

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of mBank Hipoteczny S.A.

Audit report on the annual financial statements

Opinion

We have audited the annual financial statements of mBank Hipoteczny S.A. („Bank”) (the 'Bank') located in Warsaw at Aleja Armii Ludowej 26 (formerly: ul. Lecha Kaczyńskiego 26), containing: the income statement and the statement of comprehensive income for the period from January 1, 2019 to December 31, 2019, the statement of financial position as at 31 December 2019, the statement of changes in equity, the statement of cash flows for the period from January 1, 2019 to December 31, 2019 and the explanatory notes to the standalone financial statements (the 'financial statements').

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Bank as at December 31, 2019 and its financial performance and its cash flows for the period from January 01, 2019 to December 31, 2019 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Bank and the Bank's Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 (the 'Accounting Act').

The opinion is consistent with the additional report to the Audit Committee issued on March 26, 2020.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report.

We are independent of the Bank in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Bank in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Expected credit losses for loans and advances to customers	
Loans and advances to customers valued at amortized cost as at December 31, 2019 amounted to PLN 11.628.432 thousand and accounted for 88,2% of Bank's total assets. The abovementioned amount included the gross book value of loans and advances in the amount of PLN 11.746.393 thousand less expected credit losses in the amount of PLN 117.961 thousand.	As part of the audit procedures, we analyzed process of expected credit loss calculation, as well as related processes: loan granting process, process of monitoring of economic and financial standing of borrowers and identification of impairment triggers, as well as the process of provision calculation for expected credit losses. Based on the above processes we analyzed design and functioning of control mechanisms, as well as performed tests of adequacy and reliability of data used in these processes.

In accordance with IFRS 9 „Financial Instruments“ (‘IFRS 9’) the Management Board of the Bank should determine the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses or at an amount equal to lifetime expected credit losses depending on classification of individual exposures to stages.

Determining the amount and the moment of recognizing provision for expected credit loss requires significant judgment and significant and complex estimates such as:

- classification of financial assets to appropriate stage in accordance with IFRS 9,
- interpretation of requirements and assumptions made in area of structure of models calculating credit risk parameters and provision for expected credit losses,
- completeness and adequacy of data applied for calculation of provision for expected credit losses,
- assumptions made, including applied in estimation of possible macro-economic scenarios,
- valuation of individually assessed loans and advances, including assessment of many scenarios,
- correctness and adequacy of disclosures in the financial statements.

Due to the significance of loans and advances to customers valued at amortized cost in relation to total assets, and a significant role of the Management Board's judgment and estimates and complexity of these judgments and estimates regarding the expected credit losses, we consider Impairment allowances for loans and advances to customers the key audit matter.

In addition we familiarized ourselves with the accounting policies and methodologies concerning estimation of risk parameters and creation of collective impairment allowances for expected credit losses, in context of their compliance with requirements of IFRS 9, and compared them with the market approach. We have carried out an analysis of the indicators of a significant increase in credit risk and classification into risk stages, so-called ‘staging’.

We assessed the models, assumptions and completeness of data used by the Bank for the purposes of recognition of expected credit losses, including assumptions underlying the moment of loss identification, probability of default and loss as a result of default, as well as the changes in models and verification of historical models (so called back-testing).

We analyzed collective historical loss allowances through comparison with factual losses realized on individual homogeneous portfolios in the past.

When carrying out the above procedures, we engaged our internal specialists in the field of credit risk modeling.

We analyzed individually assessed by the Bank exposures on the selected sample. For selected exposures we assessed reasonableness of recovery amounts estimated by the Management Board, including the recoverable amount of collateral, based on available financial and market data. For selected exposures we analyzed the economic and financial situation of borrowers and fulfillment of the terms of loan agreements in order to identify potential impairment triggers.

We conducted analytical procedures regarding the structure and dynamics of balance of loans and advances in order to identify and explain significant changes or to explain lack of expected changes.

