

mBank Hipoteczny S.A.

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

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

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

This report contains 14 consecutively numbered pages and consists of:

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mBank Hipoteczny S.A.
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I. General information about the Bank

- a. mBank Hipoteczny Spółka Akcyjna ("the Bank") has its seat in Warsaw, Al. Armii Ludowej 26.
- b. The Bank was formed on the basis of a Notarial Deed drawn up on 18 March 1999 at the Notary Public's Office of Paweł Cupriak in Warsaw and registered with Rep. A No. 1186/99. On 27 March 2001, the Bank was entered in the Register of Businesses maintained by the District Court in Warsaw, XIX Business Department of the National Court Register, with the reference number KRS 0000003753.
- c. The Bank was assigned a tax identification number (NIP) 526-23-16-250 for the purpose of making tax settlements and a REGON number 014953634 for statistical purposes.
- d. As at 31 December 2016 the Bank's share capital amounted to PLN 309,000,000.00 and consisted of 3,090,000 shares, with a nominal value of PLN 100.00 each. Total equity as at that date amounted to PLN 903,699 thousand.
- e. As at 31 December 2016, the Bank's sole shareholder was:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
mBank S.A.	3,090,000	309,000,000.00	ordinary	100.0
	3,090,000	309,000,000.00		100.0

As at 31 December 2015, the Bank's sole shareholder was:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
mBank S.A.	2,990,000	299,000,000.00	ordinary	100.0
	2,990,000	299,000,000.00		100.0

In 2016 the Bank issued 100,000 registered shares, with a nominal value of PLN 100.00 each in the private subscription. According to the Resolution No. 1 of the Extraordinary General Shareholders' Meeting dated 24 June 2016 these shares were offered for subscription to the mBank S.A.

- f. During the year the Bank's operations comprised banking services to natural and legal persons, as well as services to unincorporated organisational units both in Polish zloty and foreign currencies.

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I. General information about the Bank (cont.)

g. During the year the Management Board of the Bank comprised:

- | | | |
|---|--------------------|----------------------------------|
| • | Piotr Cyburt | Chairman of the Management Board |
| • | Marcin Romanowski | Member of the Management Board |
| • | Grzegorz Trawiński | Member of the Management Board |
| • | Marcin Wojtachnio | Member of the Management Board |

h. The Bank has the following related entities:

- | | | |
|----------------|---|-------------------------|
| mBank S.A. | - | parent company |
| Commerzbank AG | - | ultimate parent company |

and companies belonging to the Banks's parent's and ultimate parent's group.

i. The Bank is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Bank has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union as of 2006.

The decision to prepare the Bank's financial statements in accordance with these standards was made by the Extraordinary General Shareholders' Meeting in Resolution No. 1 passed on 22 December 2005.

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II. Information about the audit

- a. The audit of the financial statements for the year from 1 January to 31 December 2016 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Agnieszka Accordi-Krawiec (no. 11665).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 19/2016 of the Supervisory Board dated 18 April 2016 in accordance with paragraph 26 para. 8 of the Bank's Memorandum of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2015, item 1011).
- d. The audit was conducted in accordance with an agreement dated 13 June 2016, in the following periods:
 - interim audit from 2 November to 22 December 2016;
 - final audit from 8 January to 3 March 2017.
- e. We conducted our audit in accordance with International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Audit and Assurance with a resolution dated 10 February 2015. The scope of our audit was influenced by our application of materiality. In accordance with these auditing standards, the concept of materiality is applied by the auditor at the planning stage and when conducting the audit as well as to evaluate the effect of misstatements identified and adjusted (if any) on the consolidated financial statements, and to form the opinion in the Independent Registered Auditor's Report.

