

***MERITUM BANK ICB S.A.***

**LONG-FORM AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

## **I. GENERAL NOTES**

### **1. Background**

Meritum Bank ICB S.A. (hereinafter 'the Bank') commenced its operations in 1990 under the name of Bank Współpracy Europejskiej S.A. Constitutive Act of the Bank was drawn in the form of a Notarial Deed in the State Notary Office in Warsaw on 20 February 1990 and registered in the Rep. No. A-III-4231/90. The Bank changed its name to Meritum Bank ICB S.A. on 20 January 2009. The Bank's registered office is located in Gdańsk at Chłopska 53 Street.

The Bank was entered into the Register of Entrepreneurs of the National Court Register under no. KRS 0000005245 on 12 April 2001.

The Bank was assigned with tax identification number (NIP) 526-030-02-10 on 8 June 1993 and statistical number (REGON) 002005177 on 27 December 2005.

Details of transactions with related 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 10 and 33 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2013.

Financial statements of the Bank have been prepared for the year ended 31 December 2013 ('reporting period').

The principal activities of the Bank are as follows:

- acceptance of a-vista and term deposits and keeping deposit accounts,
- keeping other accounts,
- loans granting,
- issuance and confirmation of bank guarantees and letters of credit,
- issuance of bank securities,
- conducting bank settlements,
- granting cash loans and consumer credits,
- cheque and bill of exchange operations and operations with the use of warrants,
- issuance of payment cards and performing operations with their use,
- forward financial operations/ transactions,
- factoring,
- objects and securities safekeeping and offering safe boxes to clients,
- purchase and sale of foreign currencies,
- intermediary services in cash transfers and trading in foreign currencies,
- issuance and confirmation of suretyships,
- performance of commissioned activities relating to issuance of securities,
- incurring liabilities related to issuance of securities, providing guarantees for liabilities arising from issued securities,
- taking up and purchase of shares and rights attached to shares, shares of other legal person or participation units in investment funds,
- trading in securities including bank securities,
- exchanging debtor payables for his/her assets on the terms agreed with the debtor accordance with the Bank's Law,

- purchase and sale of real estate,
- providing advisory - consultancy financial services,
- conducting brokerage activities,
- rendering factoring services,
- conducting acquisition activities within the meaning of regulations concerning organization and functioning of open-end pension funds,
- intermediary services in trading in participation units of investment funds within the meaning of regulations concerning organization and functioning of open-end pension funds,
- rendering insurance intermediary services,
- finance lease services,
- financial intermediation in concluding leases.

As at 31 December 2013, the Bank's issued share capital amounted to 359,341.6 thousand zlotys. Equity as at that date amounted to 212,549.6 thousand zlotys.

In accordance with the Bank's Share Register as at 31 December 2013, the ownership structure of the Bank's issued share capital was as follows:

No.	Shareholder	Equity (in zlotys)	No. of shares	Share in vote rights (in %)	Share nominal value	Share in equity (in %)
1.	INNOVA FINANCIAL HOLDING S.a.r.l.	179,034,270	5,967,809	46.85%	30	49.82%
2.	WCP Cooperatief U.A.	86,530,380	2,884,346	24.05%	30	24.08%
3.	The European Bank for Reconstruction and Development	85,917,690	2,863,923	23.88%	30	23.91%
4.	Others	7,859,220	261,974	5.21%	30	2.19%
<b>Total</b>		<b>359,341,560</b>	<b>11,978,052</b>	<b>100.0%</b>		<b>100.0%</b>

There were no movements in the share capital in the reporting period.

The following changes took place in the ownership structure of the Bank's issued share capital during the period from the balance sheet date to the date of the report:

- on 9 January 2014 The European Bank for Reconstruction and Development increased Bank's capital by 2,455,260 zlotys, which represented 81,842 shares,
- on 9 January 2014 INNOVA FINANCIAL HOLDING S.a.r.l. increased Bank's capital by 5,093,700 zlotys, which represented 169,790 shares,
- on 9 January 2014 WCP Cooperatief U.A. increased Bank's capital by 2,461,860 zlotys, which represented 82,062 shares,
- on 26 March 2014 INNOVA FINANCIAL HOLDING S.a.r.l. increased Bank's capital by 5,093,700 zlotys, which represented 169,790 shares,
- on 26 March 2014 The European Bank for Reconstruction and Development increased Bank's capital by 2,455,230 zlotys, which represented 81,841 shares.

