

mBank S.A.

**Registered auditor's report on the audit of the financial
statements for the year from 1 January to 31 December 2016**

**Registered auditor's report on the audit of the financial statements
for the year from 1 January to 31 December 2016**

**To the General Shareholders' Meeting and the Supervisory Board
of mBank S.A.**

This report contains 15 consecutively numbered pages and consists of:

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I. General information about the Bank

- a. mBank S.A. ("the Bank") has its seat in Warsaw, Senatorska 18 Street.
- b. The Bank was established by Resolution of the Council of Ministers No. 99 of 20 June 1986. The Bank was formed on the basis of a Notarial Deed drawn up on 11 December 1986 at the State Notary Public's Office in Warsaw and registered with Rep. A No. I-5919/86. On 11 July 2001, the Bank was entered in the Register of Businesses maintained by the District Court for the Capital City of Warsaw, XIX Business Department of the National Court Register, with the reference number KRS 0000025237.
- c. The Bank was assigned a tax identification number (NIP) 526-02-15-088 for the purpose of making tax settlements and a REGON number 001254524 for statistical purposes.
- d. As at 31 December 2016 the Bank's share capital amounted to PLN 169,121 thousand and consisted of 42,280,127 shares, with a nominal value of PLN 4.00 each. Total equity as at that date amounted to PLN 13,023,803 thousand.
- e. As at 31 December 2016, the Bank's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN '000)	Type of shares held	Votes (%)
Commerzbank AG	29,352,897	117,412	ordinary	69.42
Nationale-Nederlanden OFE	2,130,699	8,523	ordinary	5.04
Other shareholders	10,796,531	43,186	ordinary	25.54
	42,280,127	169,121		100.00

As at 31 December 2015, the Bank's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN '000)	Type of shares held	Votes (%)
Commerzbank AG	29,352,897	117,412	ordinary	69.49
ING Otworthy Fundusz Emerytalny (at present: Nationale-Nederlanden OFE)	2,130,699	8,523	ordinary	5.05
Other shareholders	10,755,328	43,021	ordinary	25.46
	42,238,924	168,956		100.00



Translation note:

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I. General information about the Bank (cont.)

- f. During the year the Bank's operations comprised providing banking services and consulting and advisory services in financial matters, as well as of conducting business activities within the scope described in its Memorandum of Association. The Bank operates within the scope of corporate, institutional and retail banking (including private banking) throughout the whole country and operates trade and investment activities as well as brokerage activities. Foreign branches of the Bank located in Czech Republic and Slovakia conduct detail banking business.
- g. During the year the Management Board of the Bank comprised:
- | | |
|--------------------------|---|
| • Cezary Stypułkowski | President of the Management Board |
| • Lidia Jabłonowska-Luba | Vice-President of the Management Board,
Chief Risk Officer |
| • Przemysław Gdański | Vice-President of the Management Board,
Head of Corporate and Investment Banking |
| • Hans-Dieter Kemler | Vice-President of the Management Board,
Head of Financial Markets |
| • Cezary Kocik | Vice-President of the Management Board,
Head of Retail Banking |
| • Jarosław Mastalerz | Vice-President of the Management Board,
Head of Operations and IT |
| • Christoph Heins | Vice-President of the Management Board,
Chief Financial Officer from 1 July 2016 |
| • Jörg Hessenmüller | Vice-President of the Management Board,
Chief Financial Officer to 30 June 2016 |
- h. The Bank has the following related entities:
- Commerzbank AG - ultimate parent company
- and companies belonging to the Banks's parent's group.
- i. The Bank is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Bank has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union as of 2005.
- The decision to prepare the Bank's financial statements in accordance with these standards was made by the General Shareholders' Meeting in their Resolution No. 1 passed on 27 January 2005.
- j. As the parent company of the Group, the Bank has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 2017.

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To better understand the Bank's financial position and its results of operations as the Parent Bank, the financial statements should be read in conjunction with the consolidated financial statements.