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

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



Translation note:

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Registered auditor's report on the audit of the financial statements
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III. The Bank's results, financial position and significant items of financial statements

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	31.12.2016 PLN '000	31.12.2015 PLN '000	Change PLN '000	Change (%)	31.12.2016 Structure (%)	31.12.2015 Structure (%)
ASSETS						
Cash and balances with the central bank	5,530	7,521	(1,991)	(26.5)	0.1	0.1
Amounts due from other banks	16,262	205,180	(188,918)	(92.1)	0.2	2.4
Derivative financial instruments	45,160	32,212	12,948	40.2	0.4	0.4
Loans and advances to clients	9,411,505	7,391,743	2,019,762	27.3	88.3	87.8
Investment securities available for sale	1,134,049	748,505	385,544	51.5	10.6	8.9
Intangible assets	13,357	8,152	5,205	63.8	0.1	0.1
Tangible fixed assets	7,603	7,523	80	1.1	0.1	0.1
Current income tax assets	-	1,597	(1,597)	(100.0)	-	-
Deferred income tax assets	8,644	7,213	1,431	19.8	0.1	0.1
Other assets	7,389	9,479	(2,090)	(22.0)	0.1	0.1
TOTAL ASSETS	10,649,499	8,419,125	2,230,374	26.5	100.0	100.0

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

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

	31.12.2016 PLN '000	31.12.2015 PLN '000	Change PLN '000	Change (%)	31.12.2016 Structure (%)	31.12.2015 Structure (%)
LIABILITIES AND EQUITY						
Amounts due to other banks	3,316,817	2,959,741	357,076	12.1	31.1	35.2
Derivative financial instruments	9,635	3,770	5,865	155.6	0.1	-
Amounts due to clients	36,394	265,509	(229,115)	(86.3)	0.3	3.2
Debt securities in issue	6,123,466	4,164,902	1,958,564	47.0	57.5	49.4
Hedge accounting adjustments related to fair value of hedged items	29,305	21,530	7,775	36.1	0.3	0.3
Subordinated liabilities	200,484	200,899	(415)	(0.2)	1.9	2.4
Current income tax liabilities	2,791	-	2,791	-	-	-
Other liabilities and provisions	26,908	20,438	6,470	31.7	0.3	0.2
TOTAL LIABILITIES	9,745,800	7,636,789	2,109,011	27.6	91.5	90.7
EQUITY	903,699	782,336	121,363	15.5	8.5	9.3
TOTAL LIABILITIES AND EQUITY	10,649,499	8,419,125	2,230,374	26.5	100.0	100.0

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

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

	2016	2015	Change	Change	2016	2015
	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Interest income	318,648	256,317	62,331	24.3	96.5	95.0
Interest expense	(188,507)	(145,555)	(42,952)	29.5	62.8	60.0
Net interest income	130,141	110,762	19,379	17.5		
Fee and commission income	6,722	12,636	(5,914)	(46.8)	2.1	4.7
Fee and commission expenses	(5,196)	(6,107)	911	(14.9)	1.7	2.5
Net fee and commission income	1,526	6,529	(5,003)	(76.6)		
Net trading income, including:	1,736	(434)	2,170	(500.0)	0.5	0.2
Foreign exchange result	4,240	2,036	2,204	108.3		
Other net trading income and results on hedge accounting	(2,504)	(2,470)	(34)	1.4		
Gains less losses from investment securities	5	-	5	-	-	-
Other operating income	3,116	763	2,353	308.4	0.9	0.3
Net impairment write-downs on loans and advances	(21,588)	(24,775)	3,187	(12.9)	7.2	10.2
Overhead costs	(62,472)	(57,876)	(4,596)	7.9	20.8	23.8
Amortisation and depreciation	(3,197)	(4,699)	1,502	(32.0)	1.1	1.9
Other operating expenses	(2,403)	(3,473)	1,070	(30.8)	0.8	1.4
Operating result	46,864	26,797	20,067	74.9		
Tax on the Bank balance sheet items	(16,685)	-	(16,685)	-	5.6	-
Profit before income tax	30,179	26,797	3,382	12.6		
Income tax	(6,757)	(8,006)	1,249	(15.6)		
Net profit	23,422	18,791	4,631	24.6		
Total income	330,227	269,716	60,511	22.4	100.0	100.0
Total expense	(300,048)	(242,919)	(57,129)	23.5	100.0	100.0
Profit before income tax	30,179	26,797	3,382	12.6		

