

mBank S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

I. GENERAL NOTES

1. Background

mBank S.A. (hereinafter 'the Bank') was incorporated on the basis of a Notarial Deed dated 11 December 1986. The Bank's registered office is located in Warsaw at Senatorska 18.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000025237 on 11 July 2001.

The Bank was issued with tax identification number (NIP) 5260215088 on 13 December 2013 and statistical number (REGON) 001254524 on 9 December 2013.

The Bank is the holding company of the mBank S.A. Group ('the Group'). Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the Bank's governing body are included in Notes 23 and 45 of the explanatory notes ('the explanatory notes') to the financial statements for year ended 31 December 2014.

The principal activities of the Bank are as follows:

- accepting a-vista and term deposits and maintaining deposit accounts;
- maintaining other bank accounts;
- conducting bank monetary settlements;
- granting loans and cash advances;
- cheque and bill of exchange transactions and transactions in warrants;
- granting and confirming of suretyships;
- issuing and confirming bank guarantees and letters of credit;
- intermediary services in cash transfers and foreign currency settlements;
- issuing bank securities;
- performing commissioned activities relating to issue of securities;
- safekeeping of objects and securities and offering safety deposit box services to clients;
- forward financial transactions;
- purchasing and sale of debts;
- performing bank representative actions as provided for in the Bonds Act;
- purchasing and sale of foreign currencies;
- issuing payment cards and performing transactions with the use of cards;
- issuing e-money instruments.

As at 31 December 2014, the Bank's share capital amounted to 168 840 228 zlotys and was divisible into 42 210 057 shares.

*mBank S.A.
Long-form auditors' report
for the year ended 31 December 2014
(in thousand zlotys)*

As at 31 December 2014, the ownership structure of the Bank's share capital was as follows:

	Number of shares	Number of votes	Par value of shares (in zlotys)	% of share capital
Commerzbank AG	29 352 897	29 352 897	117 411 588	69.54%
Other shareholders	12 857 160	12 857 160	51 428 640	30.46%
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Total	42 210 057	42 210 057	168 840 228	100%
	=====	=====	=====	=====

As it was presented in Note 38 of the explanatory notes to the financial statements for the year ended 31 December 2014, the following changes took place in the ownership structure of the Bank's share capital during the reporting period as well as during the period from the balance sheet date to the date of the opinion:

- On 30 July 2014, the Bank was notified by AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE") about decreasing the share in the total number of votes at the General Shareholders' Meeting below 5.00%. Due to the admission of 31 844 shares of the Bank, Aviva OFE's share decreased to 4.996%, which resulted in a simultaneous decrease in the total number of votes at the General Shareholders' Meeting to a level of 4.996%.
- On 11 December 2014, the Bank was notified by ING Otwarty Fundusz Emerytalny ("ING OFE") about decreasing the share in the total number of votes at the General Shareholders' Meeting below 5.00%. Prior to the sale, ING OFE owned 2 126 430 shares of the Bank, representing 5.04% of the share capital and was entitled to 5.04% of the total number of votes at the General Shareholders' Meeting. Due to the sale of shares, ING OFE share decreased to 4.94%. These shares entitle to 2 085 679 votes at the General Shareholders' Meeting, which represents 4.94% of the total number of votes.

Movements in the share capital of the Bank in the financial year were as follows:

	Number of shares	Par value of shares (in zlotys)
Opening balance	42 174 013	168 696 052
Increase in share capital	36 044	144 176
	-----	-----
Closing balance	42 210 057	168 840 228
	=====	=====

In 2014, the National Deposit for Securities has registered 36 044 shares of the Bank issued under the conditional share capital increase of the Bank by issuing shares with pre-emptive rights of the existing shareholders, in order to allow for the acquisition of the Bank shares to participants of incentive programs. Following registration of the shares of the Bank's share capital of the Bank increased in 2014 by 144 176 zlotys.

As at 2 March 2015, the Bank's Management Board was composed of:

Cezary Stypułkowski	- President
Lidia Jabłonowska-Luba	- Vicepresident
Przemysław Gdański	- Vicepresident
Jörg Hessenmüller	- Vicepresident
Hans-Dieter Kemler	- Vicepresident
Cezary Kocik	- Vicepresident
Jarosław Mastalerz	- Vicepresident

There were no changes in the Bank's Management Board composition during the period from 1 January 2014 to 31 December 2014 ('the reporting period') as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 27 January 2005 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by General Shareholders' Meeting on 11 April 2013 to audit the Bank's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 20 May 2013 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2014.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 2 March 2015, stating the following:

"To the General Shareholders Meeting of mBank S.A.

1. We have audited the attached financial statements for year ended 31 December 2014 of mBank S.A. located in Warsaw at Senatorska 18, containing the income statement and the statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, statement of financial position as at 31 December 2014, the statement of changes in equity and the

statement of cash flows for the period from 1 January 2014 to 31 December 2014 and explanatory notes to the financial statements ('the attached financial statements').

2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Bank and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - National Auditing Standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Bank's Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2014 to 31 December 2014, as well as its financial position³ as at 31 December 2014;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.
5. We have read the Management Board Report on the Performance of the Bank of the period from 1 January 2014 to 31 December 2014 and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws 2014.133 with subsequent amendments)."