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II. Information about the audit

- a. The audit of the financial statements for the year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Agnieszka Accordi-Krawiec (no. 11665).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 30 of the Ordinary General Meeting dated 24 March 2016 in accordance with paragraph 11 letter n) of the Bank's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2016, item 1000 as amended).
- d. The audit was conducted in accordance with an agreement dated 24 March 2016, in the following periods:
 - interim audit from 2 November 2016 to 23 december 2016;
 - final audit from 3 January 2017 to 1 March 2017.
- e. We conducted our audit in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of our audit was influenced by our application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the financial statements, and to form the opinion in the Independent Registered Auditor's Report.

An audit was designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. The misstatements are considered to be material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined and documented the certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole. Therefore, all statements included in the Independent Registered Auditor's Report, including those related to the other legal and regulatory requirements, have been expressed considering the materiality determined in accordance with those auditing standards and the auditor's judgement.



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III. The Bank's results, financial position and significant items of financial statements

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	31.12.2016	31.12.2015*	Change	Change	31.12.2016	31.12.2015*
ASSETS	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Cash and balances with the Central Bank	9,158,751	5,930,611	3,228,140	54.4	7.1	5.0
Loans and advances to banks	7,308,769	4,981,321	2,327,448	46.7	5.7	4.2
Trading securities	3,837,606	558,590	3,279,016	587.0	3.0	0.5
Derivative financial instruments	1,818,306	3,350,746	(1,532,440)	(45.7)	1.4	2.8
Loans and advances to customers	72,304,131	71,284,102	1,020,029	1.4	56.4	59.8
Hedge accounting adjustments related to fair value of hedged items	-	130	(130)	(100.0)	-	-
Investment securities	30,467,780	29,982,642	485,138	1.6	23.8	25.2
Investments in subsidiaries	1,782,219	1,758,247	23,972	1.4	1.4	1.5
Intangible assets	540,452	473,816	66,636	14.1	0.4	0.4
Tangible assets	481,695	484,867	(3,172)	(0.7)	0.4	0.4
Current income tax assets	1,067	-	1,067	-	-	-
Deferred income tax assets	146,693	31,279	115,414	369.0	0.1	-
Other assets	367,796	279,019	88,777	31.8	0.3	0.2
TOTAL ASSETS	128,215,265	119,115,370	9,099,895	7.6	100.0	100.0

*restated

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III. The Bank's results, financial position and significant items of financial statements (cont.)

STATEMENT OF FINANCIAL POSITION as at 31 December 2016 (cont.)

	31.12.2016	31.12.2015*	Change	Change	31.12.2016	31.12.2015*
LIABILITIES	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Amounts due to other banks	8,503,014	12,183,191	(3,680,177)	(30.2)	6.6	10.2
Derivative financial instruments	1,644,250	3,203,918	(1,559,668)	(48.7)	1.3	2.7
Amounts due to customers	98,960,320	85,924,151	13,036,169	15.2	77.2	72.1
Hedge accounting adjustments related to fair value of hedged items	87,566	78,568	8,998	11.5	0.1	0.1
Debt securities in issue	-	-	-	-	-	-
Other liabilities	1,792,740	1,386,264	406,476	29.3	1.4	1.2
Current income tax liabilities	77,475	44,190	33,285	75.3	0.1	-
Deferred income tax liabilities	100	82	18	22.0	-	-
Provisions	182,648	225,344	(42,696)	(18.9)	0.1	0.2
Subordinated liabilities	3,943,349	3,827,315	116,034	3.0	3.1	3.2
TOTAL LIABILITIES	115,191,462	106,873,023	8,318,439	7.8	89.8	89.7
EQUITY	13,023,803	12,242,347	781,456	6.4	10.2	10.3
TOTAL LIABILITIES AND EQUITY	128,215,265	119,115,370	9,099,895	7.6	100.0	100.0

*restated

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III. The Bank's results, financial position and significant items of financial statements (cont.)
INCOME STATEMENT for the year from 1 January to 31 December 2016

