

*mBank S.A. Group*

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

## **I. GENERAL NOTES**

### **1. Background**

The holding company of the mBank S.A. Group (hereinafter 'the Group' or 'the Capital Group') is mBank S.A. ('the holding company', 'the Bank').

The holding company 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 holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company 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 holding

is part of the Commerzbank AG capital group.

The principal activities of the holding company 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.

The operations of the Group's subsidiaries include the following activities:

- factoring services;
- leasing;
- administration of buildings;
- raising funds for the holding company;
- trading in securities;
- offering holding company's product to third parties;
- provide comprehensive wealth management services;
- providing mortgage loans
- insurance activities;
- providing services in the field of data and document management;
- development and assessment of investment projects and their realization;
- realization of developer projects.

As at 31 December 2015, the Bank's share capital amounted to 168 955 696 zlotys and was divisible into 42 238 924 shares.

As at 31 December 2015, the ownership structure of the Bank's issued 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	69.49%
ING Otworthy Fundusz				
Emerytalny	2 130 699	2 130 699	8 522 796	5.05%
Other shareholders	10 755 328	10 755 328	43 021 312	25.46%
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Total	42 238 924	42 238 924	168 955 696	100%
	=====	=====	=====	=====

As it was presented in Note 38 of explanatory notes to the consolidated financial statements of the Group for the year ended 31 December 2015, the following changes took place in the ownership structure of the holding company's share capital during the period from 1 January 2015 to 31 December 2015 ('the reporting period') as well as during the period from the balance sheet date to the date of the opinion:

- On 20 March 2015 mBank was notified by ING Powszechne Towarzystwo Emerytalne SA about ING Otworthy Fundusz Emerytalny exceeding the threshold of 5% of total votes at the General Meeting of the Bank.
- Before the purchase of shares ING Otworthy Fundusz Emerytalny held 2 110 309 mBank S.A.'s shares representing 4.99% of share capital. Effective 18 March 2015 ING Otworthy Fundusz Emerytalny held 2 130 699 mBank S.A. shares representing 5.05% of share capital. These share entitle to 2 130 699 votes at the General Meeting of mBank S.A. which represents 5.05% of total number of votes.

**This is a translation of a document originally issued in the Polish language.**

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

	Number of shares	Par value of shares (in zlotys)
Opening balance	42 210 057	168 840 228
Increase/ decrease in share capital	28 867	115 468
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Closing balance	42 238 924	168 955 696
	=====	=====

In 2015 the National Deposit for Securities has registered 28 867 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 2015 by 115 468 zlotys.

As at 25 February 2016, the holding company'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 holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

## 2. Group Structure

As at 31 December 2015, the mBank S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Aspiro S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
BDH Development Sp. z o.o.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Dom Maklerski mBanku S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Garbary Sp. z o.o.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mCentrum Operacji Sp. z o.o.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mBank Hipoteczny S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mFactoring S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mFinance France S.A.	Acquisition accounting	in the audit	Ernst & Young et Associés	31 December 2015
mLocum S.A.	Acquisition accounting	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mLeasing S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
mWealth Management S.A.	Acquisition accounting	in the audit	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1 of explanatory notes to the consolidated financial statements of the Group for the year ended 31 December 2015.

### **3. Consolidated Financial Statements**

#### **3.1 Auditors' opinion and audit of consolidated 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 30 March 2015 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit 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 30 May 2015 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2015.

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

Based on our audit, we issued an auditors' unqualified opinion dated 25 February 2016, stating the following:

#### **“To the General Shareholders Meeting mBank S.A.**

1. We have audited the attached consolidated financial statements of mBank S.A. Group ('the Group'), for which the holding company is mBank S.A. ("Bank") located in Warsaw at Senatorska 18, for the year ended 31 December 2015 containing the consolidated income statement and the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January 2015 to 31 December 2015 and explanatory notes to the financial statements ('the attached consolidated financial statements').
2. The truth and fairness<sup>1</sup> of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the

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<sup>1</sup> Translation of the following expression in Polish: *'rzetelność i jasność'*

Supervisory Board are required to ensure that the attached consolidated 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 consolidated 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 and whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position<sup>3</sup> as at 31 December 2015;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Management Board Report on the Performance of the Group for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached consolidated 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, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).

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<sup>2</sup> Translation of the following expression in Polish: 'rzetelne i jasne'

<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

We conducted the audit of the consolidated financial statements during the period from 1 September 2015 to 25 February 2016. We were present at the holding company's head office from 1 October 2015 to 30 November 2015 and from 4 January 2016 to 25 February 2016.

### **3.2 Representations provided and data availability**

The Management Board of the holding company confirmed its responsibility for fair presentation<sup>4</sup> of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 25 February 2016, from the Management Board of the holding company confirming that:

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

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

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

### **3.3 Consolidated financial statements for prior financial year**

The consolidated financial statements of the Group for the year ended 31 December 2014 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 consolidated financial statements for the year ended 31 December 2014. The consolidated financial statements for the year ended 31 December 2014 were approved by the General Shareholders' Meeting on 30 March 2015.

The consolidated financial statements of the Group for the financial year ended 31 December 2014, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 9 April 2015 with the National Court Register.

