

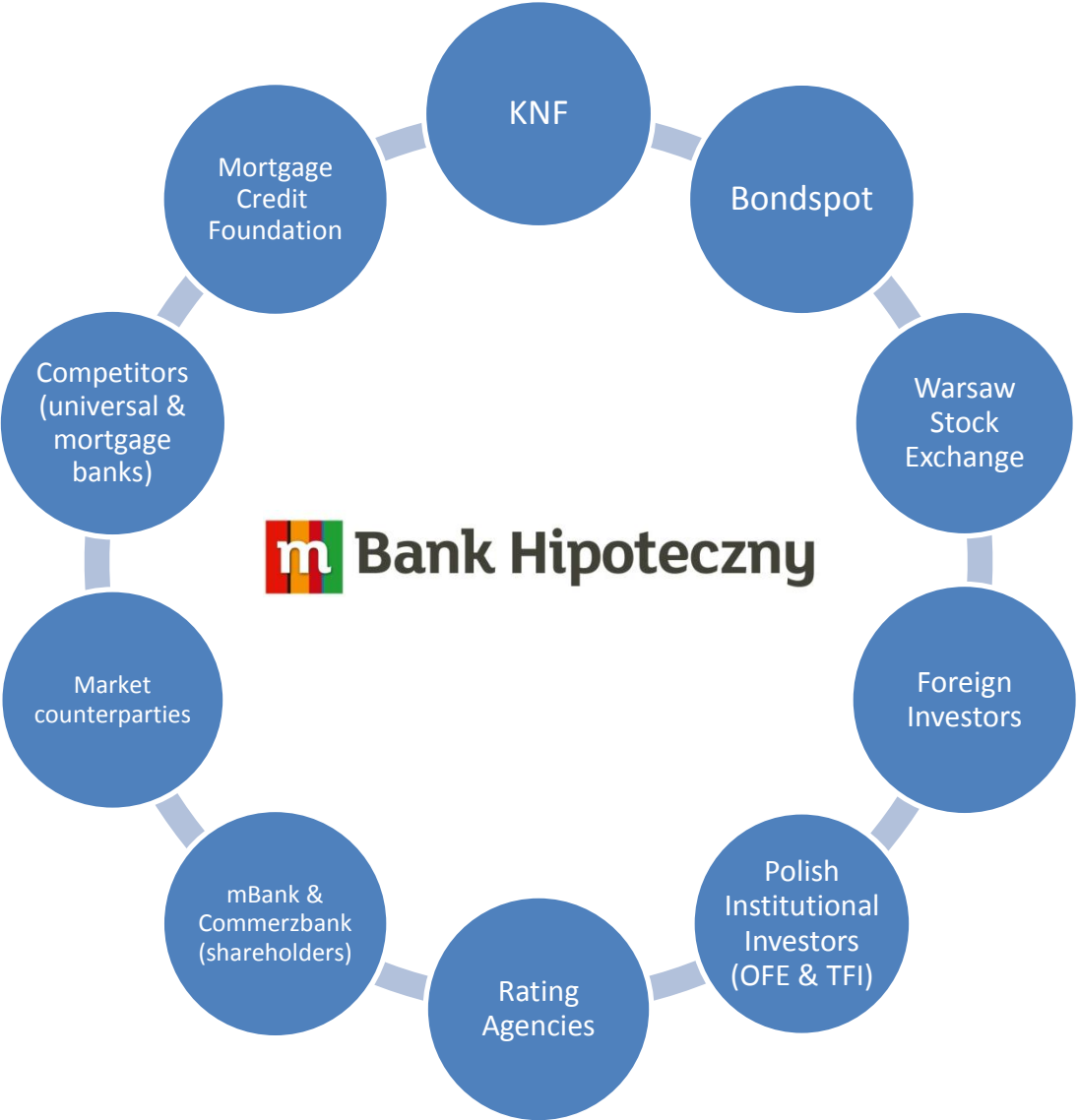
# Requirements (current and future) of the Polish legislation, reports for the trustees

Warsaw

March 2014



# mBank Hipoteczny stakeholders



# General characteristics of covered bonds' issues

1. All Covered Bonds are being issued within the Bearer Public Sector and Mortgage Covered Bond Programme in public offer. Such securities are basically acquired by banks, insurance companies, investment funds, pension funds and other participants of the financial market.
2. Covered bonds of mBank Hipoteczny belong to safest capital instruments which is confirmed by the ratings assigned by Fitch rating agency at the level of 'A'. All PLN denominated covered bonds are on the list of debt securities accepted by the NBP as collateral for lombard facility, internal credit and repo operation.
3. All covered bonds (both public & mortgage, PLN & EUR denominated) are listed on the Catalyst market (Polish bond market operated by WSE and BondSpot).

