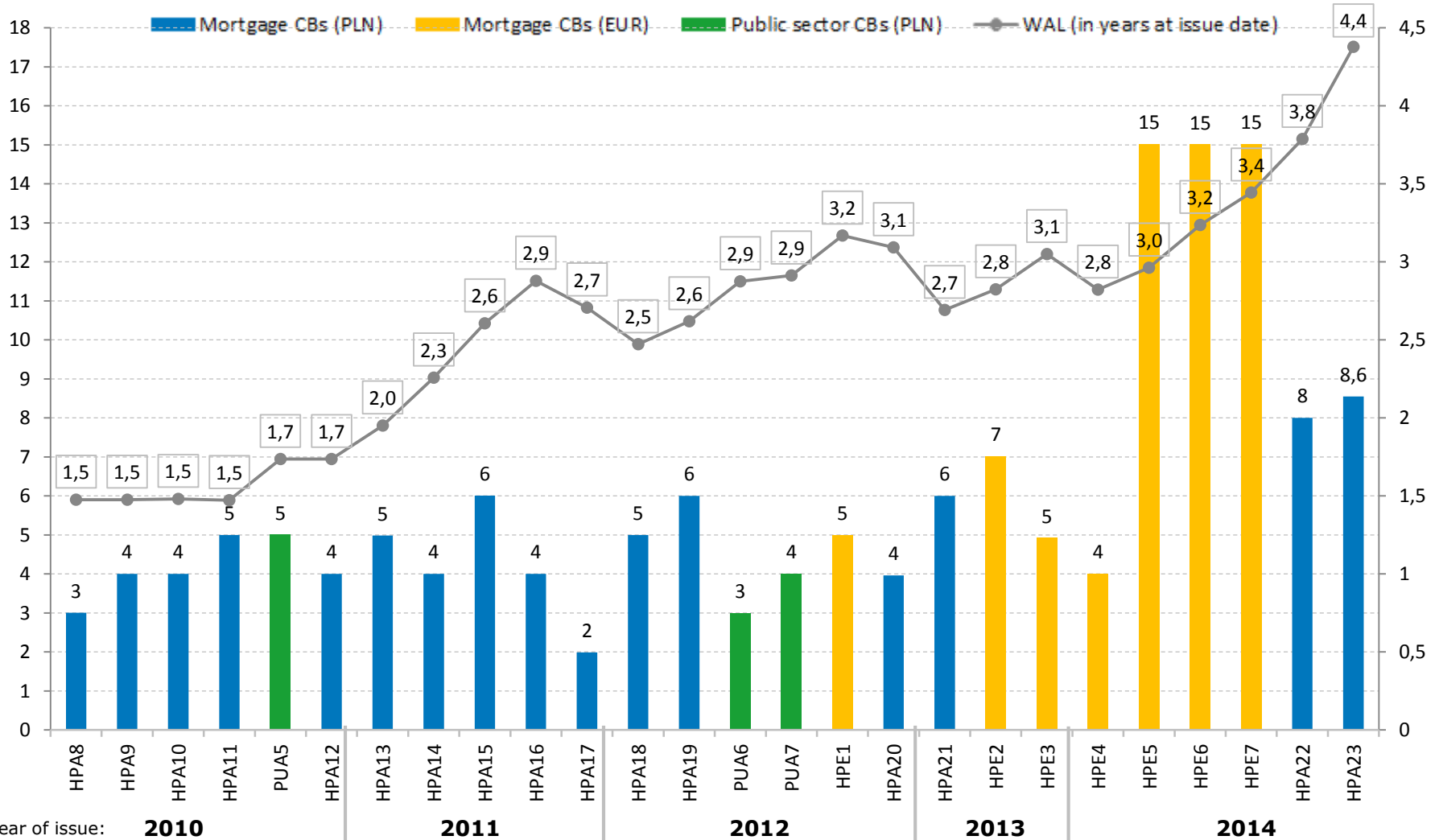


Issuance in 2014YTD (broken down by currency)



ALM maturity mismatch improved significantly through longer-dated issuance

Tenor (in yrs)