As at 31 March 2014, the Bank's Management Board was composed of:

Bartosz Chyła	- acting President
Joanna Krzyżanowska	- First Vice-President
Piotr Urbańczyk	- Vice-President
Agnieszka Porębska-Burczyn	- Member

During the reporting period and the period from the balance sheet date to the date of the opinion, the following changes took place in the Bank's Management Board:

- on 16 August 2013 Mr. Piotr Gawron resigned from the Management Board, with effect from 19 August 2013,
- on 9 September 2013 the Supervisory Board adopted a resolution on delegation of Mrs. Magdalena Magnuszewska, the Member of the Supervisory Board to temporarily perform the duties of the Member of the Management Board for the period from 10 September 2013 to 30 September 2013,
- on 1 October 2013 the Supervisory Board adopted a resolution to change the position held by Mr. Piotr Urbańczyk in the Management Board of Meritum Bank ICB S.A. from the President to the Vice-President of the Management Board, with effect from 1 October 2013,
- on 1 October 2013 the Supervisory Board appointed Mr. Bartosz Chyła for the Member of the Management Board of Meritum Bank ICB S.A. The Supervisory Board appointed Mr. Bartosz Chyła to temporarily perform the duties of the President of the Management Board of Meritum Bank ICB S.A. during the period from 1 October 2013 until the date of approval by Polish Financial Supervision Authority of his appointment to the position of the President of the Management Board,
- on 5 December 2013 the Supervisory Board appointed Mrs. Agnieszka Porębska-Burczyn for the Member of the Management Board of Meritum Bank ICB S.A.

## **2. Financial Statements**

### **2.1 Auditors' opinion and audit of financial statements**

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) 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. (formerly: Ernst & Young Audit sp. z o.o.) was appointed by Extraordinary General Meeting of Shareholders on 19 June 2013 to audit the Bank's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) 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 4 November 2013 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2013.

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 with emphasis of matter paragraph dated 31 March 2014, stating the following:

**“To the General Shareholders' Meeting**

1. We have audited the attached financial statements for the year ended 31 December 2013 of Meritum Bank ICB S.A. ('the Bank') located in Gdańsk, 53 Chłopska street containing the introduction to the financial statements, the balance sheet as at 31 December 2013, the profit and loss account, the statement of changes in equity, the cash flow statement for the period from 1 January 2013 to 31 December 2013 and the additional 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 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

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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*'

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 2013 to 31 December 2013, as well as its financial position<sup>3</sup> as at 31 December 2013;
  - have been prepared in accordance with the required applicable accounting policies of the Accounting Act and regulations issued based on that Act 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. Without qualifying our opinion, we draw attention to the following issues:

As described in note 1.4 of the introduction to the attached financial statements, the Bank's Management Board is executing a recovery program approved by the Polish Financial Supervision Authority ("PFSA") on 28 December 2010. The Bank's Management Board was requested by PFSA to update the recovery program. As at the date of this opinion updated recovery program for 2014 has not been approved by the PFSA.

6. We have read the Directors' Report for the period from 1 January 2013 to 31 December 2013 and the rules of preparation of annual financial 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 on current and periodic information."

We conducted the audit of the Bank's financial statements during the period from 4 November 2013 to 22 November 2013 and from 17 February 2014 to 31 March 2014. We were present at the Bank's head office from 4 November 2013 to 22 November 2013 and from 17 February 2014 to 28 February 2014.

## **2.2 Representations provided and data availability**

The Management Board confirmed its responsibility for the truth and fairness<sup>4</sup> of the audited 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 31 March 2014, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and

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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"

- 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 2012 were audited by Dominik Januszewski, key certified auditor no. 9707, acting on behalf of Ernst & Young Audit sp. z o.o, with registered office in Warsaw, Rondo ONZ 1, under registration no. 130. The key certified auditor issued an unqualified opinion on these financial statements.

The Bank's financial statements for the year ended 31 December 2012 were approved by the Shareholders' Meeting on 26 April 2013, and the shareholders passed a resolution that the net profit for the year 2012 in the amount of 6 251 711.50 zlotys would be transferred to cover losses from previous periods.

The financial statements for the financial year ended 31 December 2012, together with the auditors' report, a copy of the resolution approving the financial statements, a copy of the resolution on the loss covering and the Directors' Report, were filed on 9 May 2013 with the National Court Register.

The closing balances as at 31 December 2012, after restatement of comparative data described in Note 2.16 of the introduction to the audited financial statements of the Bank were correctly brought forward in the accounts as the opening balances at 1 January 2013.

## **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 2012–2013. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2013. The financial statements for 2012 were restated to the comparative data, as described in Note 2.16 of introduction to the audited financial statements.

