

## **Report on the Activities of the Audit Committee of the Supervisory Board of mBank S.A. in 2019**

### **Legal basis**

The Audit Committee of the Supervisory Board of mBank S.A. operates as a standing committee based on:

- Article 86 of the Act of 5 May 2017 on Statutory Auditors and Their Council, Entities Authorised to Audit Financial Statements, and Public Supervision,
- "Recommendations concerning the operation of the Audit Committee" issued by the Polish Financial Supervision Authority in November 2010,
- Best Practice of Companies listed on the Warsaw Stock Exchange,
- By-laws of mBank S.A. (Article 22 (3) (2)),
- Rules of the Supervisory Board of mBank S.A. (Article 12 (3) (2)).

### **Composition of the Committee**

From the start of its current term of office, the Audit Committee has been composed of:

- Tomasz Bieske (Chairman)
- Andre Carls (Member) - stepped down as Member of the Supervisory Board as from 30 September 2019
- Janusz Fiszer (Member) - died on 3 September 2019
- Joerg Hessenmueller (Member)
- Agnieszka Słomka-Gołębiowska (Member)

During the meetings listed below the Committee Members discussed current and open issues.

### **Meetings / actions / decisions**

In 2019 the Audit Committee held four meetings: on 27 February, 5 June, 23 October, and 11 December.

During the meeting on 27 February 2019 the Audit Committee analysed and thoroughly discussed, among others, the following issues:

- Confirmation of compliance of the financial statements preparation process with applicable laws and regulations
- Final conclusions from the audit of the 2018 Financial Statements of mBank S.A. and mBank Group, including the key findings of the external auditor
- Management Board Report on Performance of mBank S.A. Group in 2018 comprising the Management Board Report on Performance of mBank S.A. in 2018
- Financial statements of mBank S.A. for 2018 and consolidated financial statements of mBank S.A. Group for 2018

- Approval of the performance of agreed procedures in connection with the Euro Medium Term Notes Programme (EMTN) and potential issues under the Programme in 2019 by EY
- Strategy of the Internal Audit Department for 2019-2021
- Plan of the Compliance Department for 2019
- ICS report for 2018
- Internal Audit Report for December 2018 - January 2019
- Internal Audit Report for 2018
- Assessment of the internal control and risk management system at mBank S.A. in 2018
- Report on managing the process of handling claims and complaints at mBank S.A. for 2018
- Approval of the Report on the Activities of the Audit Committee in 2018

After a discussion, the Audit Committee made the following decisions:

- Decision No. 42/19 on recommending the Supervisory Board to approve the Management Board Report on Performance of mBank S.A. Group in 2018 comprising the Management Board Report on Performance of mBank S.A. in 2018
- Decision No. 43/19 on recommending the Supervisory Board to approve the 2018 financial statements of mBank S.A.
- Decision No. 44/19 on recommending the Supervisory Board to approve the 2018 consolidated financial statements of mBank S.A. Group
- Decision No. 45/19 on approving the performance of agreed procedures in connection with the Euro Medium Term Notes Programme (EMTN) and potential issues under the Programme in 2019 by EY
- Decision No. 46/19 on approving the performance of services for mBank Hipoteczny S.A. by EY
- Decision No. 47/19 on adopting the Strategy of the Internal Audit Department for 2019-2021
- Decision No. 48/19 on adopting the Report of the Internal Audit Department for 2018
- Decision No. 49/19 on adopting the Plan of the Compliance Department for 2019
- Decision No. 50/19 on adopting the Annual Report on the Activities of the Audit Committee of the Supervisory Board of mBank S.A. in 2018
- Decision No. 51/19 on adopting the 2018 ICS Report
- Decision No. 52/19 of the Audit Committee of the Supervisory Board of mBank S.A. dated 27 February 2019 on making a declaration that Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa has been selected to

audit the annual stand-alone and consolidated financial statements of mBank S.A. and mBank S.A. Group in accordance with applicable provisions, including the provisions on selecting the audit firm and the selection procedure.

In between the meetings in February and June the Audit Committee made two decisions:

- Decision No. 53/19 dated 21 March 2019 on approving the principles of conduct in the process of disclosing and exchanging data and information among mBank S.A., the Polish Financial Supervision Authority, the audit firm, and the key statutory auditor
- Decision No. 54/19 dated 16 April 2019 on acknowledging the receipt of the financial report for the Audit Committee on the mBank S.A. foreign branch (pobočka zahraničnej banky) in the Slovak Republic

During the meeting on 5 June 2019, the Audit Committee analysed and discussed, among others, the following issues:

- Plan for auditing the 2019 financial statements
- Review of the Q1 2019 financial results of the bank
- Information about KNF's inspections conducted at the bank
- Internal Audit Report for February 2019 - May 2019
- Approval of the Annual Report on Compliance Risk Management at mBank S.A. in 2018
- Approval of the Annual Report on Supervising the Processes of Handling Complaints and Claims at mBank S.A. in 2018
- Whistleblowing Report for February 2019 - May 2019
- Annual reports of the Supervision Inspector supervising mBank S.A.'s trading in financial instruments in 2018
- Annual Report on Compliance Operations in the Brokerage Bureau of mBank S.A. Conducted by the Supervision Division in 2018

After a discussion, the Audit Committee made the following decisions:

- Decision No. 55/19 on approving the Annual Report on Compliance Risk Management at mBank S.A. in 2018
- Decision No. 56/19 on approving the Annual Report on Supervising the Processes of Handling Complaints and Claims at mBank S.A. in 2018
- Decision No. 57/19 on approving the Annual Report on Compliance Operations in the Brokerage Bureau of mBank S.A. Conducted by the Supervision Division in 2018