Type of cover	Commercial loans/ Public sector loans
Voluntary overcollateralisation for mortgage covered bonds	10%
Voluntary overcollateralisation for public covered bonds	6%
Currency	PLN / EUR / USD
Type of interest rate	Floating rate
Type of offering	Public offer (listing: Warsaw Stock Exchange) Private placement
Collateral for Central Bank's repo and lombard transactions	Yes
Maturity (in years)	From 2 to 15

# Legal acts & other regulations

## Legislative Acts

- *The Banking Law*
- *Act of Public Offering*
- *The Bonds Act*
- *Act on Covered Bonds and Mortgage Banks*
- *Act on trading in financial instruments*
- *Regulation of the Minister of Finance dated 19 February 2009 on current and periodical information published by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent*
- *Recommendation K of the KNF (Polish Financial Supervision Authority)*

## Stock Exchange regulations

- *Catalyst Operating Rules*
- *The WSE Rules* which determine the rules of trading on the regulated market operated by the WSE
- *Rules of Trading on the Regulated Market* operated by Bondspot SA
- *WSE/Bondspot Detailed Exchange Trading Rules* on the Regulated Market

# Supplement to the Terms and Conditions of CB Issues

Supplement contains the detailed terms of the offer (pursuant to art. 24 item 1 of the Act on Public Offering) including:

- Final terms and conditions (with rights and obligations under CB and dates as of which the right accrue)
- Issuer's contact details
- Rating assigned to the Issuer and particular CB series (if granted)
- Number, type, unit par value and designation of the issue of CB
- Collateral for CB with overview of the claims entered in the covered bond collateral register. General description of the portfolio securing CBs is broken down by:

## Mortgage Covered Bonds

- Currency structure and value ranges of claims
- Borrower type (legal persons & natural persons)
- Use of funds (commercial & residential real estate)
- Interest rate type (Variable & fixed interest type)
- Remaining time to maturity in years
- Geographical regions
- Progress of investment

## Public Covered Bonds

- Currency structure and value ranges of claims
- Borrower type - JST & Public health care institutions (loans guaranteed by JST)
- Interest rate type (Variable & fixed interest type)
- Remaining time to maturity in years
- Geographical regions

# Financial reports

In accordance with the provisions of § 82 Sec. 8 of the Regulation of the Minister of Finance of 19 February 2009 on current and interim reports published by issuers of securities and on the conditions under which such information is recognised as equivalent to information required under regulations of a non-member state:

*„Issuer which is mortgage bank, introducing on the official market quotations only covered bonds, is required to submit periodic reports in the form of quarterly reports and consolidated quarterly **or** interim reports of the board and semi-annual reports and consolidated semi-annual reports **as well as** annual reports and consolidated reports annual, within the range specified for the banks. If on the basis of the rules applicable to the issuer is not required or can not prepare consolidated financial statements, it does not provide consolidated quarterly reports, consolidated semi-annual reports and consolidated annual reports.”*

Accordance with the above regulations mBank Hipoteczny prepares semi-annual and annual financial report consisting of:

- mBank Hipoteczny S.A. Directors' Report
- Condensed Interim Financial Statements of mBank Hipoteczny S.A.
- Independent Auditor's Review Report on the Condensed Interim Financial Statements

# Directors' Report

*„Interim management report (...) contains information covering the period from the start of the first half until the publication of the report.*

*This report should include an explanation of significant events and transactions that have taken place during the relevant period and their impact on the financial position and results of the issuer and its controlled undertakings, and a general description of the financial position and financial performance of the issuer and its controlled entities for the period.”*

§ 82 Sec. 11 of the Regulation of the Minister of Finance of 19 February 2009

<i>Major section</i>	<i>Details</i>
Operations of mBH	Description of the most important tasks
	Financial credibility with current ratings
	Financial results with key financials ratios (Gross ROA/ROE/RORC, CAR, C/I)
	Lending activity with structure of the credit portfolio (broken down by type of borrower, purpose, currency)
Risk management	Credit risk including quality of the loan portfolio (NPLs)
	Market risk
	Liquidity risk
	Operational risk
Financing	New issue of Covered Bonds
	Total outstanding covered bonds
	Financing structure including difference source (CB, bonds & notes, deposits and subordinated loans)
Other information	Development directions & key elements of the Bank's strategy
	The Bank's Authorities
	Information of appointment of the auditor

# Information requirements arising from Catalyst regulation

- All mBH's covered bonds are listed on the regulated market forming part of the Catalyst market (Polish bond market operated by WSE and BondSpot).
- Most of the rules & regulation specifies the technical and organizational rules of providing current and periodical information are similar on the both markets.