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

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

			Change	
	2016	2015		
	PLN '000	PLN '000	PLN '000	(%)
Net profit	23,422	18,791	4,631	24.6
Other comprehensive income net of tax	(1,995)	(914)	(1,081)	118.3
Items that may be reclassified to the income statement	(1,993)	(917)	(1,076)	117.3
Available-for-sale financial assets (gross)	(2,461)	(1,132)	(1,329)	117.4
Deferred tax on valuation available-for-sale financial assets	468	215	253	117.7
Available-for-sale financial assets (net)	(1,993)	(917)	(1,076)	117.3
Items that will not be reclassified to the income statement	(2)	3	(5)	(166.7)
Actuarial gains and losses on post-employment benefits (gross)	(3)	4	(7)	(175.0)
Deferred tax on actuarial gains and losses on post-employment benefits	1	(1)	2	(200.0)
Actuarial gains and losses on post-employment benefits (net)	(2)	3	(5)	(166.7)
Total comprehensive income net of tax	21,427	17,877	3,550	19.9

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

Selected ratios characterising the Bank's financial position and results

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

	2016	2015
Profitability ratios		
Return on equity (net profit/average net assets) (1)	2.8%	2.7%
Return on assets (net profit/average total assets) (1)	0.2%	0.3%
Interest margin (interest income/average working assets)-(interest expense/average interest-bearing liabilities) (1)(2)(3)	1.2%	1.3%
Cost of risk (4)	0.3%	0.4%
Cost to income ratio (sum of overhead costs, amortisation and depreciation/net banking result) (5)	49.0%	54.8%
Earnings per share (in PLN)	7.70	6.46
	31.12.2016	31.12.2015
Assets quality ratios		
Impaired loans and advances to customers to gross loans and advances to customers	3.3%	2.7%
Provision coverage of not impaired loans and advances	0.1%	0.2%
Provision coverage of impaired loans and advances	29.3%	40.7%
Other ratios		
Total Capital Ratio (TCR)	14.5%	13.8%
Common Equity Tier 1 Capital ratio (CET1 ratio)	11.5%	11.9%
Effective tax rate	22.4%	29.9%

- (1) The average balances of the statement of financial position were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial year and the previous year.
(2) Working assets defined as balances with the Central Bank, loans and advances to customers and banks, securities and derivatives.
(3) Interest-bearing liabilities defined as liabilities to customers and banks, debt securities in issue, subordinated debt and derivatives.
(4) Net impairment write-downs on loans and advances to average loans and advances to customers in given period.
(5) Net banking result defined as operating result except net impairment write-down on loans and advances, overhead costs, amortisation and depreciation.

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

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

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

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

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

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

- At the end of the financial year, the Bank's total assets amounted to PLN 10,649,499 thousand. During the year total assets increased by PLN 2,230,374 thousand, i.e. by 26.5%.
- As at 31 December 2016, the net balance of loans and advances to clients amounted to PLN 9,411,505 thousand and represented 88.3% of total assets (an increase by PLN 2,019,762 thousand, i.e. by 27.3% compared to the previous year). The gross value of loans and advances to clients amounted to PLN 9,512,858 thousand at the end of 2016 and comprised mainly loans and advances to corporate clients in the gross amount of PLN 4,957,222 thousand and loans and advances to individual clients in the gross amount of PLN 4,407,440 thousand. An increase in the balance of loans and advances to clients resulted mainly from a growth in the gross balance of loans and advances to individual clients of PLN 1,765,992 thousand, which was mainly due to increased credit activity of the Bank and transfer of the commercial credit portfolio from mBank S.A, the parent company of the Bank.
- At the end of 2016 the balance of investment securities available for sale amounted to PLN 1,134,049 thousand and comprised government bonds issued by the State Treasury in the amount of PLN 902,587 thousand and money bills issued by the National Bank of Poland in the amount of PLN 231,462 thousand. The balance of investment securities available for sale increased by PLN 385,544 thousand, i.e. by 51.5%, which resulted from a growth in government bonds issued by State Treasury of PLN 623,945 thousand, with the simultaneous decrease in the balance of money bills issued by the National Bank of Poland of PLN 238,401 thousand.
- At the end of 2016 the assets was primarily financed by debt securities in issue. As at 31 December 2016 they amounted to PLN 6,123,466 thousand and represented 57.5% of total liabilities and equity (an increase compared to the previous year by PLN 1,958,564 thousand, i.e. by 47.0%). An increase in the balance of debt securities in issue was mainly due to a growth in the balance of mortgage bonds (an increase by PLN 1,192,648 thousand) to finance the higher credit activity of the Bank.
- As at the balance sheet date the amounts due to other banks amounted to PLN 3,316,817 thousand and comprised mainly loans received in the amount of PLN 2,979,842 thousand. An increase in the amounts due to other banks of PLN 357,076 thousand, i.e. by 12.1% compared to the previous year, was mainly due to a growth of loans received by PLN 466,323 thousand.