In between the meetings in June and October the Audit Committee made one decision:

- Decision No. 58/19 dated 24 June 2019 on approving the performance of audit services for mBank Hipoteczny S.A. by EY

During the meeting on 23 October 2019, the Audit Committee discussed, among others, the following issues:

- Current status of the audit of the 2019 financial statements
- Discussion of mBank's H1 2019 results as compared with the major Polish banks
- Review of preliminary Q3 2019 financial results
- Internal Audit Report for June 2019 - September 2019 including changes to the audit plan
- Amendments to the mBank S.A. Audit Charter
- Whistleblowing Report for June 2019 - September 2019
- Quarterly Report on Supervision of the Processes of Handling Complaints and Claims
- Approval of the Conflict of Interest Management Policy of mBank S.A.
- Adopt of the amendments to mBank S.A. internal control system rules
- Adopt of the amendments to the Rules of the Audit Committee of the Supervisory Board of mBank S.A.
- Quarterly Report on Compliance Risk Management
- Review of compliance staff amid mounting requirements and growing complexity of tasks
- CCU of Retail Banking, Corporate Banking and Financial Markets, including tasks, resources, main challenges, and potential backlog

After a discussion, the Audit Committee made the following decisions:

- Decision No. 59/19 on adopting amendments to the Audit Plan of the Internal Audit Department of mBank for 2019
- Decision No. 60/19 on adopting amendments to the Audit Charter of mBank S.A.
- Decision No. 61/19 on approving the Conflict of Interest Management Policy of mBank S.A.
- Decision No. 62/19 on adopting amendments to mBank S.A. internal control system rules
- Decision No. 63/19 on adopting amendments to the Rules of the Audit Committee of the Supervisory Board of mBank S.A.
- Decision No. 64/19 on taking the necessary measures to prolong the agreement on the audit of consolidated financial statements and standalone financial statements between mBank S.A. and the audit firm Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa

During its meeting on 11 December 2019 the Audit Committee discussed in detail, among others, the following issues:

- Review of compliance staff amid mounting requirements and growing complexity of tasks
- CCU (Compliance Coordination Unit) of Retail Banking, Corporate Banking and Financial Markets
- Information on the methods used to protect the bank against mounting fraud attempts
- Whistleblowing Report for October and November 2019
- Amendments to the Compliance Policy of mBank S.A. to which the Rules of Operation of the Compliance Department are appended
- Plan of Activities of the Compliance Department in 2020
- Amendments to the Conflict of Interest Management Policy of mBank S.A.
- Internal Audit Report for September and October 2019
- Audit Plan for 2020 and status of implementation of the Strategic Audit Plan (2019-2021)
- Current status of audit work (and audit of annual financial statements for 2019)
- Summary of the Q3 2019 group reporting review
- Update on EY's independence in providing audit services
- Update of the Information Policy of mBank S.A. on Capital Adequacy.
- Status of measures taken to prolong the agreement on the audit of financial statements between mBank S.A. and the audit firm Ernst & Young

The Audit Committee took the following decisions:

- Decision No. 65/19 on approving the updated Compliance Policy of mBank S.A.
- Decision No. 66/19 on adopting the Plan of the Compliance Department for 2020
- Decision No. 67/19 on adopting the Audit Plan of the Internal Audit Department for 2020
- Decision No. 68/19 on approving the Information Policy of mBank S.A. on Capital Adequacy

During each meeting the Audit Committee discussed and analysed internal audit reports. The Audit Committee was informed on a regular basis on actions related to the key risk areas and reports of the Internal Audit Department covering a range of issues, including reports on:

- implementation of overdue recommendations issued by the Internal Audit Department
- main risk areas

- implemented post-inspection recommendations of the KNF.

The Audit Committee agrees with the assessment of risk of the bank's processes and areas presented by the Internal Audit Department. During the year, between the committee meetings, the committee was provided with high-risk internal audit results and, after changes to the law, with reports on all internal audits. The Audit Committee recommended to the Supervisory Board reports and changes to the department's regulations requiring the Supervisory Board's approval.

During the meetings of the Audit Committee, the Compliance Department informed the Committee about all the necessary issues concerning the compliance area and answered questions of the Committee Members.

Furthermore, the Audit Committee was informed on a regular basis about the bank's performance and financial standing before publication of the quarterly and half-year financial reports of mBank Group.

During the meetings, the Audit Committee asked the departments to provide more detailed and precise information on selected activities of the departments and analysed such activities again during subsequent meetings.

The Committee Members regularly participated in the work of the working group on IT, which met twice in 2019. The group supports the Supervisory Board in supervising the IT and ICT security area of mBank. The working group on IT discussed in detail periodic reports of the Management Board on IT and IT security. In addition, the Committee Members participated in training courses organised by PwC (Key accounting issues and the role of Audit Committee in financial reporting, New Polish tax regulations, Regulatory priorities and recent developments) and meetings with the representatives of the Polish Bank Association (ZBP) on cybersecurity.

The Chairman of the Audit Committee is in regular contact with the directors of the Internal Audit Department, Compliance Department, and Financial Reporting Department, and with other organisational unit heads, as need be.

All Audit Committee meetings were attended by the Chairman of the Supervisory Board, President of the Management Board of the Bank, and selected Management Board Members. Furthermore, the Committee meetings were attended by the directors of the Internal Audit Department, Compliance Department, and Finance units, as well as many other guests (including from Commerzbank AG), depending on the agenda.

The Audit Committee fulfilled all the duties imposed on it under the applicable laws.

Tomasz Bieske  
Chairman of the Audit Committee