## *The WSE Rules (Warsaw Stock Exchange - WSE)*

### *WSE Detailed Exchange Trading Rules in UTP system (WSE\*)*

### *Rules of Trading on the Regulated Market (Bondspot - BS)*

### *Appendix 1 to the Rules of Operation Catalyst*

(BS) § 12 Sec. 1 Issuers of securities admitted to trading only on the market are obliged to provide current and periodical information, referred to in Article 56 Sec. 1 Item 2 of the Act on Public Offering, of the type, scope, form, frequency and provision dates in accordance with the Regulations”

(BS) § 12 Sec. 4 The issuer of debt securities admitted to trading on the market is required to deliver to the Company a document containing a calculation of interest on each day of the interest period (Interest tables) for the debt instrument on the basis of specified in the Specific Rules.

(WSE\*) § 24 Sec. 1 The issuer of debt securities or an entity designated by him, is obliged to deliver Interest tables through fax and agreed with the Exchange electronically.

(BS) § 13 Sec. 2  
(WSE) § 28 Sec. 2 An issuer who is a mortgage bank and who introduced only mortgage bonds to trading on the market shall only be required to provide current information referred to in § 81 Sec. 1 Item 1 and Item 2 and § 81 Sec 2 of the Regulation.

#### § 81 Sec. 1 & 2:

The issuer which is (...) a mortgage bank issuing only CB is obliged to prepare, in the form of a current report information about:

- 1) granting or rating change which was made on the request of the issuer (...)
- 2) decision to change the rights on securities and made this change, indicating the scope of the changes and the right after this change

#### § 81 Sec 2:

The issuer which is a mortgage bank issuing only CB is obliged to prepare, in the form of a current report information on:

- 1) intention to change the statute affecting the rights of the holders of mortgage bonds;
- 2) the aggregate amount of the nominal value of issued mortgage bonds that were traded on the last day of the financial year;
- 3) the total amount of debt and the appropriations entered in the cover pool register, as of the last day of the financial year.



# Best practices of Western European banks (1)

## Covered Bond Label initiative

- The Covered Bond Label was created by the EMF/European Covered Bond Council (ECBC) in 2012. It was developed by the European issuer community, working in close cooperation with investors and regulators, and in consultation with all major stakeholders.
- The Label is based on the Covered Bond Label Convention, which defines the core characteristics required for a covered bond programme to qualify for the Label. This definition of the required characteristics is complemented by a transparency tool developed at national level based on the "Guidelines for National Transparency Templates".
- National Transparency Templates were introduced in: Austria, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden & United Kingdom.

## Implementation of Covered Bond Label by national mortgage banks:

- Establishes a clear perimeter for the asset class and highlights the core standards and quality of covered bonds;
- Increases transparency;
- Improves access to information for investors, regulators and other market participants;
- Has the additional objective of improving liquidity in covered bonds;
- Positions the covered bond asset class with respect to the upcoming regulatory challenges (CRD IV, Solvency II, redesign of ECB repo rules, etc.).

# Best practices of Western European banks (2)

Mortgage banks in Western Europe prepare and make publicly available the following statement:

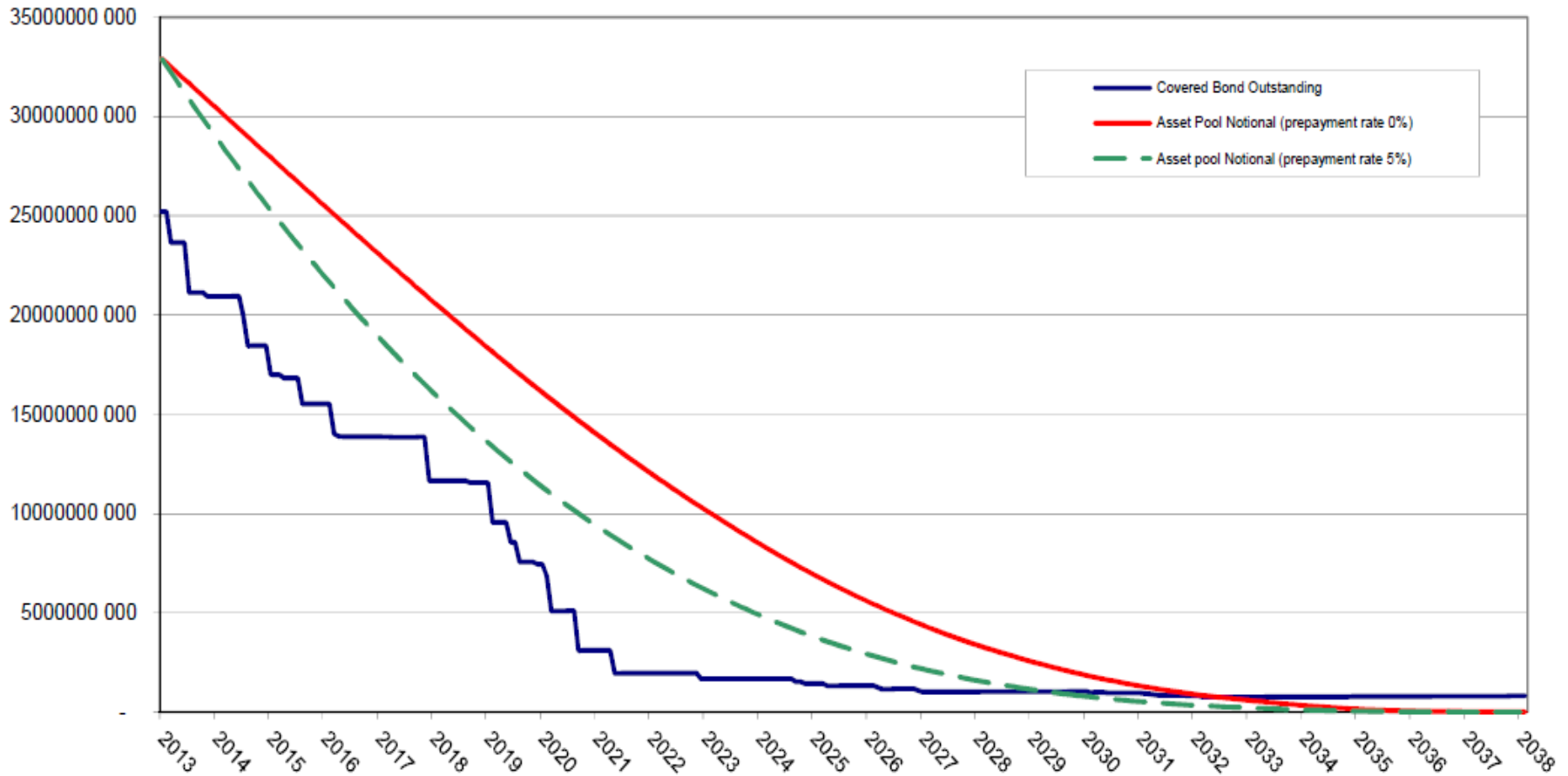
- 1. Debt Investor presentations** (including general cover pool and funding statistics)
- 2. Cover pool reports**

These reports are published at different frequencies (monthly, quarterly or semi-annual) according to individual market practice

Compared to the data presented by Polish mortgage banks contain detailed information on:

- **Key portfolio characteristics** such as:
  - Weighted average current coupon (WACC);
  - Weighted average remaining maturity in years;
  - Weighted average seasoning in years (Seasoning defined by duration of customer relationship)
  - Weighted average current LTMV/ LTMV (indexed)
- Portfolio statistics broken down by **Current Loan to Original/Indexed Market Value**
  - Unindexed LTV is calculated on the basis of the current outstanding amount of the loans and the initial valuation / price of the residential assets.
  - Indexed LTV is calculated on the basis of the current outstanding amount of the loans to the appraised values or prices of the residential assets using an indexation methodology. Details of the indexation methodology shall be provided by Issuer (including frequency of collateral valuation for the purpose of calculating the LTV).
- Portfolio statistics broken down by **Seasoning** and **Delinquencies (Non-performing loans)**
- **Amortization profile** with current **weighted average life of cover pool and covered bonds**