	2016 PLN '000	2015* PLN '000	Change PLN '000	Change (%)	2016 Structure (%)	2015* Structure (%)
Interest income	3,394,096	3,274,494	119,602	3.7	61.8	62.8
Interest expense	(927,910)	(1,066,135)	138,225	(13.0)	23.6	29.0
Net interest income	2,466,186	2,208,359	257,827	11.7		
Fee and commission income	1,259,269	1,091,508	167,761	15.4	22.9	20.9
Fee and commission expense	(576,047)	(468,653)	(107,394)	22.9	14.7	12.8
Net fee and commission income	683,222	622,855	60,367	9.7		
Dividend income	166,833	197,872	(31,039)	(15.7)	3.0	3.8
Net trading income	249,545	294,010	(44,465)	(15.1)	4.5	5.6
Gains less losses from investment securities, investments in subsidiaries and associates	261,213	289,253	(28,040)	(9.7)	4.8	5.5
Other operating income	68,750	56,381	12,369	21.9	1.3	1.1
Net impairment losses on loans and advances	(312,195)	(325,325)	13,130	(4.0)	8.0	8.9
Overhead costs	(1,491,553)	(1,571,995)	80,442	(5.1)	38.0	42.8
Amortisation	(199,826)	(171,888)	(27,938)	16.3	5.1	4.7
Other operating expenses	(102,941)	(60,696)	(42,245)	69.6	2.6	1.7
Operating profit	1,789,234	1,538,826	250,408	16.3		
Taxes on the Bank's balance sheet items	(312,254)	(3,650)	(308,604)	8.454.9	8.0	0.1
Share in profits (losses) of entities under the equity method	93,174	17,854	75,320	421.9	1.7	0.3
Profit before income tax	1,570,154	1,553,030	17,124	1.1		
Income tax expense	(350,815)	(251,797)	(99,018)	39.3		
Net profit	1,219,339	1,301,233	(81,894)	(6.3)		
Total income	5,492,880	5,221,372	271,508	5.2	100.0	100.0
Total expense	(3,922,726)	(3,668,342)	(254,384)	6.9	100.0	100.0
Profit before income tax	1,570,154	1,553,030	17,124	1.1		

*restated

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STATEMENT OF COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2016

	2016	2015*	Change	
	PLN '000	PLN '000	PLN '000	(%)
Net profit	1,219,339	1,301,233	(81,894)	(6.3)
Other comprehensive income net of tax, including:	(447,125)	(116,706)	(330,419)	283.1
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations (net)	337	684	(347)	(50.7)
Change in valuation of available for sale financial assets (net)	(444,189)	(112,192)	(331,997)	295.9
Cash flows hedges (net)	(2,404)	(3,197)	793	(24.8)
Share of other comprehensive income of associates (net)	(1,202)	(483)	(719)	(358.5)
Items that will not be reclassified to the income statement				
Actuarial gains and losses relating to post-employment benefits (net)	333	(1,518)	1,851	(121.9)
Total comprehensive income net of tax, total	772,214	1,184,527	(412,313)	(34.8)
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Selected ratios characterising the Bank's financial position and results

The following ratios characterise the Bank's operating activities, financial results during the year and its financial position as at the balance sheet date compared with previous year:

	2016	2015*
Profitability ratios		
Return on equity (net profit/average net assets) (1)	9.7%	11.2%
Return on assets (net profit/average assets) (1)	1.0%	1.1%
Interest margin (interest income/average interest-bearing assets)-(interest expense/average interest-bearing liabilities) (1)(2)(3)	2.0%	1.8%
Cost of risk (net impairment losses on loans and advances/average gross loans and advances to customers) (1)	0.4%	0.4%
Costs to income ratio (overhead costs and amortisation/profit on banking activities) (4)	44.6%	48.5%
Earnings per share (PLN)	28.84	30.81
	31.12.2016	31.12.2015
Asset quality ratios		
Interest-bearing assets to total assets (2)	97.4%	97.5%
Impaired loans and advances to total gross loans and advances	5.2%	5.7%
Provision coverage of not impaired loans and advances	0.3%	0.3%
Provision coverage of impaired loans and advances	58.3%	58.5%
Other ratios		
Total capital ratio (TCR)	24.1%	20.2%
Common Equity Tier 1 Capital ratio (CET1 ratio)	20.6%	16.7%
Bank's own funds (PLN '000)	13,433,772	11,915,951
Effective tax rate	22.3%	16.2%

*restated

- (1) The average balances of the statement of financial position were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial year and the previous year.
(2) Interest-bearing assets defined as cash and balances with the Central Bank, loans and advances to customers and banks, trading securities, derivatives and non-current assets held for sale.
(3) Interest-bearing liabilities defined as amounts due to banks and customers, debt securities in issue, subordinated liabilities and derivatives.
(4) Profit on banking activities defined as operating profit reduced by net impairment losses on loans and advances, amortisation and overhead costs.