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

- Net interest income amounted to PLN 130,141 thousand and increased by PLN 19,379 thousand, i.e. by 17.5% compared to the previous year. The most significant change in interest income structure related to individual clients. Interest income from individual clients amounted to PLN 112,373 thousand in 2016 and was PLN 58,373 thousand higher compared to the previous year. An increase in interest income was mainly due to the increased credit activity of the Bank and higher balance of loans and advances to customers.
- Net impairment write-downs on loans and advances in 2016 amounted to PLN 21,588 thousand and advances has decreased by PLN 3,187 thousand, i.e. by 12.9% compared to the previous year, mainly due to the improving quality of the Bank's credit portfolio.
- Overhead costs in 2016 amounted to PLN 62,472 thousand and increased by PLN 4,596 thousand, i.e. by 7.9% compared to the previous year. This increase was mainly due to a growth in employment costs of PLN 1,905 thousand, an increase in marketing costs of PLN 1,128 thousand and a growth in the logistic cost of PLN 1,093 thousand. The cost to income ratio amounted to 49.0% and was 5.8 p.p. higher than in 2015.
- Effective tax rate, calculated as corporate income tax to profit before income tax, amounted to 22.4% and was 7.5 p.p. lower than in previous year.

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

IV. The independent registered auditor's statement

- a. The Management Board of the Bank provided all the information, explanations, and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The financial statements of the Bank for the year from 1 January to 31 December 2015 were approved by Resolution No. 1 passed by the General Shareholders' Meeting on 19 April 2016 and filed with the National Court Register in Warsaw on 9 May 2016.
- d. We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
 - the methods used for controlling access to data and the computerised data processing system;
 - the safeguarding of the accounting documentation, books of account, and financial statements.

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

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

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

- f. As at the balance sheet date the capital adequacy ratio of the Bank amounted to 14.54% and was correctly determined in accordance with CRR. This statement is based on recalculation of the quotient of own funds amounting PLN 954.070 thousand divided by risk weighted assets amounting to PLN 6,562.489 thousand as per COREP reporting prepared by the Bank as at the balance sheet date.
- g. The notes to the financial statements present all significant information required by International Financial Reporting Standards as adopted by the European Union.
- h. The information in the Directors' Report for the year from 1 January to 31 December 2016 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the financial statements.

mBank Hipoteczny S.A.
Registered auditor's report on the audit of the financial statements
for the year from 1 January to 31 December 2016

V. Final information

This report has been prepared in connection with our audit of the financial statements of mBank Hipoteczny S.A., Al. Armii Ludowej 26, Warsaw. The financial statements were signed by the Bank's Management Board and the person entrusted with maintaining the books of account on 3 March 2017.

This report should be read in conjunction with the Independent Registered Auditor's Report dated 3 March 2017 to the General Shareholders' Meeting and the Supervisory Board of mBank Hipoteczny S.A., that includes the unqualified audit opinion on the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

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

Agnieszka Accordi-Krawiec

Key Registered Auditor
No. 11665

Warsaw, 3 March 2017



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