<p><i>Reference to disclosure in the financial Statements</i></p> <p>Information on the methodology of classification and valuation of loans and advances to customers, as well as related judgement and estimates are described in notes 2.6, 2.8 and 3.1 to the financial statements, whereas information on value of loans and advances to customers and the value of expected credit losses are described in note 24 to the financial statements.</p> <p>Information on the COVID-19 epidemic and possible impact on borrowers' financial standing and future expected credit losses is discussed in Note 46 to the financial statements.</p>	<p>Regarding IT systems, in which both the credit risk parameters and the calculation of the provisions for expected credit losses were calculated in the reporting period, our analysis of control mechanisms effectiveness was carried out in cooperation with specialists in the field of IT systems.</p> <p>We also discussed the possible impact of the COVID-19 epidemic on the borrowers' financial position after the balance sheet date, as well as the expected credit losses and potential impairment of assets.</p> <p>In addition, we made an assessment of correctness and adequacy of disclosures regarding expected credit losses for loans and advances to customers, as well as disclosures concerning going concern assumption and subsequent events included in the financial statements in terms of its compliance with International Financial Reporting Standards.</p>
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Responsibilities of the Bank's Management and members of the Supervisory Board for the financial statements

The Bank's Management is responsible for the preparation, based on properly maintained accounting records, the financial statements that give a true and fair view of the financial position and the financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Bank's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Bank's Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Bank's Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Bank's Management and the members of the Bank's Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act. The members of the Bank's Supervisory Board are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Bank nor effectiveness of conducting business matters now and in the future by the Bank's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Management,

- conclude on the appropriateness of the Bank's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Bank to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Management Board Report on Performance of mBank Hipoteczny S.A. in 2019 ('Directors' Report'), the representation on the corporate governance as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Bank's Management and members of the Supervisory Board

The Bank's Management is responsible for the preparation the Other Information in accordance with the law.

The Bank's Management and members of the Bank's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the financial statements does not include the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the financial statements.

In addition, we are required to issue an opinion on whether the Bank has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 70 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information') as well as article 111a paragraph 1-2 of the Act of August 29, 1997 Banking Law (the "Banking Law"),
- is consistent with the information contained in the financial statements.

Moreover, based on our knowledge of the Bank and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Bank has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the financial statements.

Report on other legal and regulatory requirements

Banks are obliged to comply with the prudential requirements specified in the Banking Law, resolutions of the National Bank of Poland, resolutions of the PFSA, recommendations of the PFSA and Regulation (EU) No. 575/2013 of the European Parliament and of the EU Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, regarding prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (CRR) and Commission Decisions based on that Regulation, as well as the Act of 5 August 2015 on macro-prudential supervision over the financial system and on crisis management in the financial system (“the Act on macro-prudential supervision”) concerning:

- concentration of credit risks,
- concentration of equity shares,
- classification of loans and guarantees granted into risk groups,
- liquidity,
- obligatory reserve requirements,
- capital adequacy.

The Bank’s Management Board is responsible for compliance with prudential regulations, including in particular, adequate calculation of the capital ratio. Our responsibility was, based on the conducted audit, to provide information whether the Bank complied with the above described prudential regulations. Our responsibility was not to express an opinion on compliance with these regulations.

As part of the audit of the financial statements we have performed the procedures with regards to capital ratios and we have not identified any discrepancies in their calculation which would have an material impact on financial statement as a whole. Therefore, we inform that the Bank’s Management Board has correctly calculated the capital requirements in compliance with the rules described above.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which we have provided to the Bank and its subsidiaries, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Bank and its subsidiaries in the audited period, have been disclosed in the financial statements.

Appointment of the audit firm

We were appointed for the audit of the Bank's financial statements initially based on the resolution of Supervisory Board from March 26, 2018. The financial statements of the Bank have been audited by us uninterruptedly starting from the financial year ended on December 31, 2018], i.e. for the past two consecutive years.

Key Certified Auditor

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Natalia Dembek-Ślusarczyńska
Certified Auditor
no in the register: 11307

on behalf of:
Ernst & Young Audyt Polska spółka z
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Warsaw, March 26, 2020