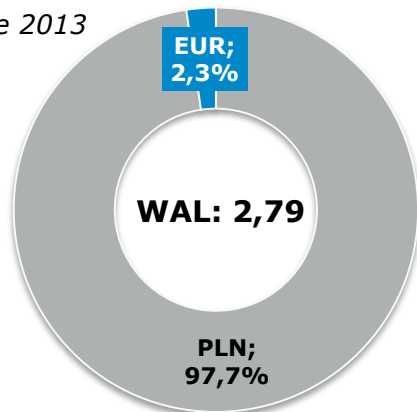


EUR proportion of mBH mortgage covered bonds has grown from 2,3% to 26,9% in 1 year

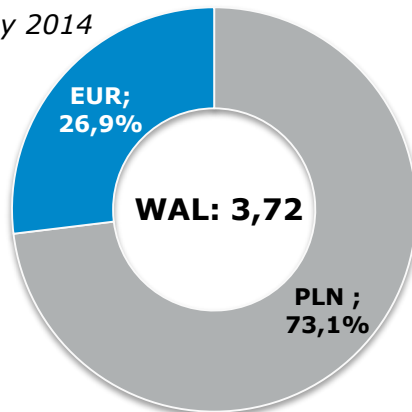
Rating agencies have historically highlighted: (1) that mBH needs to have more EUR covered bonds or fewer EUR assets and (2) that mBH needs to extend maturity of liabilities. **Since mid 2013 we have materially improved in both categories.**

