

*mBank Hipoteczny S.A.*

**LONG-FORM AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

## **I. GENERAL NOTES**

### **1. Background**

mBank Hipoteczny S.A (hereinafter 'the Bank') was incorporated on the basis of a Notarial Deed dated 18 March 1999. The Bank's registered office is located in Warsaw at Al. Armii Ludowej 26. On 29 November 2013 the National Court Register registered the name change of the Bank from BRE Bank Hipoteczny SA to mBank Hipoteczny S.A.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000003753 on 27 March 2001.

The Bank was issued with tax identification number (NIP) 5262316250 on 27 April 1999 and statistical number (REGON) 014953634 on 26 April 1999.

The Bank is a part of the mBank S.A. 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 Note 40 of the explanatory notes ("the additional notes and explanations") to the financial statements for year ended 31 December 2013.

The principal activities of the Bank is providing of banking services to individuals and legal entities, as well as the organizational units without legal personality, both in polish zlotys and foreign currencies.

As at 31 December 2013, the Bank's issued share capital amounted to 275 000 thousand zlotys. Equity as at that date amounted to 501 963 thousand zlotys.

As at 31 December 2013, 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 issued share capital
MLV 45 Sp. z o.o. spółka komandytowa (previously: BRE Holding Sp. z o.o.)	2 082 000	2 082 000	208 200 000	75.71%
mBank S.A. (previously: BRE Bank S.A.)	668 000	668 000	66 800 000	24.29%
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Razem	2 750 000	2 750 000	275 000 000	100.00%
	=====	=====	=====	=====

BRE Holding Sp. z o.o. was transformed into MLV 45 Sp. z o. o. spółka komandytowa. The transformation was registered in the National Court Register on 29 August 2013

BRE Bank S.A. was transformed into mBank S.A. The transformation was registered in the National Court Register on 25 November 2013.

There were no changes in the ownership structure of the Bank during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

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

	Number of shares	Par value of shares
Opening balance	1 750 000	175 000 000
Increase in share capital	1 000 000	100 000 000
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Closing balance	2 750 000	275 000 000
	=====	=====

As at 3 March 2014 the Bank's Management Board was composed of:

Piotr Cyburt	- President
Marcin Romanowski	- Member
Marcin Wojtachnio	- Member

The following change in Management Board of the Holding Company took place in the reporting:

- On 29 April 2013 Sven-Torsten Kain ceased to be Member of the Management Board due to the end of term of office.

## **2. Financial Statements**

On 22 March 2006 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. (formerly: Ernst & Young Audit sp. z o.o.) 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. (formerly: Ernst & Young Audit sp. z o.o.) was appointed by the Bank's Supervisory Board on 29 April 2013 to audit the Bank's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) 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 17 June 2013 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2013.

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' opinion dated 3 March 2014 stating the following:

“To the Supervisory Board of mBank Hipoteczny S.A.

1. We have audited the attached financial statements for year ended 31 December 2013 of mBank Hipoteczny S.A. (until 29 November 2013 operating under the name BRE Bank Hipoteczny S.A., ‘Bank’) located in Warsaw at Al. Armii Ludowej 26, containing the statement of financial position as at 31 December 2013, the income statement and the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the period from 1 January 2013 to 31 December 2013 and explanatory notes to the financial statements (‘the attached financial statements’).
2. The truth and fairness<sup>1</sup> 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 fairly<sup>2</sup> 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.

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

<sup>2</sup> Translation of the following expression in Polish: ‘rzetelnie i jasno’

4. Financial statements for the prior financial year ended 31 December 2012 ('Financial Statements') were subject to an audit by another key certified auditor acting on behalf of another authorised audit firm, who issued an unqualified opinion on this financial statements, dated 28 February 2013. Financial statements for 2012 were restated to the comparative data, presented in the attached financial statements, as described in Note 2.24 of the attached financial statements.
5. 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 2013 to 31 December 2013, as well as its financial position<sup>3</sup> as at 31 December 2013;
  - 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.
6. We have read the Directors' Report for the period from 1 January 2013 to 31 December 2013 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of 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 2009.33.259 with subsequent amendments)."

We conducted the audit of the Bank's financial statements during the period from 18 November 2013 to 3 March 2014. We were present at the Bank's head office from 18 November 2013 to 15 February 2014.

## **2.2 Representations provided and data availability**

The Management Board confirmed its responsibility for the truth and fairness<sup>4</sup> 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 3 March 2014 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.