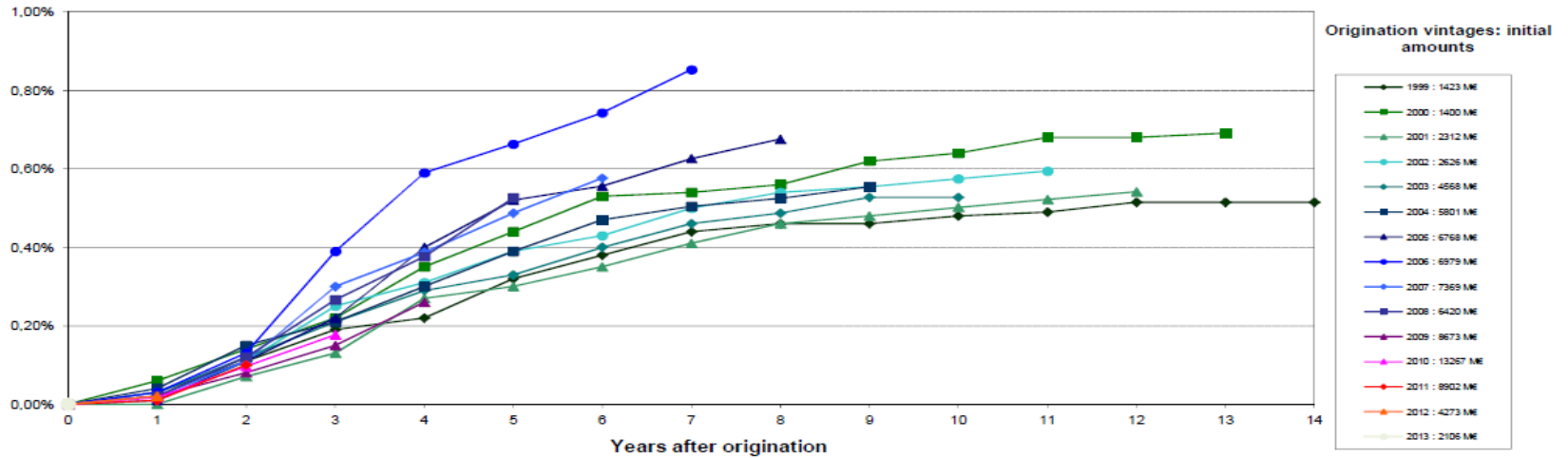
# Appendix 1



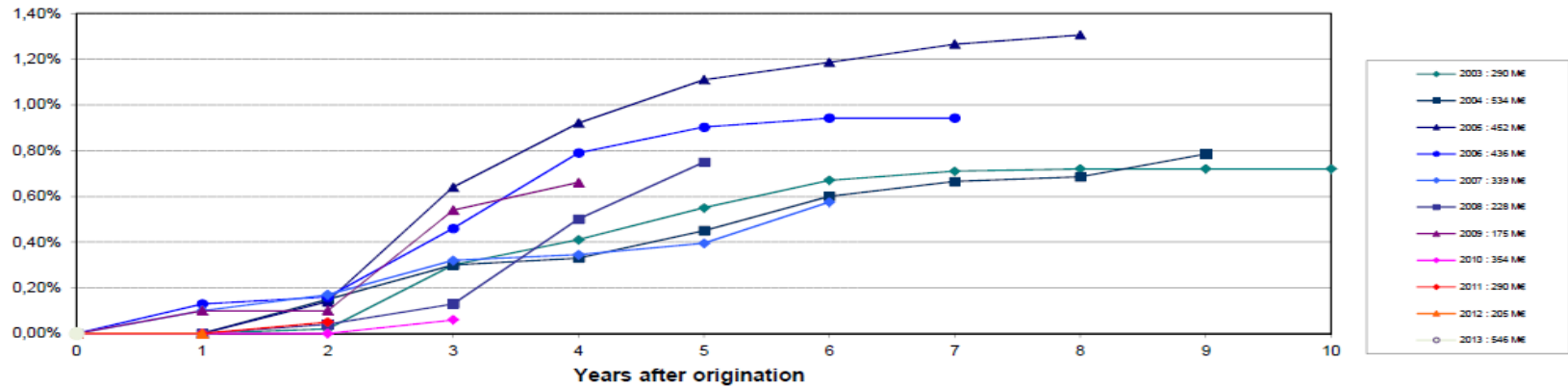
Source: BNP Paribas Home Loan SFH, Investor Report December 2013