Currency structure of mortgage covered bonds

June 2013

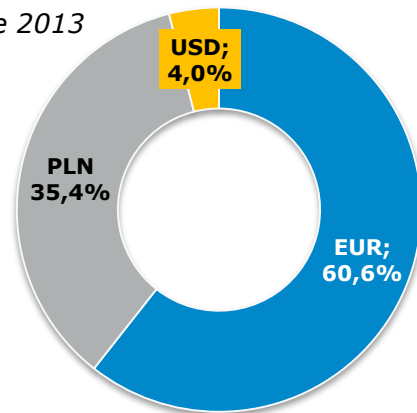


May 2014

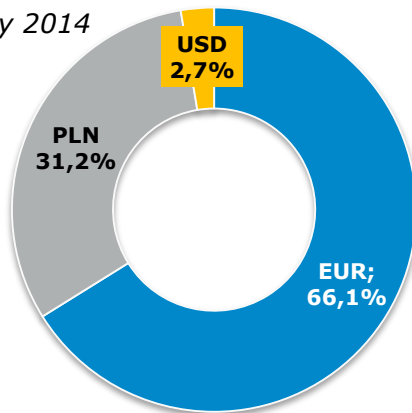


Currency structure of mortgage cover pool

June 2013



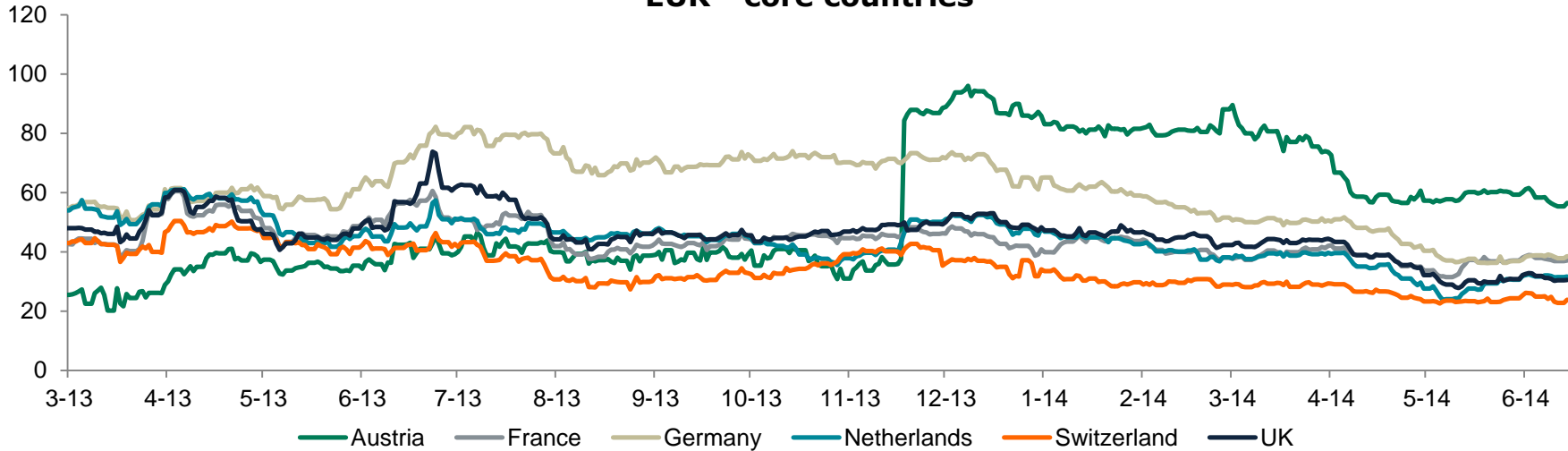
May 2014



- In the last year there has been a significant change in the currency composition of the liability side of the mBH balance sheet. EUR denominated covered bonds have increased from 2,3% in June 2013 to 26,9% in May 2014. The asset side has remained relatively unchanged.
- In parallel with changes in the structure weighted-average life (WAL) of mortgage covered bonds has been extended from the 2,79 years (June 2013) vs. 3,72 years (May 2014). The main implications for extension of the maturity have 15-years EUR denominated covered bonds issuance. Please note that these are bonds with the longest maturity issued by Polish company.

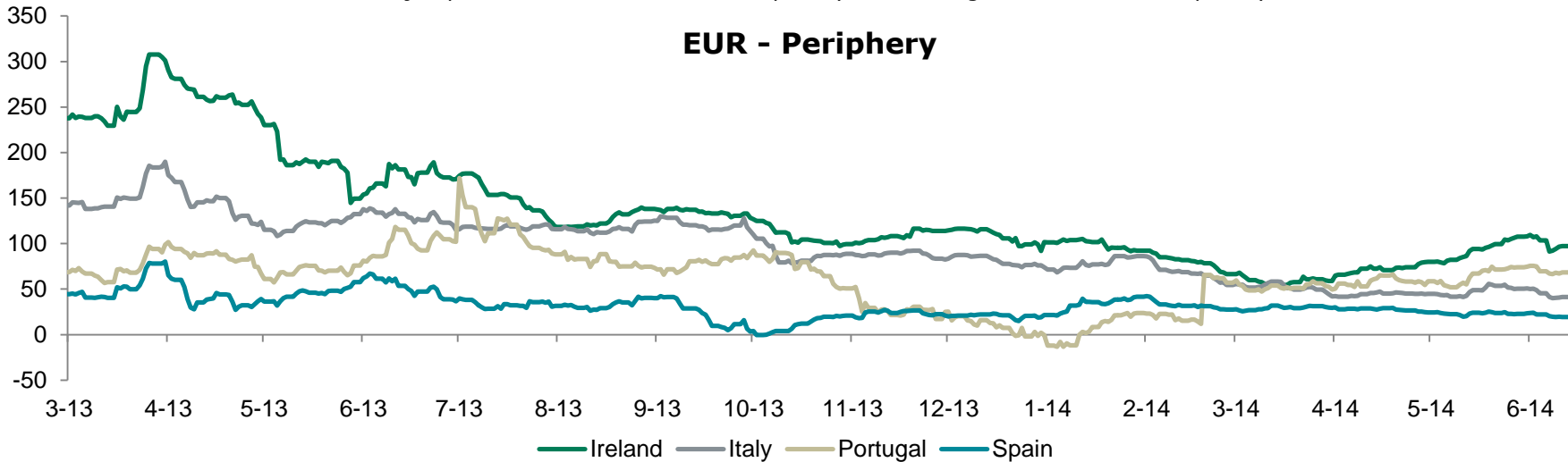
Average senior - covered basis in bps

EUR - core countries



Please note: The jump for Austria is due to a 2019 pair by BACA being added to the 2015 pair by ERSTBK

