Independent Registered Auditor's Report

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

Report on the audit of financial statements

Our opinion

In our opinion, the attached annual financial statements of mBank Hipoteczny S.A. ("the Bank"):

- give a true and fair view of the financial position of the Bank as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Bank and the Bank's Articles of Association;
- have been prepared on the basis of properly maintained books of account in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2018, item 395, as amended).

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report i.e. on 2 March 2018.

What we have audited

We have audited the annual financial statements of mBank Hipoteczny S.A. which comprise:

- the statement of financial position as at 31 December 2017;

and the following prepared for the financial year from 1 January to 31 December 2017:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of cash flows, and
- the notes comprising a description of the relevant accounting policies and other explanatory notes.

TRANSLATORS' EXPLANATORY NOTE

English content of this report is a free translation of the independent registered auditor's report to the General Shareholders' Meeting and the Supervisory Board of the above-mentioned Polish Company. In Poland statutory accounts as well as auditor's report must be prepared and presented in Polish and in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish language version is binding.

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Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by Resolution no. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015; International Standards on Auditing issued by IAASB (together "Auditing Standards") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered Auditors" – Journal of Laws of 2017, item 1089) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158). Our responsibilities under those Auditing Standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

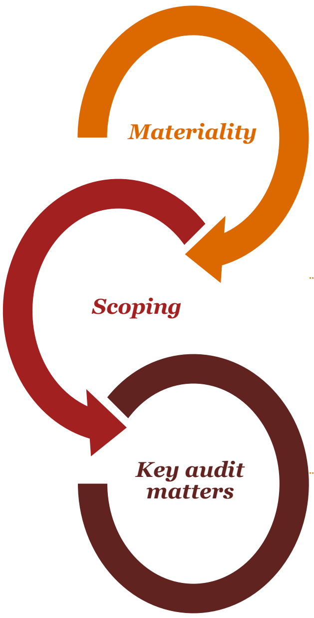
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and ethics

We are independent of the Bank in accordance with the International Federation of Accountants' *Code of Ethics for Professional Accountants* ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Bank in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview



- The overall materiality level adopted for the purposes of our audit was set at PLN 12,000 thousand, which represents 0,2% of the debt securities issued. Materiality was determined at the planning stage of the audit based on balance available at that time.

- We have audited the annual financial statement of the Bank for the year ended 31 December 2017.

- Impairment allowances for loans and advances to customers.
- IFRS 9 *Financial instruments*, related disclosures.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Bank's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole, as presented below. These thresholds, 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 financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall materiality	PLN 12,000 thousand (in prior year PLN 12,000 thousand)
Basis for determination	0,2% of debt securities issued
Rationale for the materiality benchmark applied	We have adopted debt securities issued as the basis for determining materiality because mBank Hipoteczny S.A. is a leading issuer of the mortgage covered bonds on the Polish market which are the main source of funding. We adopted the materiality threshold at 0,2% which is consistent with quantitative materiality thresholds used in audits of specialized mortgage banks.

We agreed with the Bank's Audit Committee that we would report to them the misstatements identified during our audit of the financial statements above PLN 1,200 thousand, as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarised our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the key audit matter***
Impairment allowances for loans and advances to customers *We focused on this area because the management's judgements in the calculation*	*We obtained an understanding of the internal control environment related to recognition and measurement of impairment allowances and tested the effectiveness of the selected key controls.* *We assessed whether the impairment methodology used by the Bank is in line with the requirements of IAS 39 'Financial*

of impairment allowances have significant impact on the financial statements. The estimates regarding impairment allowances are complex and require a significant degree of judgement, in particular:

- for individually insignificant loans and advances, which are assessed for impairment on a portfolio basis, such assumptions and judgements are built into the statistical impairment models and include among others the period of historical losses used for the calculation of the loss given default parameter, the loss identification period and the recovery rates used in calculating impairment allowances;

- for significant loans and advances assessed for impairment on an individual basis such assumptions and judgements include identification of loss events other than overdue payments, estimation of timing and amount of expected cash flows from repayments and realisation of collaterals.

Note 2 Description of the significant accounting policies, note 3 Risk management and note 21 Loans and advances to customers included in the financial statements provide detailed information on the impairment allowances for loans and advances to customers.

instruments: recognition and measurement'.

For impairment allowances for individually insignificant loans which are assessed for impairment on a portfolio basis we also particularly:

- analysed the results of monitoring or backtests of the models performed by the Bank;

- verified key assumptions used by the Bank in the light of empirical data and credit and monitoring processes in place;

- verified the input data for impairment calculation as well as the calculation of impairment parameters and allowances.

We applied professional judgement in selecting a sample of significant loan exposures assessed for impairment on an individual basis taking into account different risk criteria.

For selected non-impaired loans we assessed that the impairment indicators did not exist as at the balance sheet date.

For selected impaired loans we tested the assumptions used in the impairment calculation, particularly amount and timing of expected cash flows, including cash flows from repayments and realisation of collaterals held.

We have not identified material misstatements as a result of our work.

IFRS 9 Financial instruments, related disclosures

IFRS 9 Financial instruments ('IFRS 9') is effective for annual reporting periods beginning on or after 1 January 2018. Given the significance of the impact of the new standard, the Bank has already put relevant systems and processes in place.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ('IAS 8'), requires disclosure of the known or reasonably estimable information relevant to assessing the possible impact of new standards issued but not yet effective.

