



## **Management Board Report on Performance of mBank S.A. Group in 2019**

(including Management Board Report on Performance  
of mBank S.A.)

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**mBank Group in 2019**

Universal financial services			
			
<b>Our clients</b>	<b>Our employees</b>	<b>Mobile application</b>	<b>Transactions</b>
<b>5,604,000</b> retail clients <b>26,500</b> corporate clients	<b>6,771</b> FTE in mBank Group	<b>1.9</b> million users	Over <b>1.0</b> million of our clients use <b>BLIK</b>
Mobile banking at its best			
<b>Mobile channel</b>	<b>Clients logging in to the account via mobile devices</b>	<b>mElements</b>	<b>Leaselink</b>
Over <b>40%</b> of travel insurance policies and <b>12.5%</b> of cash loans sold via mobile app	an average of <b>31</b> logins a month <b>74%</b> of active clients uses the mobile application	Development of credit <b>API</b> for e-commerce and a role of <b>Third Party Provider</b>	Leasing payment service for e-commerce
Key results and indicators			
<b>Revenues</b>	<b>Cost to income ratio</b>	<b>Total assets growth</b>	<b>ROE net</b>
PLN <b>5,524</b> million	<b>42.2%</b>	<b>+8.9%</b> year on year	<b>6.6%</b>
Basic facts for investors			
<b>Capitalisation</b>	<b>Share price</b>	<b>Member of the WSE indices, including:</b>	<b>mBank ratings</b>
PLN <b>16.5</b> billion (EUR 3.9 billion)	<b>PLN 389.4</b>		<b>Fitch:</b> BBB- <b>Standard &amp; Poor's:</b> BBB <b>Sustainalytics:</b> low risk

**A comprehensive offer in three main business segments**

**Retail Banking**

Retail operations in Poland, the Czech Republic and Slovakia. Service for individual clients and microenterprises, constantly improved with new solutions.



Gross profit:  
**PLN 804.2 M**

Number of clients: **5.6 M**



Number of branches: **180<sup>1</sup>**



Increase in loans  
(excluding FX effect): **13.4%**

Increase in deposits: **17.8%**

<sup>1</sup>Including 143 branches in Poland and 37 in Foreign Branches, without mKiosks and mFinanse outlets.

**Corporate and Investment Banking**

Supporting the development of SMEs and corporates based on the bank's many years of experience in providing services to enterprises.



Gross profit:  
**PLN 629.1 M**

Number of clients: **26,500**



Number of branches: **46**



Increase in loans  
(excluding FX effect): **8.3%**

Increase in deposits: **9.6%<sup>2</sup>**

<sup>2</sup>Excluding repo/sell-buy-back transactions.

**Financial Markets**

Services on behalf of clients and mBank, including sales of financial products, liquidity management, mBank balance sheet management, interest rate risk and custody services.



Gross profit:  
**PLN 151.8 M**



IRS / FRA market share: **15.1%**

Market share of  
Treasury bills and bonds: **11.3%**

Mid-term bank debt market share: **23.8%**

Market shares as of the end of November 2019

**Key additional services provided by the mBank Group companies**

**mLeasing**



Financial and operating leasing of cars, trucks, machines and real estate.

**mFaktoring**



Domestic and export factoring with and without recourse, as well as import guarantees.

**mFinanse**



An open platform for the sale of financial services: loans, accounts, insurance, investment and savings products.

**mBank Hipoteczny**



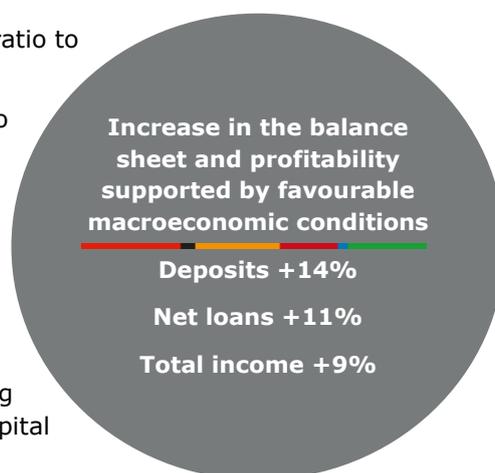
Covered bonds issue and commercial real estate market analysis

## Executive summary

In 2019, the Polish economy saw numerous phenomena that contributed to development of the banking sector and stimulated lending. However, the economic indicators were in a downward trend. Private consumption and investments were the two main drivers of the economy. At the same time, the banking sector continued to operate in a low interest rate environment – the NBP reference rate has not been changed since 2015. Heavy burdens imposed on the banking sector, such as the tax on certain financial institutions (so called “banking tax”) and the contribution to the Bank Guarantee Fund (BFG), which cannot be recognised as tax deductible expenses, new regulations (e.g. MIFID 2), and unfavourable conditions on the capital market hampered growth in net profit. Provisions for legal risk associated with FX mortgage loans also affected the results of some banks (including mBank). In addition, high capital buffers and curbs on dividend payment did not help banks reach high profitability ratios.