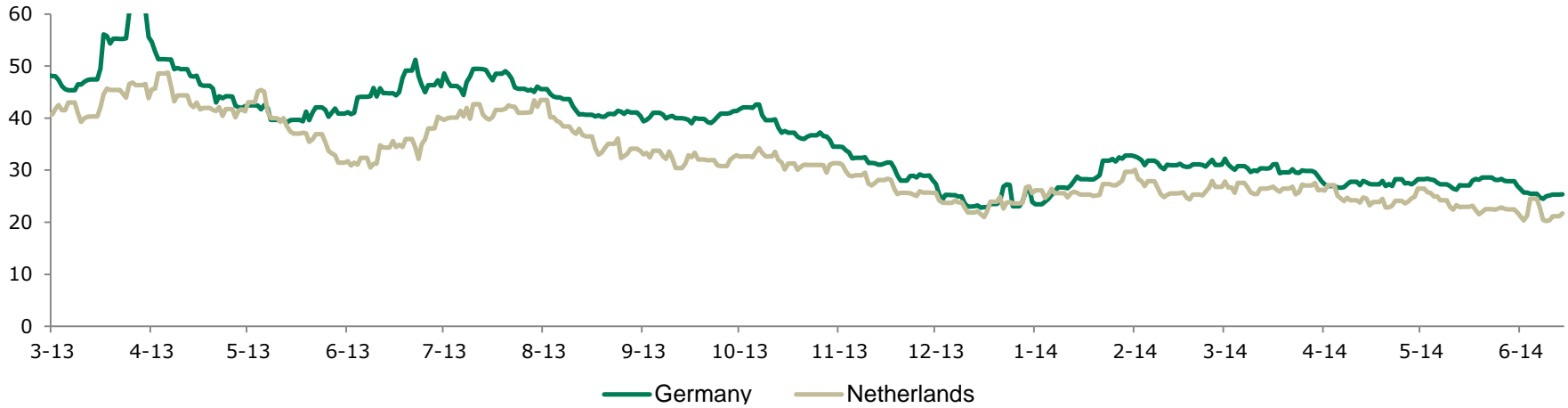
EUR - Periphery



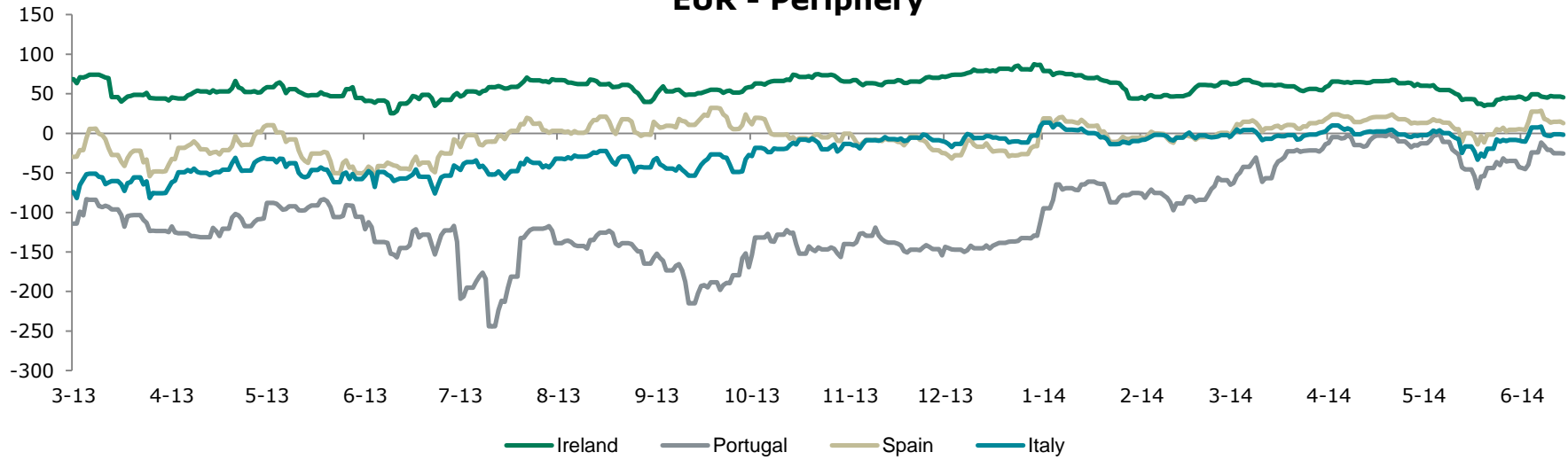
Source: Credit Agricole Corporate & Investment Bank database

Average covered - govie basis in bps

EUR - core countries



EUR - Periphery



Source: Credit Agricole Corporate & Investment Bank database

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[Supplements for individual series \(Investor relations\)](#)

Covered bonds quotations

[Catalyst market quotations \(WSE/BondSpot\)](#)