The Polish Financial Supervision Authority following the European Securities and Markets Authority expressed an expectation that disclosures related to the impact of IFRS 9 would include both quantitative and qualitative information.

Given the significance of the impact of IFRS 9 on the Bank's financial position as at 1

We have obtained an understanding of the Bank's implementation process of IFRS 9, including understanding of the changes to the Bank's IT systems and processes in place.

We evaluated whether the disclosure in the financial statements of the Bank sufficiently reflect management's latest assessment of the expected impact of IFRS 9 implementation. We assessed this impact separately for classification and measurement and impairment.

We assessed the appropriateness of significant judgements, estimates and assumptions made by management.

We assessed methodologies implemented by the Bank by reference to the standard. Particularly we assessed the approach of the Bank regarding assessment of the significant increase in credit risk ('SICR') criteria, definition of default, incorporation of forward-looking information in the calculation of expected credit losses, as well as the changes in loss given default parameter.

To confirm the completeness of data we performed reconciliation of IFRS 9 opening balance to the closing balance as of 31 December 2017.

We also assessed the disclosure in the financial statements

January 2018, the complexity and judgements related particularly to the calculation of expected credit losses we consider this disclosure as a key audit matter.

Note 2.24 included in the financial statements provides information on impact of IFRS 9 implementation.

considering whether it explains the main drivers of the IFRS 9 implementation impact.

We have not identified material misstatements in the IFRS9 related disclosures included in the audited financial statements.

Responsibility of the Management and Supervisory Board for the financial statements

The Management Board of the Bank is responsible for the preparation, based on the properly maintained books of account of annual financial statements that give a true and fair view of the Bank's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Bank's Articles of Association, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank's Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Bank's Management Board and members of its Supervisory Board are obliged to ensure that the financial statements comply with the requirements specified in the Accounting Act of, as amended. Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

The scope of the audit does not cover an assurance on the Bank's future profitability or the efficiency and effectiveness of the Bank's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Management Board.
- Conclude on the appropriateness of the Bank's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Report on the operations

Other information

Other information comprises a Report on the Bank's operations for the financial year ended 31 December 2017 ("the Report on the operations") and the corporate governance (together "Other Information").

Responsibility of the Management and Supervisory Board

The Management Board of the Bank is responsible for preparing Other Information in accordance with the law.

The Bank's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the operations complies with the requirements of the Accounting Act.

Registered auditor's responsibility

Our opinion on the audit of the financial statements does not cover Other Information.

In connection with our audit of the financial statements, our responsibility is to read Other Information and, in doing so, consider whether it is materially consistent with the information in the financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in Other Information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual financial statement.

Moreover, we are obliged to issue an opinion on whether the Bank provided the required information in its corporate governance statement.

The financial information included in item 1.3 of the Report on the operations has been audited in accordance with the scope described in this audit report and the requirements of the Banking Law of 29 August 1997 ("the Banking Law" – Journal of Laws of 2015, item 128, as amended)..

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the Report on the operations:

- has been prepared in accordance with Article 49 of the Accounting Act and para. 91 of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2014, item 133, as amended) and Article 111(1–2) of the Banking Law.
- is consistent with the information in the financial statements.

Moreover, based on the knowledge of the Bank and its environment obtained during our audit, we have not identified any material misstatements in the Report on the operations.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Bank included information set out in paragraph 91(5)(4) (a), (b), (g), (j), (k) and (l) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 91(5)(4)(c)–(f),(h) and (i) of the said Regulation included in the corporate governance statement is consistent with the applicable provisions of the law and with information included in the financial statements.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Bank is responsible for complying with the applicable prudential regulations set out in separate legislation, and in particular, for correct determination of the capital ratios.

The capital ratios as at 31 December 2017 have been presented in Note 45 of the financial statements and include Common Equity Tier 1 capital ratio, Common Equity Tier 2 capital ratio and the total capital ratio.

We are obliged to inform in our report on the audit of the financial statements whether the Bank has complied with the applicable prudential regulations set out in separate legislation, and in particular, whether the Bank has correctly determined its capital ratios. For the purposes of the said information, the following legal acts are understood as separate legislation: Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended ("CRR"), the Banking Law and the Act of 5 August 2015 on macro-prudential supervision over the financial system and on crisis management in the financial system ("the Act on macro-prudential supervision" – Journal of Laws of 2015, item 1513).

It is not the purpose of an audit of the financial statements to present an opinion on compliance with the applicable prudential regulations specified in the separate legislation specified above, and in particular, on the correct determination of the capital ratios, and therefore, we do not express such an opinion.

Based on the work performed by us, we inform you that we have not identified:

- any cases of non-compliance by the Bank with the applicable prudential regulations set out in separate legislation referred to above, in the period from 1 January to 31 December 2017;
- any irregularities in the determination by the Bank of the capital ratios as at 31 December 2017 in accordance with the separate legislation referred to above;

which would have a material impact on the financial statements.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Bank are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Bank in the audited period are disclosed in the Note 44 of the financial statements.

Appointment

We have been appointed for the first time to audit the annual financial statements of the Bank by resolution of the Supervisory Board's Meeting dated 18 April 2016 and re-appointed by resolution dated 27 March 2017. We have been auditing the Bank's financial statements without interruption since the financial year ended 31 December 2016, i.e. for two consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company entered on the list of Registered Audit Companies with the number 144., is Agnieszka Accordi.

Agnieszka Accordi

Key Registered Auditor

No. 11665

Warsaw, 2 March 2018