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<sup>4</sup> Translation of the following expression in Polish: "rzetelna prezentacja"



## 4. Analytical Review

### 4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2013 – 2015. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2015.

	2015	2014	2013
<b>Total assets</b>	123 523 021	117 985 822	104 282 761
<b>Shareholders' equity</b>	12 274 964	11 072 980	10 256 438
<b>Net profit/ loss</b>	1 304 128	1 289 310	1 208 978
<b>Total capital ratio</b>	17.25%	14.66%	19.38%
<b>Profitability ratio</b>	78.76%	93.34%	90.44%
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profit before tax			
overhead costs and amortization			
<b>Cost to income ratio</b>	50.18%	44.95%	45.68%
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overhead costs and amortization			
total operating income less other operating expenses <sup>5</sup>			
<b>Return on equity (ROE)</b>	11.17%	12.09%	12.17%
<hr/>			
net result			
average shareholders' equity <sup>6</sup>			
<b>Return on assets</b>	1.08%	1.16%	1.17%
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net result			
average assets <sup>7</sup>			
<b>Rate of inflation:</b>			
Yearly average	-0.9%	0.0%	0.9%
December to December	-0.5%	-1.0%	0.7%

<sup>5</sup> 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.

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

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

## **4.2 Comments**

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

- Profitability ratio increased from 90.44% in 2013 to 93.34% in 2014 and decreased to 78.76% in 2015.
- Cost to income ratio decreased from 45.68% in 2013 to 44.95% in 2014 and increased to 50.18% in 2015.
- Return on equity decreased from 12.17% in 2013 to 12.09% in 2014 and decreased to 11.17% in 2015.
- Return on assets decreased from 1.17% in 2013 to 1.16% in 2014 and decreased to 1.08% in 2015.

As at 31 December 2015 total capital ratio of the Group accounted for 17.25% in comparison to 14.66% as at 31 December 2014 and 19.38% as at 31 December 2013.

## **4.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2015 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 consolidated financial statements for the year ended 31 December 2015, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2015 and that there are no circumstances that would indicate a threat to its continued activity.

## **4.4 Application of regulations mitigating banking risk**

As at 31 December 2015, 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 significant facts indicating that during the period from 1 January 2015 to the day of issuance of this report the Bank did not comply with the above regulations. As it was disclosed in note 49 of explanatory notes to audited consolidated financial statements taking into account the “additional capital requirement as well as the conservation buffer of 1.25% enforced on 1 January 2016 on the basis of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System, starting from 1 January 2016 the Bank as well as mBank Group should maintain, on the stand alone and consolidated level respectively, the Common Equity Tier 1 ratio on the level not lower than 13.54% and the total capital ratio on the level not lower than 17.64%, which compares against 14.29% and 17.25% respectively reported by mBank Group as of 31 December 2015. As of 31 January 2016 on consolidated level the reported total capital ratio was below the afore-mentioned target ratio of 17.64%, whereas consolidated Common Equity Tier 1 ratio remained to well exceed the new target ratio, similar to the respective ratios on mBank stand alone level. The Management Board of mBank believes that with the decisions to be made by the upcoming mBank Ordinary General Meeting (planned on 24 March 2016) the Group will exceed the total capital ratio target level of 17.64%”. We have received a written representation from the Management Board that in the period from 1 January 2015 to the date of the opinion other regulatory norms have been complied with.

#### **4.5 Correctness of calculation of total capital ratio**

During our audit we found no significant irregularities in determining total capital ratio as at 31 December 2015 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. Completeness and accuracy of consolidation documentation**

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in 2 and note 25 of the explanatory notes to the Group's audited consolidated financial statements for the year ended 31 December 2015.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2015.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

#### **3.1 Goodwill on consolidation and amortisation**

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 2 and note 25 of the explanatory notes to the audited consolidated financial statements.

#### **3.2 Shareholders' funds including non-controlling interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 32 618 thousand zlotys as at 31 December 2015. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in notes 38-42 of the explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015.

#### **3.3 Financial year**

The financial statements of all Group companies forming the basis for the preparation of the audited consolidated financial statements were prepared as at 31 December 2015 and include the financial data for the period from 1 January 2015 to 31 December 2015.

## **4. Consolidation adjustments**

### **4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.**

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

#### **4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends**

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

#### **5. Disposal of all or part of shares in a subordinated entity**

Information regarding the disposal of shares in the subordinated entities have been disclosed in note 24 and note 46 of the explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015.

#### **6. Items which have an impact on the Group's result for the year**

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2015.

#### **7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU**

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

#### **8. Explanatory Notes to the Consolidated Financial Statements**

The explanatory notes to the audited consolidated financial statements for the year ended 31 December 2015 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

#### **9. Management Board Report**

We have read the 'Management Board Report on the Performance of the Group for the period from 1 January 2015 to 31 December 2015 and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached consolidated 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, the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).

#### **10. Conformity with Law and Regulations**

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

## **11. 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 Group took into consideration the value of collateral established in valuations performed by property appraisers engaged by the Group.

on behalf of  
Ernst & Young Audyt Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
Rondo ONZ 1, 00-124 Warsaw  
Registration Number 130

Key Certified Auditor  
(-)

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Dominik Januszewski  
Certified Auditor  
Number 9707

Warsaw, 25 February 2016