¹ Translation of the following expression in Polish: '*rzetelność i jasność*'

² Translation of the following expression in Polish: '*rzetelnie i jasno*'

³ Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

We conducted the audit of the Bank's financial statements during the period from 29 September 2014 to 2 March 2015. We were present at the Bank's head office from 29 September 2014 to 19 December 2014 and from 7 January 2015 to 2 March 2015.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for fair presentation⁴ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 2 March 2015, confirming that:

- the information included in the books of account was complete;
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements;

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

2.3 Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2013 were audited by Dominik Januszewski, key certified auditor no. 9707, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2013. The Bank's financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on 31 March 2014, and the shareholders resolved to appropriate the 2013 net profit as follows:

Dividends for the shareholders	716 984
Reserve capital	212 034
The general risk fund	50 000
Retained earnings	91 288

	1 070 306

The financial statements for the financial year ended 31 December 2013, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 4 April 2014 with the National Court Register.

The closing balances as at 31 December 2013 were correctly brought forward in the accounts as the opening balances at 1 January 2014.

⁴ Translation of the following expression in Polish: "rzetelna prezentacja"

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2012 - 2014. The ratios were calculated on the basis of financial information included in the audited financial statements for the years ended 31 December 2013 and 31 December 2014.

The financial statements for year ended 31 December 2012 were subject to an audit by another key certified auditor acting on behalf of another authorised audit firm, who issued an unqualified opinion on these financial statements, dated 7 March 2013. The financial statements for 2012 were restated to the comparative data included in the audited financial statements for year ended 31 December 2013.

	2014	2013	2012*
Total assets	113 603 463	100 232 132	98 057 913
Shareholders' equity	10 269 586	9 573 220	9 072 794
Net profit/ loss	1 174 096	1 070 306	1 193 575
Capital adequacy ratio	16.95%	20.59%	19.66%
Profitability ratio	100.86%	95.96%	105.35%
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result before taxation			
overhead costs and amortization			
Cost to income ratio	43.28%	44.32%	42.87%
<hr/>			
overhead costs and amortization			
total operating income less other operating expenses ⁵			
Return on equity (ROE)	11.83%	11.48%	14.31%
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net result			
average shareholders' equity ⁶			
Return on assets	1.10%	1.08%	1.24%
<hr/>			
net result			
average assets ⁷			

*Restated data

⁵ Total operating income less other operating expenses amounted to net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities, investments in subsidiaries and associates and other operating income less other operating expense

*Restated data

⁶ Average shareholders' equity is the average of opening and closing balance of total equity in the particular period.

⁷ Average assets are the average of opening and closing balance of total assets in the particular period.

	2014	2013	2012*
Rate of inflation:			
Yearly average	0.0%	0.9%	3.7%
December to December	-1.0%	0.7%	2.4%

3.2 Comments

The following trends may be observed based on the above financial ratios:

- Profitability ratio decreased from 105.35% in 2012 to 95.96% in 2013 and increased to 100.86% in 2014.
- Cost to income ratio increased from 42.87% in 2012 to 44.32% in 2013 and decreased to 43.28% in 2014.
- Return on equity decreased from 14.31% in 2012 to 11.48% in 2013 and increased to 11.83% in 2014.
- Return on assets decreased from 1.24% in 2012 to 1.08% in 2013 and increased to 1.10% in 2014.

As at 31 December 2014 the capital adequacy ratio of the Bank accounted for 16.95% in comparison to 20.59% as at 31 December 2013 and 19.66% as at 31 December 2012.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2014 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.1 of the explanatory notes to the audited financial statements for the year ended 31 December 2014, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2014 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of regulations mitigating banking risk

As at 31 December 2014, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolution 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) Nr 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, envisaged banking regulatory norms in relation, among others, to following items:

- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and guarantees to risk groups and the creation of provisions for the risk associated with the activities of banks,
- liquidity measures,
- level of obligatory reserve,

- capital adequacy.

During the audit we have not identified any other facts indicating that during the period from 1 January 2014 to the day of issuance of this report the Bank did not comply with the above regulations. We have received a written representation from the Management Board that in the period from 1 January 2014 to the date of the opinion no other regulatory norms have been violated.

3.5 Correctness of calculation of capital adequacy ratio

During our audit we found no significant irregularities in determining the capital adequacy ratio as at 31 December 2014 in accordance with the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 (CRR).

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the Altamira, Globus, Karat, ESP, Impairment – Korpo, Impairment – Detal, Wyceny_BKF, Impairment ACC Korpo, Impairment ACC Detal, Aplikacja Hedge Accounting computer systems at the Bank's head office. In all material aspects to the audited financial statements, the Bank has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2014.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2014.

3. Explanatory Notes to the Financial Statements

The explanatory notes to the audited financial statements for the year ended 31 December 2014 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Management Board Report

We have read the 'Management Board Report on the Bank's activities in the period from 1 January 2014 to 31 December 2014' ('the Management Board Report') and concluded that the information derived from the attached audited financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant provisions of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws 2014.133 with subsequent amendments).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank's Articles of Association were breached during the financial year.

6. Materiality Level

When determining the materiality level, professional judgement was applied taking into account the specific characteristics relating to the Bank. This included both qualitative and quantitative considerations.

7. Work of Experts

During our audit we have taken into account the results of the work of the independent property appraisers – in the calculation of the level of loan loss provisions the Bank took into consideration the value of collateral established in valuations performed by property appraisers engaged by the Bank.

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

(-)

Dominik Januszewski
certified auditor
No. 9707

Warsaw, 2 March 2015