# Appendix 2

**BNP Paribas : Cumulated default ratios**  
Defaulted amounts / Initial amounts



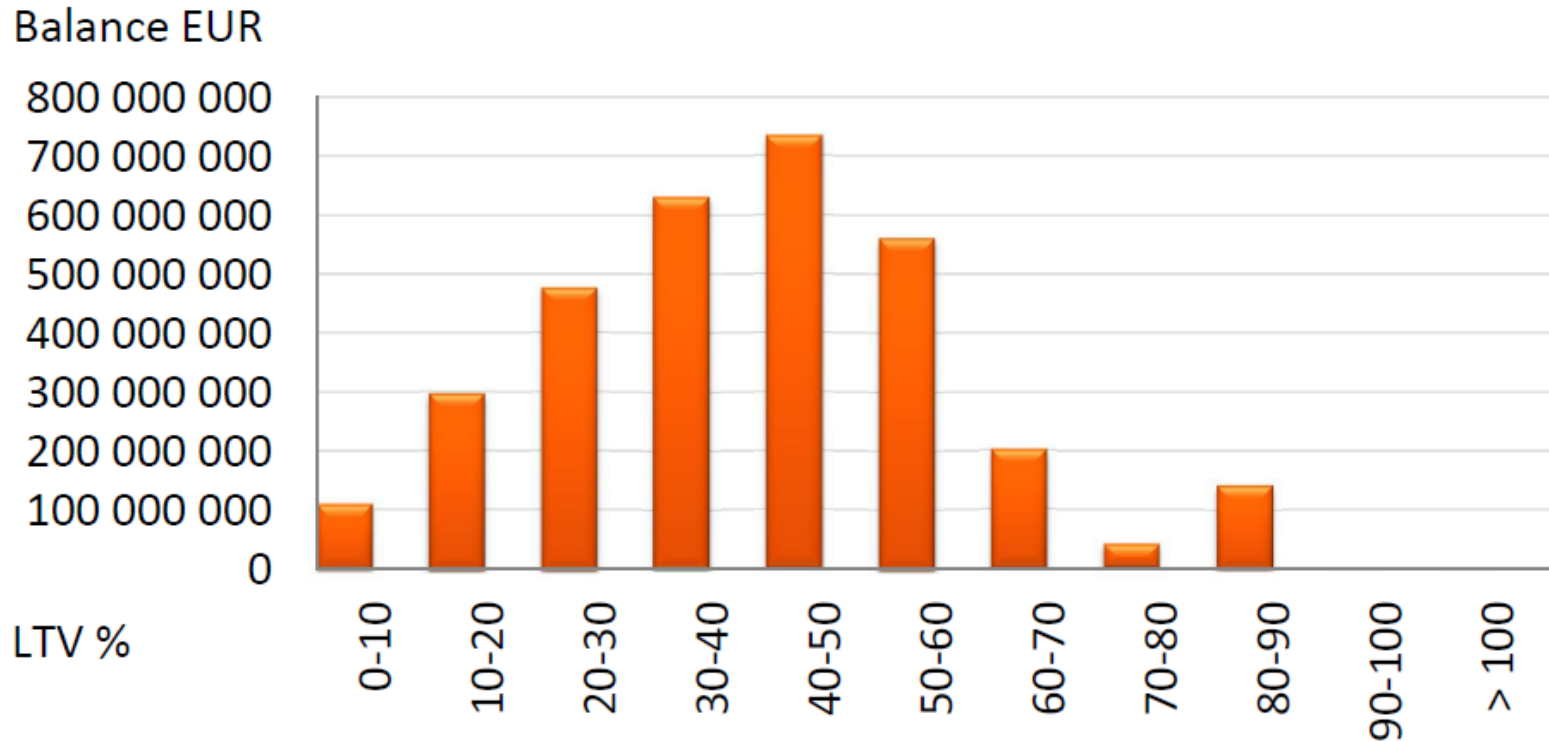
**BNP Paribas Personal Finance : Cumulated default ratios**  
Defaulted amounts / Initial amounts



Source: BNP Paribas Home Loan SFH, Investor Report December 2013

# Appendix 3

## Loans by LTV



- Total assets EUR 3.2 billion
- Eligible Cover Pool assets EUR 3.2 billion
- Weighted Average indexed LTV of 43.0%
- Over-collateralisation 42.2%

Source: OPMB Asset Pool Characteristics; Pool A