	<b>2013</b>	<b>2012</b>
<b>Total assets</b>	2,954,161.7	2,204,305.0
<b>Shareholders' equity</b>	212,549.6	201,991.2
<b>Net profit/ loss</b>	11,678.2	1,819.1
<b>Gross profit / loss</b>	13,874.5	-3,684.3
<b>Solvency ratio according to National Bank of Poland</b>	13.59%	13.83%

<b>Profitability ratio (%)</b>	12.6%	(3.5%)
Profit before tax		
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Total costs (operating cost of the Bank + amortization and depreciation)		
<b>Cost to income ratio (%)</b>	41.3%	56.7%
Total costs (operating cost of the Bank + amortization and depreciation)		
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Result on banking activity		
<b>Return on equity (%)</b>	5.6%	1.1%
Net profit		
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Average balance of Shareholders' equity		
<b>Return on assets (%)</b>	0.5%	0.1%
Net profit		
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Average balance of total assets		
<b>Rate of inflation:</b>		
Yearly average	0.9%	3.7%
December to December	0.7%	2.4%

### 3.2 Comments

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

- Profitability ratio increased from (3.5%) in 2012 to the level of 12.6% in 2013;
- Cost to income ratio decreased from 56.7% in 2012 to the level of 41.3% in 2013;
- Return on equity increased from 1.1% in 2012 to 5.6% in 2013;
- Return on assets increased from 0.1% in 2012 to 0.5% in 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 2013 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note 1.4 of the introduction to the audited financial statements for the year ended 31 December 2013, the Management Board stated that the financial statements had been 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 2013 and that there are no circumstances that would indicate a threat to its continued activity.

Management Board has also stated that the balance sheet as at 31 December 2013 presented net loss exceeding the sum of the supplementary and reserve and one third of the share capital. On 17 February 2014 the Shareholder's Meeting passed a resolution relating to continued Bank's operation.

As described in note 1.4 of the introduction to the attached financial statements, the Bank's Management Board is executing a recovery program approved by the Polish Financial Supervision Authority ("PFSA") on 28 December 2010. The Bank's Management Board was requested by PFSA to update the recovery program. As at the date of this opinion updated recovery program for 2014 has not been approved by the PFSA

### **3.4 Application of regulation mitigating banking risk**

As at 31 December 2013, the regulations of the Banking Law, the Resolutions of the Management Board of the NBP and Resolution of the Polish Financial Supervision Committee ('KNF') envisaged banking regulatory norms in relation to following items:

- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and suretyships to risk categories. recognition of provisions related to banking operations,
- liquidity measures
- level of obligatory reserve,
- capital adequacy

During the audit we have not identified any facts indicating that during the period 1 January 2013 until the date of this report the Bank did not comply with the above regulations except for matters described in Note 48 of the complementary information to the financial statements, in which the Bank has pointed out that at the end of February 2014 the Tier 1 capital ratio was at a level lower than the 9% level required by the PFSA. We have received a written statement of the Bank's Management Board that during the financial year and until the date of this report other banking regulatory norms were not breached.

### **3.5 Correctness of calculation of solvency ratio**

During our audit we found no significant irregularities in determining the capital adequacy ratio as at 31 December 2013 in accordance with Resolution No. 76/2010 of PFSA dated 10 March 2010 on the scope and detailed rules for determining capital requirements against particular risks (PFSA Journal of Laws 2010.2.11, dated 9 April 2010, with subsequent amendments).

## **II. DETAILED REPORT**

### **1. Accounting System**

The Bank's accounts are kept using the DEF3000 computer system at the Bank's head office. In all relevant 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 2013.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2013.

### **3. Notes to the Financial Statements**

The introduction to the financial statements and the additional notes and explanations to the financial statements for the year ended 31 December 2013 (jointly 'notes to the financial statements') were prepared, in all material respects, in accordance with the requirements of the Accounting Act and regulations issued based on that Act.

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

We have read the Directors' report on the Bank's activities in the period from 1 January 2013 to 31 December 2013 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 No. 33, item 259 with subsequent amendments).

**5. Observations or control results**

As described in note 1.4 of the introduction to the attached financial statements, the Bank's Management Board is executing a recovery program approved by the Polish Financial Supervision Authority ("PFSA") on 28 December 2010. The Bank's Management Board was requested by PFSA to update the recovery program. As at the date of this opinion updated recovery program for 2014 has not been approved by the PFSA.

**6. Materiality**

While determining the materiality (level) of indicators of significance, we used professional judgment, taking into account the specific characteristics associated with the Bank. This determination included consideration of both qualitative and value aspects.

**7. 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.

on behalf of  
Ernst & Young Audyty Polska spółka  
z ograniczoną odpowiedzialnością sp. k.  
(formerly: Ernst & Young Audit sp. z o.o.)  
Rondo ONZ 1, 00-124 Warsaw  
Reg. No 130

Key Certified Auditor

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Jolanta Alvarado Rodriguez  
Certified Auditor  
No. 11299

Warsaw, 31 March 2014