Thanks to its unique business model and consistently implemented strategy, mBank Group developed dynamically in 2019. **Total income hit record high and totalled more than PLN 5.5 billion.** Net profit stood at PLN 1,010.4 million. The key events of 2019 include:

- Increase in total income by 9% (14% net of profit from a one-off transaction concluded in 2018), including a rise in net interest income by 14%;
- Increase in net interest margin by 11 bps to 2.7%, attributable to a change in the structure of assets;
- Improvement in efficiency measured by the cost-to-income ratio to 42.2%;
- Increase in gross loans by 11%, including a rise in loans to retail clients by 14% and in loans to corporate clients by 8%;
- Dynamic inflow of funds into current and savings accounts of retail clients (+20%);
- Dynamic increase in mortgage loan sales by 77%; record-high sales of non-mortgage loans (PLN 10.3 billion, i.e. +15%);
- High quality of capital base – capital ratios surpassing regulatory requirements: Tier 1 ratio at 16.5%, Total Capital Ratio at 19.5%;
- Strengthening of mBank’s position as a mobile and transactional bank – the largest share of mobile app users in the client base on the market;
- Adoption of the new mBank Group Strategy for 2020-2023 – “Growth fuelled by our clients”.
- Innovations and products enhancing customer experience:
  - New online banking homepage allowing clients to adjust the displayed information to their needs;
  - Lease solutions for SME clients thanks to the acquisition of LeaseLink;
  - Online factoring services for sole proprietors;
- Initiatives of general interest, in particular environmental initiatives:
  - restricted funding for coal power industry and coal mines;
  - increased funding for renewable energy projects to PLN 1 billion.



## 1. About mBank Group

### 1.1. Business model and history of mBank Group

mBank Group conducts business based on the universal banking model, specialising in servicing all client groups. It offers retail, corporate and investment banking as well as other financial services such as leasing, factoring, financing of commercial real property, brokerage operations, wealth management, corporate finance and advisory in the scope of capital markets. Services provided under mBank logo are marked with different colours, depending on the target group of the offer.



Personal Banking



Premium Banking



Private Banking



Business



SME and corporates

The bank was established in 1986 as **Bank Rozwoju Eksportu (BRE Bank)**, initially focusing on corporate clients. We have been operating in the segment of individual clients since 2000, i.e. from the moment of launching mBank, fully online bank. **In 2018 we celebrated our 18th birthday.** In 2001, we established MultiBank, which complemented the bank's business model with servicing clients in the outlet network in the largest Polish cities. Since the very beginning, mBank has relied on organic growth, which means that the current scale of its business has been achieved without takeovers of other banks and financial institutions. mBank is the only bank in Poland with successful track record of rolling out its online retail banking model into foreign markets. Since 2007, we have been operating in the Czech Republic and Slovakia. In 2013, we unified our brand under mBank name, which is the most powerful of our brands.

<b>1986</b>	<b>Establishment of Bank Rozwoju Eksportu as a joint-stock company</b>
<b>1992</b>	<b>Listing of BRE Bank on the Warsaw Stock Exchange</b>
<b>1994</b>	<b>Signing of a strategic partnership agreement with Commerzbank AG</b>
<b>1998</b>	<b>Acquisition and merger with Polski Bank Rozwoju SA</b>
<b>2000</b>	<b>Establishment of mBank – the first internet-only bank in Poland – completed in just one hundred days</b>
<b>2001</b>	<b>Launch of Multibank, the second retail arm of BRE Bank, targeting affluent customers</b>
<b>2007</b>	<b>Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia</b>
<b>2013</b>	<b>Rebranding – Replacing of three existing brands by one: mBank New mBank transactional platform is launched</b>
<b>2016</b>	<b>„mobile Bank” Strategy for 2016-2020 is announced</b>
<b>2017</b>	<b>Start of mAccelerator - fund aimed at the development and commercialisation of technology for financial institutions</b>
<b>2018</b>	<b>Strategic partnership with WOŚP, launch of e-commerce services via mElements</b>
<b>2019</b>	<b>New strategy for 2020-2023 Announcement of the intention to sell mBank's shares by Commerzbank</b>

