

Organisation of the internal control system at mBank Hipoteczny S.A.

One of the elements of the Bank management system is the internal control system supporting the organisation in effective and efficient operation of business processes. It covers all organisational units of the Bank, specifying the rules of cooperation between them, flow of information and monitoring of activities within the Bank. The rules and objectives of the internal control system result from the Banking Law, the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system and the remuneration policy at banks, as well as Recommendation H of the Polish Financial Supervision Authority, concerning the internal control system in banks.

The objective of the internal control system is to ensure:

- 1) efficiency and effectiveness of the Bank's operations;
- 2) reliability of financial statements;
- 3) compliance with the principles of risk management at the Bank;
- 4) compliance of the Bank's operations with the law, internal regulations and market standards.

I. Roles of the Bank's bodies

- 1) The Supervisory Board:
 - a) supervises the implementation and assurance of operation of an adequate and effective internal control system at the Bank,
 - b) approves the principles for the assessment of adequacy and effectiveness of the internal control system,
 - c) performs the annual assessment of the adequacy and effectiveness of the internal control system,
 - d) approves the rules for categorisation of irregularities detected by the internal control system,
 - e) approves the proposals of the Management Board of the Bank concerning the basic organisational structure of the Bank,
 - f) assesses the effectiveness of compliance risk management at the Bank,
 - g) approves the Compliance Policy at mBank Hipoteczny S.A., the Compliance Department Rules of Procedure and the Audit Charter of mBank Hipoteczny S.A.
- 2) The Audit Committee of the Supervisory Board:
 - a) monitors the adequacy and effectiveness of the internal control system based on information and reports received, in particular from the statutory auditor, the Compliance Department and the Internal Audit Function,
 - b) issues opinions on the adequacy and effectiveness of the internal control system for the purposes of assessment of this system by the Supervisory Board.
- 3) The Management Board of the Bank:

- a) projects, implements and ensures operation of an adequate and effective internal control system within three lines of defence in all organisational units of the Bank and independent positions,
- b) ensures operation of a uniform internal control system at the Bank,
- c) ensures continuity of operation of the internal control system, including proper cooperation of all employees of the Bank within the control function, as well as cooperation with the Compliance Department and the Internal Audit Function, and provides the employees of these units with access to necessary source documents, including those containing legally protected information in connection with the performance of their official duties,
- d) determines the principles for the assessment of adequacy and effectiveness of the internal control system,
- e) determines the types of actions taken to remove irregularities detected by the internal control system, including remedies and disciplinary measures,
- f) informs the Supervisory Board, at least once a year, of the fulfilment of the tasks referred to in points (a) to (e),
- g) approves the criteria for isolating material processes and a list of material processes isolated by the Bank and their relation to the general and detailed internal control system objectives, and ensures a regular review of all processes functioning at the Bank in terms of their materiality,
- h) approves the rules for categorisation of irregularities detected by the internal control system,
- i) establishes the principles of design, approval and implementation of controls in all processes functioning at the Bank, including the role of the Bank's organisational units and independent positions responsible for the development of control designs, their approval and implementation, as well as for ensuring adequacy and effectiveness of controls in the processes functioning at the Bank,
- j) establishes the principles of independent monitoring of compliance with the controls, covering ongoing verification and testing,
- k) ensures the functioning of the control function matrix at the Bank and assignment of tasks related to ensuring its functioning,
- l) establishes the principles of reporting on the effectiveness of key controls and about the results of their vertical testing,
- m) is responsible for effective compliance risk management,
- n) accepts the Compliance Policy at mBank Hipoteczny S.A., the Compliance Department Rules of Procedure and the Audit Charter of mBank Hipoteczny S.A. and ensures their observance,
- o) ensures independent placement of the Compliance Department and the Internal Audit Function within the organisational structure of the Bank, formally determines the powers and responsibilities of the employees of the Compliance Department and the Internal Audit Function, as well as independence and appropriate status of the Director of the Compliance Department, Expert for the Internal Audit as well as employees of the Compliance Department and the Internal Audit Function.

II. Organisation of the internal control system

The internal control system is organised at the Bank at three independent lines of defence, where:

- 1) the first line of defence comprises risk management in operating activities of the Bank, performed by organisational units of the Bank,
- 2) the second line of defence comprises:
 - a) risk management by designated organisational units of the Bank, irrespectively of risk management at the first line of defence,
 - b) the operations of the security unit performed by the IT and Security Department,
 - c) the operations of the compliance unit performed by the Compliance Department,
- 3) the third line of defence comprises the operations of the internal audit unit performed by the Internal Audit Function, which provides an independent assessment of the adequacy and effectiveness of the risk management system and the internal control system at the first and second lines of defence.

Employees of the Bank at all three lines of defence shall, in connection with the performance of official duties, accordingly apply the controls or independently monitor compliance with the controls.

III. The control function

The control function is an element of the internal control system, which comprises all controls in the processes applicable at the Bank, independent monitoring of compliance with these controls and reporting in this respect. It includes, in particular, positions, groups of employees or organisational units responsible for carrying out the tasks assigned to this function.

IV. Placement, scope of tasks, independence of the Compliance Department and the Internal Audit Function

In the organisational structure of the Bank, the Compliance Department and Internal Audit Function report directly to the President of the Management Board of the Bank.

a. The Compliance Department

Assuring compliance of the Bank's internal regulations with the law (domestic and international) and with the market standards adopted by the Bank, as well as the observance of internal regulations by the Bank's employees ensures that the general goal, referred to in Article 9c(1)(4) of the Banking Law, is achieved and offsets the compliance risk and minimises the possibility of occurrence or eliminates the following risks:

- 1) legal risk, resulting from non-compliance with the provisions of law,
- 2) the risk resulting from discrepancies with respect to the interpretation of the provisions of law,
- 3) reputational risk, relating to non-compliance with the provisions of law,

- 4) the risk of sanctions and financial losses resulting from materialisation of the risks referred to in (1)-(3) above.

