

*mBank Hipoteczny S.A.*

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

## **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 43 of the explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2014.

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 2014, the Bank's registered capital amounted to 374,938 thousand zlotys. Equity as at that date amounted to 624,541 thousand zlotys.

As at 31 December 2014, 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.)	2,082,143	2,082,143	208,214,300	73.06%
mBank S.A. (previously: BRE Bank S.A.)	767,857	767,857	76,785,700	26.94%
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Total	2,850,000	2,850,000	285,000,000	100%
	=====	=====	=====	=====

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.

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

	Number of shares	Par value of shares (in zlotys)
Opening balance	2,750,000	275,000,000
Increase in share capital	100,000	10,000,000
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Closing balance	2,85, 000	285,000,000
	=====	=====

There were no changes in the ownership structure of the Bank during the period from the balance sheet date to the date of the auditors' opinion.

As at 24 March 2015, the Bank's Management Board was composed of:

Piotr Cyburt	- President of the Management Board
Marcin Romanowski	- Member of the Management Board
Marcin Wojtachnio	- Member of the Management Board

There were no changes in the Bank's Management Board composition during the reporting period as well as from the balance sheet date to the date of the auditor's opinion.

## **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 European Union.

### **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 Supervisory Board on 10 April 2014 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 17 June 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' opinion dated 24 March 2015, 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 2014 of mBank Hipoteczny S.A. ('Bank') located in Warsaw at Al. Armii Ludowej 26, containing the income statement, the statement of comprehensive income for the year ended 31 December 2014, the statement of financial position as at 31 December 2014, the statement of changes in equity, the statement of cash flows for the year ended 31 December 2014 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 Poland,

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. 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 year ended 31 December 2014, as well as its financial position<sup>3</sup> as at 31 December 2014;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union 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 'Directors' Report for the period from 1 January 2014 to 31 December 2014 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 2014.133 with subsequent amendments).'

We conducted the audit of the Bank's financial statements during the period from 12 November 2014 to 24 March 2015. We were present at the Bank's head office from 12 November 2014 to 5 December 2014 and from 7 January 2015 to 23 January 2015.

## **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 24 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.

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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"

## **2.3 Financial statements for prior financial year**

The Bank's financial statements for the year ended 31 December 2013 were audited by Arkadiusz Krasowski, key certified auditor no. 10018, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., located at Warsaw, Rondo ONZ 1, Registered Audit Company No. 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 11 April 2014, and the shareholders resolved to appropriate the 2013 net profit as follows (in thousand zlotys):

Reserve capital	154
The general risk fund	2.000
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	2.154
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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 18 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.

## **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 financial statements for the years ended 31 December 2013 and 31 December 2014.

The ratios for the year ended 31 December 2012 were calculated on the basis of financial information included in the approved financial statements audited by another auditor.

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

	2014	2013	2012
<b>Total assets</b>	6.176.326	4.782.443	4.809.712
<b>Shareholders' equity</b>	624.541	501.963	500.705
<b>Net profit/ loss</b>	22.371	2.154	9.287
<b>Capital adequacy ratio</b>	13.31%	14.92%	12.0%
<b>Profitability ratio</b>	57.63%	11.30%	34.71%
<div>result before taxation</div> <div>overhead costs and amortization</div>			
<b>Cost to income ratio</b>	50.36%	52.16%	50.16%
<div>overhead costs and amortization</div> <div>total operating income less other operating expenses<sup>5</sup></div>			
<b>Return on equity (ROE)</b>	3.97%	0.43%	2.09%
<div>net result</div> <div>average shareholders' equity<sup>6</sup></div>			
<b>Return on assets</b>	0.41%	0.04%	0.20%
<div>net result</div> <div>average assets<sup>7</sup></div>			
<b>Rate of inflation:</b>			
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 34.71% in 2012 to 11.30% in 2013 and increased to 57.63% in 2014.
- Cost to income ratio increased from 50.16% in 2012 to 52.16% in 2013 and decreased to 50.36% in 2014.
- Return on equity decreased from 2.09% in 2012 to 0.43% in 2013 and increased to 3.97% in 2014.
- Return on assets decreased from 0.20% in 2012 to 0.04% in 2013 and increased to 0.41% in 2014.

<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 2014 the capital adequacy ratio of the Bank accounted for 13.31% in comparison to 14.9% as of 31 December 2013 and 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 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 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 2014 to 31 December 2014, apart from that included in Note 3.2 of the explanatory notes to the audited financial statements for the year ended 31 December 2014. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached, apart from that included in Note 3.2 of the explanatory notes to the audited financial statements for the year ended 31 December 2014.

### **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 DefBank-Pro, Altamira, Impairment and Kalkulator 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;
- 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. Additional Notes and Explanations to the Financial Statements**

The additional notes and explanations to the 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 European Union.

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

We have read the Directors' report on the Bank's activities in the period from 1 January 2014 to 31 December 2014 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 Dz. U. 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. Moreover, during our audit we have taken into account the results of the work of the actuary in valuation of actuarial provision for retirement benefits 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

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Arkadiusz Krasowski  
Certified Auditor  
No. 10018

Warsaw, 24 March 2015