

mBank S.A.

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

I. GENERAL NOTES

1. Background

mBank S.A. (hereinafter 'the Bank') was incorporated on the basis of a Notarial Deed dated 11 December 1986. The Bank's registered office is located in Warsaw at Senatorska 18.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000025237 on 11 July 2001.

The Bank was issued with tax identification number (NIP) 5260215088 on 13 December 2013 and statistical number (REGON) 001254524 on 9 December 2013

The Bank is the holding company of the mBank S.A. Group ('the 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 Notes 23 and 45 of the explanatory notes ('the explanatory notes') to the financial statements for the year ended 31 December 2015.

The principal activities of the Bank are as follows:

- accepting a-vista and term deposits and maintaining deposit accounts;
- maintaining other bank accounts;
- conducting bank monetary settlements;
- granting loans and cash advances;
- cheque and bill of exchange transactions and transactions in warrants;
- granting and confirming of suretyships;
- issuing and confirming bank guarantees and letters of credit;
- intermediary services in cash transfers and foreign currency settlements;
- issuing bank securities;
- performing commissioned activities relating to issue of securities;
- safekeeping of objects and securities and offering safety deposit box services to clients;
- forward financial transactions;
- purchasing and sale of debts;
- performing bank representative actions as provided for in the Bonds Act;
- purchasing and sale of foreign currencies;
- issuing payment cards and performing transactions with the use of cards;
- issuing e-money instruments.

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

*mBank
Long-form auditors' report
for the year ended 31 December 2015
(in thousand zlotys)*

As at 31 December 2015, the ownership structure of the Bank's share capital was as follows:

	Number of shares	Number of votes	Par value of shares (in zlotys)	% of share capital
Commerzbank AG	29 352 897	29 352 897	117 411 588	69.49%
ING Otworthy Fundusz Emerytalny	2 130 699	2 130 699	8 522 796	5.05%
Other shareholders	10 755 328	10 755 328	43 021 312	25.46%
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Total	42 238 924	42 238 924	168 955 696	100%
	=====	=====	=====	=====

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

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

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

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

In 2015, the National Deposit for Securities has registered 28 867 shares of the Bank issued under the conditional share capital increase of the Bank by issuing shares with pre-emptive rights of the existing shareholders, in order to allow for the acquisition of the Bank shares to participants of incentive

programs. Following registration of the shares of the Bank's share capital of the Bank increased in 2015 by 115 468 zlotys.

As at 25 February 2016, the Bank's Management Board was composed of:

Cezary Stypułkowski	- President
Lidia Jabłonowska-Luba	- Vicepresident
Przemysław Gdański	- Vicepresident
Jörg Hessenmüller	- Vicepresident
Hans-Dieter Kemler	- Vicepresident
Cezary Kocik	- Vicepresident
Jarosław Mastalerz	- Vicepresident

There were no changes in the Bank's Management Board composition during the period from 1 January 2015 to 31 December 2015 ('the reporting period') as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 27 January 2005 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. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by General Shareholders' Meeting on 30 March 2015 to audit the 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 20 May 2015 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2015.

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' unqualified opinion dated 25 February 2016, stating the following:

"To the General Shareholders Meeting of mBank S.A.

1. We have audited the attached financial statements for the year ended 31 December 2015 of mBank S.A. ("Bank") located in Warsaw at Senatorska 18, containing the income statement and the

statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, statement of financial position as at 31 December 2015, the statement of changes in equity and the statement of cash flow for the period from 1 January 2015 to 31 December 2015 and explanatory notes to the financial statements ('the attached financial statements').

2. The truth and fairness¹ 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 fairly² 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.
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 period from 1 January 2015 to 31 December 2015, as well as its financial position³ as at 31 December 2015;
 - 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 'Management Board Report on the Performance of the Bank of the period from 1 January 2015 to 31 December 2015' and the rules of preparation of annual statements' ('the Management Board Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

² Translation of the following expression in Polish: 'rzetelnie i jasno'

³ Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).”

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

2.2 Representations provided and data availability

The Management Board confirmed its responsibility fair presentation⁴ 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 25 February 2016, 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.