Compliance is ensured by the control function at three lines of defence with the participation of all employees of the Bank, in accordance with their scope of duties and their powers, application and independent monitoring of controls, including in particular the application and independent monitoring of key controls aimed at ensuring compliance of the bank's operations with the laws, internal regulations and market standards.

Tasks of the Compliance Department:

- 1) identification, assessment, controlling, monitoring and reporting on compliance risk regarding the law, internal regulations and standards of procedure adopted by the Bank,
- 2) development and implementation of compliance guidelines, rules and operation standards in the Bank, including standards in force in the mBank S.A. Group,
- 3) supervision over tasks carried out by the Bank's organisational units in the area of compliance,
- 4) consultancy and substantive guidance in substantive areas, in compliance with the conflict of interest avoidance principle in performance of control and consultancy activities,
- 5) maintaining contacts, to the extent regulated in laws and resulting from activities of the Compliance Department, with the Polish Financial Supervision Authority, the General Inspector of Financial Information, courts, prosecutors and other authorised entities,
- 6) management or coordination and supervision of investigation procedures held in the Bank where a criminal offence is suspected and notifying law enforcement bodies of identified criminal offences against the Bank,
- 7) conducting and monitoring compliance training organised for the Bank's employees, accordingly constituting compliance risk controls and compliance risk monitoring within compliance risk management.

b. The Internal Audit Function

Internal audit shall be understood at the Bank as independent, objectively assuring and advisory activities, which aim to provide value and streamline the Bank's operations.

Internal audit shall support the Bank in achieving its objectives through a systematic and disciplined approach to auditing, assessing and improving the effectiveness of risk management, internal control and corporate governance processes.

Tasks of the Internal Audit Function:

- 1) assessment of the adequacy and effectiveness of the risk management system,
- 2) assessment of the adequacy and effectiveness of the internal control system,
- 3) performance of scheduled and ad hoc audit tasks with regard to the selected audit objects,
- 4) issuing audit recommendations and monitoring and reporting on the status of their implementation,
- 5) advising on the risk management and internal control systems,
- 6) maintaining contacts with the Polish Financial Supervision Authority on behalf of the Bank within the scope of substantive competence of the Function,

- 7) cooperation with the statutory auditor to the extent resulting from the substantive competence of the function and coordinating activities associated with implementing the recommendations issued as a result of an audit of the Bank's financial statements, as well as delivering reports in this respect,
- 8) cooperation with the internal audit unit of the parent company within the scope resulting from the substantive competence of the function and the necessity to meet the requirements set forth in the regulations on consolidated supervision, as well as from the need to carry out joint audits in order to provide expert support with respect to the conducted audits,
- 9) coordinating works related to audits carried out by external inspection authorities.

c. Independence of the Compliance Department and Internal Audit Function

Independence of the Compliance Department and Internal Audit Function is ensured, among other things, through:

- 1) reporting to the Management Board of the Bank, the Audit Committee and the Supervisory Board,
- 2) the possibility of direct communication of Expert for the Internal Audit and Director of the Compliance Department with members of the Management Board of the Bank, the Audit Committee and the Supervisory Board,
- 3) participation of Expert for the Internal Audit and Director of the Compliance Department in meetings of the Management Board of the Bank, as well as in meetings of the Audit Committee if the subject of the meeting involves matters related to the internal control system, including assurance of compliance, internal audit or risk management,
- 4) required consent of the Supervisory Board to appoint Expert for the Internal Audit and the Director of the Compliance Department, and in the case of dismissal — after persons have been heard by the Supervisory Board,
- 5) isolation of Internal Audit Function and Compliance Department from other organisational units, functions and positions at the Bank and employees of the Internal Audit Function and the Compliance Department not performing obligations other than those resulting from their tasks,
- 6) approval by the Management Board of the Bank and the Supervisory Board of the Audit Charter specifying the principles of operation of internal audit at mBank Hipoteczny S.A. and the Compliance Department Rules of Procedure,
- 7) rules for hiring employees of the Internal Audit Function and the Compliance Department ensuring independent and objective fulfilment of their tasks and an appropriate level of their qualifications, experience and skills.

V. Rules of the annual assessment of adequacy and effectiveness of the internal control system

Assessment of the adequacy and effectiveness of the Bank's internal control system includes the assessment of the adequacy and effectiveness of the control function, compliance and internal audit. Such an assessment is performed by the Supervisory Board upon prior approval by the Management Board of the Bank and obtaining the opinion of the Audit Committee.

Assessment of the adequacy and effectiveness of the internal control system is performed based on:

- 1) the annual report of the Internal Audit Function, including the assessment of the adequacy and effectiveness of the internal control system and the risk management system,
- 2) the annual report of the Analyses and Risk Management Department on the results of self-assessment and quarterly reporting on critical and significant irregularities,
- 3) the annual report of the Compliance Department on compliance risk management at the Bank,
- 4) information of the Management Board of the Bank on the performance of tasks assigned to this body within the internal control system,
- 5) information important for the adequacy and effectiveness of the internal control system obtained from the parent entity,
- 6) findings made by the statutory auditor,
- 7) the annual assessment of the Supervisory Review and Evaluation Process (SREP) carried out by Polish Financial Supervision Authority,
- 8) findings resulting from the activities of control bodies,
- 9) assessments and opinions of entities from outside the Bank, which are important for the adequacy and effectiveness of the internal control system.