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

<sup>4</sup> Translation of the following expression in Polish: "rzetelność i jasność"

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 2012 were audited by Agnieszka Accordi-Krawiec, key certified auditor no. 11665 acting on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2012. The Bank's financial statements for the year ended 31 December 2012 were approved by the General Shareholders' Meeting on 29 April 2013, and the shareholders resolved to appropriate the 2012 net profit as follows:

Reserve capital	5 286 989
The general risk fund	4 000 000
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	9 286 989
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The financial statements for the financial year ended 31 December 2012, 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 10 May 2013 with the National Court Register.

The closing balances as at 31 December 2012, after restatement of comparative data described in Note 2.24 to the audited financial statements of the Bank were correctly brought forward in the accounts as the opening balances at 1 January 2013.

## **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 - 2013. The ratios were calculated on the basis of financial information included in the financial statements for year ended 31 December 2013.

Financial ratios for the year ended 31 December 2012 were calculated on the basis of the financial statements for the year ended 31 December 2012 which 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 28 February 2013. The financial statements for 2012 were restated to the comparative data, as described in Note 2.24 of the attached financial statements

	<b>2013</b>	<b>2012</b> <b>(restated data)</b>
<b>Total assets</b>	4 782 443	4 809 712
<b>Shareholders' equity</b>	501 963	500 705
<b>Net profit/ loss</b>	2 154	9 287
<b>Capital adequacy ratio</b>	14.9%	12.0%
<b>Profitability ratio</b>	11.3%	34.7%
<div style="text-align: right;">result before taxation</div> <div style="text-align: right;">overhead costs and amortization</div>		
<b>Cost to income ratio</b>	52.2%	50.2%
<div style="text-align: right;">overhead costs and amortization</div> <div style="text-align: right;">total operating income less other operating expenses<sup>5</sup></div>		
<b>Return on equity (ROE)</b>	0.4%	2.1%
<div style="text-align: right;">net result</div> <div style="text-align: right;">average shareholders' equity<sup>6</sup></div>		
<b>Return on assets</b>	0.0%	0.2%
<div style="text-align: right;">net result</div> <div style="text-align: right;">average assets<sup>7</sup></div>		
<b>Rate of inflation:</b>		
yearly average	0.9%	3.7%
December to December	0.7%	2.4%

### 3.2 Comments

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

- Profitability ratio decreased from 34.7% in 2012 to 11.3% in 2013.
- Cost to income ratio increased from 50.2% in 2012 to 52.2% in 2013.
- Return on equity decreased from 2.1% in 2012 to 0.4% in 2013.
- Return on assets decreased from 0.2% in 2012 to 0.0% in 2013.

<sup>5</sup> Total operating income less other operating expenses amounted to net interest income, net fee and commission income, net trading income, result from investment in subsidiaries, 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.

As of 31 December 2013 the capital adequacy ratio of the Bank accounted for 14.9% in comparison to 12.0% as of 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 2013 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 2013, 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 2013 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 2013, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Financial Supervision Committee ('PFSA'), envisaged banking regulatory norms in relation to, among others, the following items:

- concentration engagements,
- concentration of capital share,
- liquidity,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified significant deviations by the Bank in above principles during the period from 1 January 2013 to 31 December 2013. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

### **3.5 Correctness of calculation of capital adequacy ratio**

During our audit we have not identified any material irregularities in relation to the calculation, in all material respects, of the capital adequacy ratio as of 31 December 2013 in accordance with Resolution no 76/2010 of PFSA dated 10 March 2010 on the scope and detailed principles for determining capital requirements for particular risks (Official PFSA Journal of 2010.2.11 as of 9 April 2010 as amended).



## **II. DETAILED REPORT**

### **1. Accounting System**

The Bank's accounts are kept using the defBank-Pro, Altamira, Impairment KOIM, Impairment ACC and ESP computer systems at the Bank's head office. 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 besides the changes described in note 2.24 to the audited financial statements;
- 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 2013.

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 2013.

### **3. Additional Notes and Explanations to the Financial Statements**

The explanatory notes to the financial statements for the year ended 31 December 2013 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

### **4. Directors' Report**

We have read the Directors' report on the Bank's activities in the period from 1 January 2013 to 31 December 2013 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of 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 2009.33.259 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 that would have material effect to the financial statements 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 and in establishing sale price of inventory.

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

Key Certified Auditor

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Arkadiusz Krasowski  
certified auditor  
No. 10018

Warsaw, 3 March 2014