The above ratios have been calculated on the basis of the financial statements.

It was not the purpose of the audit to present the Bank in the context of the results of operations and ratios achieved. A detailed interpretation of the ratios requires an in-depth analysis of the Bank's operations and its circumstances.

Our audit did not cover detailed comparative data constituting the basis for calculating the ratios for the previous years.



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The financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.8% in the audited year (2015: deflation -0.5%).

Due to the change in accounting policy regarding to the valuation method of investments in subsidiaries, associates and joint ventures, the Bank made restatement of the stand-alone comparative data as at 1 January 2015 and as at 31 December 2015 in financial statement for 2016. Until 31 December 2015, shares in subsidiaries, associates and joint ventures were recognised at cost method. Starting from 1 January 2016 the Bank applies the equity method to the valuation of such assets following the entry into force of IAS 27 Separate financial statements amendments allowing usage of such a valuation method.

The following comments are based on information obtained during the audit of the financial statements.

- At the end of the financial year, the Bank's total assets amounted to PLN 128,215,265 thousand. During the year total assets increased by PLN 9,099,895 thousand, i.e. by 7.6%.
- As at 31 December 2016, the balance of loans and advances to customers amounted to PLN 72,304,131 thousand and represented 56.4% of total assets (an increase by PLN 1,020,029 thousand, i.e. by 1.4% compared to the previous year). The gross value of loans and advances to customers amounted to PLN 74,769,618 thousand and comprised mainly term loans to individuals in the gross amount of PLN 38,248,902 thousand and term loans to corporate entities in the gross amount of PLN 24,337,263 thousand. An increase in the gross balance of loans and advances to customers of PLN 837,847 thousand was mainly due to growth in term loans of PLN 1,261,230 thousand.
- At the end of 2016 the balance of investment securities amounted to PLN 30,467,780 thousand and comprised mainly treasury bonds in the amount of PLN 27,348,734 thousand. The balance of investment securities increased by PLN 485,138 thousand, i.e. by 1.6% compared to the previous year, which was a result of a growth in the balance of treasury bonds.
- At the end of 2016 the assets were primarily financed by amounts due to customers. As at 31 December 2016 such liabilities amounted to PLN 98,960,320 thousand and represented 77.2% of total equity and liabilities (an increase compared to the previous year by PLN 13,036,169 thousand, i.e. by 15.2%). An increase in the balance of amounts due to customers was mainly due to a growth in the balance of amounts due to individual customers of PLN 7,823,033 thousand and to corporate customers of PLN 5,273,484 thousand.
- Amounts due to other banks at the end of 2016 amounted to PLN 8,503,014 thousand and comprised mainly loans and advances received in the amount of PLN 6,964,907 thousand. A decrease in the balance of amounts due to other banks compared to the previous year by PLN 3,680,177 thousand, i.e. by 30.2% was mainly due to a drop in the balance of loans and advances received of PLN 2,384,866 thousand.