2.3 Financial statements for prior financial year

The Bank’s financial statements for the year ended 31 December 2014 were audited by Dominik Januszewski, key certified auditor no. 9707, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2014. The Bank’s financial statements for the year ended 31 December 2014 were approved by the General Shareholders’ Meeting on 30 March 2015. On 29 April 2015 the shareholders resolved to appropriate the 2014 net profit as follows:

General banking risk reserve	50 000,00
Other supplementary capital	406 523,55
Profit from the previous year	717 572,67

	1 174 096,22

⁴ Translation of the following expression in Polish: “rzetelna prezentacja”

The financial statements for the financial year ended 31 December 2014, 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 9 April 2015 with the National Court Register.

The closing balances as at 31 December 2014 were correctly brought forward in the accounts as the opening balances at 1 January 2015.

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 2013 - 2015. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2015.

	2015	2014	2013
Total assets	118 795 306	113 603 463	100 232 132
Shareholders' equity	11 945 119	10 269 586	9 573 220
Net profit/ loss	1 271 449	1 174 096	1 070 306
Total capital ratio	20.18%	16.95%	20.59%
Profitability ratio	87.17%	100.86%	95.96%
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profit before tax			
overhead costs and amortization			
Cost to income ratio	48.60%	43.28%	44.32%
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overhead costs and amortization			
total operating income less other operating expenses ⁵			
Return on equity (ROE)	11.45%	11.83%	11.48%
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net result			
average shareholders' equity ⁶			
Return on assets	1.09%	1.10%	1.08%
<hr/>			
net result			
average assets ⁷			

⁵ Total operating income less other operating expenses amounted to net interest income, net fee and commission income, dividend income, net trading income, gains less losses from investment securities, investments in subsidiaries and associates and other operating income less other operating expense

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

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

	2015	2014	2013
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Rate of inflation:			
Yearly average	-0.9%	0.0%	0.9%
December to December	-0.5%	-1.0%	0.7%

3.2 Comments

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

- Profitability ratio increased from 95.96% in 2013 to 100.86% in 2014 and decreased to 87.17% in 2015.
- Cost to income ratio decreased from 44.32% in 2013 to 43.28% in 2014 and increased to 48.60% in 2015.
- Return on equity increased from 11.48% in 2013 to 11.83% in 2014 and decreased to 11.45% in 2015.
- Return on assets increased from 1.08% in 2013 to 1.10% in 2014 and decreased to 1.09% in 2015.

As at 31 December 2015 total capital ratio of the Bank accounted for 20.18% in comparison to 16.95% as at 31 December 2014 and 20.59% as at 31 December 2013.

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 2015 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2.1 of the explanatory notes to the audited financial statements for the year ended 31 December 2015, 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 2015 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 2015, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolution of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) Nr 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, envisaged banking regulatory norms in relation, among others, to following items:

- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and guarantees to risk groups and the creation of provisions for the risk associated with the activities of banks,

- liquidity measures,
- level of obligatory reserve,
- capital adequacy.

During the audit we have not identified any significant facts indicating that during the period from 1 January 2015 to the day of issuance of this report the Bank did not comply with the above regulations. We have received a written representation from the Management Board that in the period from 1 January 2015 to the date of the opinion no regulatory norms have been violated.

3.5 Correctness of calculation of total capital ratio

During our audit we found no significant irregularities in determining the total capital ratio as at 31 December 2015 in accordance with the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 (CRR).

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the Altamira, Globus, Karat, ESP, Impairment – Korpo, Impairment – Detal, Wyceny_BKF, Impairment ACC Korpo, Impairment ACC Detal, ACC Zawieszenia, Aplikacja Hedge Accounting computer systems at the Bank's head office. In all material aspects to the audited financial statements, 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 2015.

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 2015.

3. Additional Notes and Explanations to the Financial Statements

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

4. Management Board Report

We have read the 'Management Board Report on the Performance of the Bank of the period from 1 January 2015 to 31 December 2015' ('the Management Board Report') and the rules of preparation of annual statements' and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Management Board Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities, conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2014.133 with subsequent amendments) and art. 111a of Banking Law Act dated 29 August 1997 (Journal of Law 2015.128 with subsequent amendments).

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.

6. 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.

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

Key Certified Auditor
(-)

Dominik Januszewski
Certified Auditor
Number 9707

Warsaw, 25 February 2016