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- The ratio of impaired loans and advances to total gross loans and advances decreased from 5.7% as at the end of 2015 to 5.2% as at the balance sheet date. At the same time, provision coverage of impaired loans and advances went down by 0.2 p.p. and amounted to 58.3%. Coverage of gross amounts due to clients with allowances on incurred but not reported losses (IBNR) amounted to 0.3% and was not changed compared to the prior year.
- Net interest income amounted to PLN 2,466,186 thousand and increased by PLN 257,827 thousand, i.e. by 11.7% compared to the previous year. The increase resulted from the drop in interest expense of PLN 138,225 thousand (i.e. of 13.0%). At the same time, interest income has grown by PLN 119,602 thousand (i.e. by 3.7%). The most significant change in interest income was related to loans and advances including the unwind of the impairment provision discount. This income amounted to PLN 2,313,715 thousand in 2016 and was PLN 94,764 thousand higher compared to the previous year. A drop in interest expense resulted mainly from the decrease in expense arising from amounts due to customers of PLN 97,128 thousand.
- Net fee and commission income amounted to PLN 683,222 thousand in the audited year and was PLN 60,367 thousand, i.e. 9.7% higher compared to the previous year. This increase was mainly due to a growth of fee and commission income by PLN 167,761 thousand, which was primarily an effect of growth in fees from brokerage activity and debt securities issue of PLN 84,532 thousand and credit-related fees and commissions of PLN 29,603 thousand. At the same time, fee and commission expense has increased by PLN 107,394 thousand, mainly due to higher discharged brokerage fees and other discharged fees of PLN 58,965 thousand and a growth in payment cards-related fees of PLN 24,992 thousand.
- Overhead costs amounted to PLN 1,491,553 thousand in the audited year and decreased by PLN 80,442 thousand, i.e. by 5.1% compared to the prior year. Staff-related expenses were the largest item of overhead costs and amounted to PLN 719,820 thousand in 2016, which constituted 48.3% of overhead costs. Staff-related expenses increased by PLN 49,250 thousand, i.e. by 7.3% compared to the previous year, mainly due to increase of salary costs.
- Net impairment losses on loans and advances in 2016 amounted to PLN 312,195 thousand and comprised mainly net impairment losses on loans and advances to customers. Impairment losses on loans and advances has decreased by PLN 13,130 thousand, i.e. by 4.0% compared to the previous year.
- During 2016 the Group recognized on profit and loss account paid banking tax, which amounted to PLN 312,254 thousand (in 2015 this cost amounted to PLN 3.650 thousand)
- Effective tax rate, calculated as income tax expense to profit before income tax, amounted to 22.3% and was 6.1 p.p. higher than in previous year, mainly as the result of introduction of banking tax that does not constitute a tax deductible expense.

The financial statements have been prepared on the assumption that the Bank will continue in operation as a going concern.

IV. The independent registered auditor's statement

- a. The Management Board of the Bank provided all the information, explanations, and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The financial statements of the Bank for the year from 1 January to 31 December 2015 were approved by Resolution No. 1 passed by the General Shareholders' Meeting on 24 March 2016 and filed with the National Court Register in Warsaw on 30 March 2016.
- d. We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
 - the methods used for controlling access to data and the computerised data processing system;
 - the safeguarding of the accounting documentation, books of account, and financial statements.

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing an overall and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- e. During the audit performed we have not identified any significant instances of Bank's non-compliance with banking regulatory norms during the period from 1 January 2016 to the day of issuance of this report. As at 31 December 2016, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolutions of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, included banking regulatory norms in relation, among others, to the following:
 - concentration of credit risk,
 - concentration of investments in shares,
 - classification of loans and guarantees to risk groups and creation of provisions for the risk associated with activities of banks,
 - liquidity measures,
 - level of obligatory reserve,
 - capital adequacy.

IV. The independent registered auditor's statements (cont.)

- f. As at the balance sheet date the capital adequacy ratio of the Bank amounted to 24.07% and was correctly determined in accordance with CRR. This statement is based on recalculation of the quotient of own funds amounting PLN 13,433,772 thousand divided by risk weighted assets amounting to PLN 55,821,861 thousand as per COREP reporting prepared by the Bank as at the balance sheet date.
- g. The notes to the financial statements present all significant information required by International Financial Reporting Standards as adopted by the European Union.
- h. The information in the Report on Bank's operations for the year ended 31 December 2016 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 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 of 2014, item 133 as amended) and is consistent with that presented in the financial statements.

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V. Final information

This report has been prepared in connection with our audit of the financial statements of mBank S.A., Senatorska 18 street, Warsaw. The financial statements were signed by the Bank's Management Board on 1 March 2017.

This report should be read in conjunction with the Independent Registered Auditor's Report dated 1 March 2017 to the General Shareholders' Meeting and the Supervisory Board of mBank S.A., that includes the unqualified audit opinion on the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Agnieszka Accordi-Krawiec

Key Registered Auditor
No. 11665

Warsaw, 1 March 2017



Translation note:

This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes

PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000044655, and tax identification number (NIP) 526-021-02-28. Share capital amounts to PLN 10,363,900. Headquarters in Warsaw, Al. Armii Ludowej 14.