In 2019, we continued to focus the offer of mBank Group on digital DNA, which underlies our internal processes, tools and services for clients. We have been effectively implementing the strategy aimed at creating a modern and innovative transactional bank, which offers an integrated range of products and services both for individual and corporate clients. Enhancing our offer for SME clients, in 2019 we acquired LeaseLink to provide leasing as a payment method for e-commerce. For more information regarding the subsidiaries, please refer to chapter 1.2. Composition of mBank Group.

mBank Group’s activities are based on the **model of values** focused on the benefit of customers, shareholders, employees and other stakeholders. We identify their real needs and implement appropriate solutions in order to meet the existing and future requirements.

<b>Client empathy</b>	<b>Looking to the future</b>	<b>Simplifying</b>	<b>Engagement</b>	<b>Professionalism</b>
Cooperating and understanding customers’ needs	Openness to change and innovation	Simple solutions and clear communication	Motivation and focus on results	Knowledge, competencies and skills



mBank’s widely recognised operational excellence is based on the state-of-the-art user interface for online banking, next-generation mobile application, video banking, as well as real-time, event-driven customer relationship management (CRM) based on client behaviour patterns. The whole product offer is centred around the current account with a broad spectrum of financial services accessible in just “one click”, as the strategic aim of mBank is to be the most convenient transactional bank on the market. Our internet platform available to clients is modern, convenient, easy-to-access and user-friendly. We have also been systematically expanding our mobile application to provide customers with the possibility of managing their finances wherever they are.

Giving priority to users’ comfort, mBank regularly improves its offer and thus remains at the forefront of institutions introducing new solutions, such as **BLIK**, **Google Pay** and **Apple Pay** payments. mBank has been accompanying its customers in their everyday lives for 19 years now, providing a wide range of additional services based on online or mobile banking. These involve, among others, the possibility to create a free-of-charge **trusted profile** in mBank’s transactional platform in order to handle administrative matters online in the public administration services, and the possibility to submit an application for the “**Family 500+**” benefit online. Further benefits include additional services, such as **mOkazje** (mDiscounts).



mBank’s offer includes products and services tailored to various customers’ needs, including loans, savings, investment and insurance products as well as other solutions dedicated to enterprises. The comprehensive offer makes it possible to more effectively address specific requirements of particular groups of customers. At the same time, the coherent business model in all of the mentioned areas enables clients’ to easily move between segments, which allows mBank to support their professional and personal development at all stages.

mBank Group aims to build a partnership with corporate customers, which is based on good relations and comprehensive advisory. Drawing on the BRE Bank S.A. experiences and competencies, we know how important it is to take individual approach to a customer and to adequately understand the specifics of their business. We support entrepreneurs from the very beginning of their professional path, enabling them to launch their business with mBank online or in the bank’s branch and offering them a package of kick-off services such as **financing, accounting and currency services or terminals**. Big enterprises and international corporations successfully use the integrated range of commercial banking solutions, with particular focus on the advanced platform of **transactional banking**. This comprehensive product offer is complemented by **investment banking** services, such as equity capital markets (ECM), debt capital markets (DCM) and mergers & acquisitions (M&A) advisory services.



mBank’s distribution concept combines the most technologically advanced solutions, which meet the market challenges and set new trends in the Polish banking sector. Internet and mobile-based tools as well as the extensive network of distribution outlets and call centre build a comprehensive contact platform for mBank’s customers. The IT platform architecture allows the bank to develop and introduce new products, services and sales channels efficiently and with a low operational risk. Thanks to such a flexible infrastructure, mBank is able to effectively manage its business expansion strategy.

## 1.2. Composition of mBank Group

### Composition of mBank Group and main areas of its activity

The subsidiaries of mBank Group offer a complex service for the customers and allow for processes optimisation and achieving various business targets. The structure of mBank Group from the perspective of segments and business areas is presented below:

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	Financial markets
Bank	<ul style="list-style-type: none"> <li>■ Retail customers, Private Banking clients and microenterprises</li> <li>■ Affluent retail customers (Private Banking and Wealth Management)</li> </ul>	<ul style="list-style-type: none"> <li>■ Corporations and non-banking financial institutions (K1)</li> <li>■ Large Companies (K2)</li> <li>■ Small and Medium Enterprises (K3)</li> </ul>	<ul style="list-style-type: none"> <li>■ Banks</li> <li>■ Corporate clients in scope of trading and sales</li> <li>■ Market and Liquidity Risk Management</li> </ul>
Consolidated subsidiaries	<ul style="list-style-type: none"> <li>■ mLeasing Sp. z o.o. – Retail</li> <li>■ Asekum Sp. z o.o.<sup>1</sup> – Retail</li> <li>■ LeaseLink Sp. z o.o.<sup>1</sup> – Retail</li> <li>■ mBank Hipoteczny S.A. - Retail</li> <li>■ mFinanse S.A.</li> </ul>	<ul style="list-style-type: none"> <li>■ mLeasing Sp. z o.o. – Corporate</li> <li>■ Asekum Sp. z o.o.<sup>1</sup> - Corporate</li> <li>■ mBank Hipoteczny S.A. - Corporate</li> <li>■ mFaktoring S.A.</li> <li>■ Garbary Sp. z o.o.</li> <li>■ Tele-Tech Investment Sp. z o.o.</li> </ul>	<ul style="list-style-type: none"> <li>■ mFinance France S.A. (special purpose entity reserved for financing activities of the bank)</li> <li>■ mLeasing Sp. z o.o. – within the scope related to fund raising</li> <li>■ mBank Hipoteczny S.A. – within the scope related to fund raising</li> </ul>
	<p><b>Other subsidiaries</b></p> <ul style="list-style-type: none"> <li>■ BDH Development Sp. z o.o. (real estate management)</li> <li>■ Future Tech FIZ</li> </ul>		

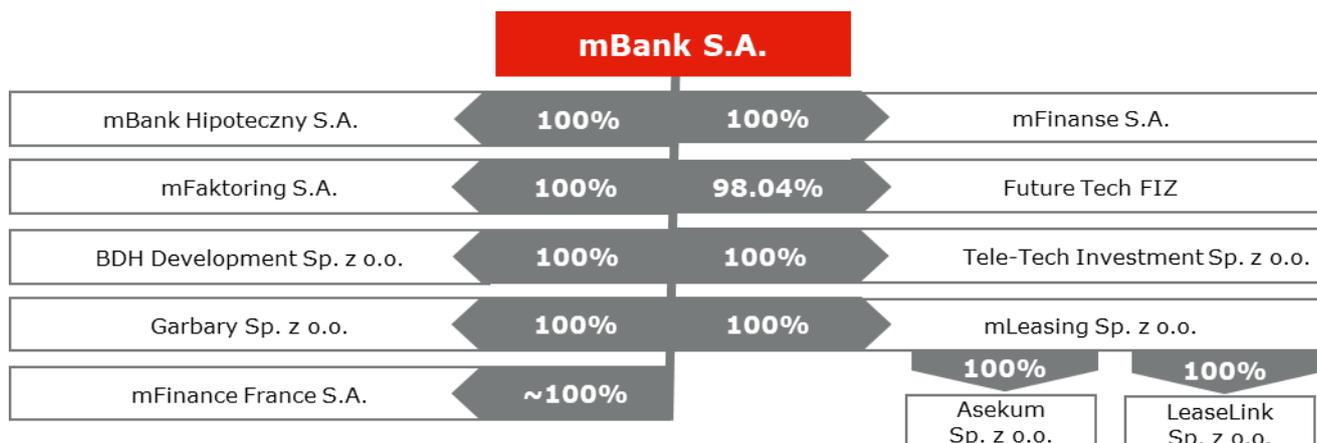
<sup>1</sup>mBank owns 100% shares in Asekum Sp. z o.o. and LeaseLink Sp. z o.o. indirectly, through mLeasing Sp. z o.o.

The key events regarding the structure of mBank Group in 2019 comprise the acquisition of 100% shares in LeaseLink by mLeasing. The transaction, concluded on March 8, 2019, supplements the Group's competences with activities in the fintech sector. LeaseLink specializes in financing the purchases of entrepreneurs made in e-shops and stationary outlets, which strengthens the Group's position in financing small and medium-sized enterprises. Financial result of mLeasing includes the result of LeaseLink Sp. z o.o. owing to its full consolidation.

In December 2019, the liquidation procedure of mCentrum Operacji (mCO) was completed. As a result, the company was removed from the National Court Register (KRS). Liquidation of mCO results from organizational changes which were conducted at mBank Group in 2018. They included the integration of operational activities previously carried out by mCO with the bank, while the processes with the highest automation potential were transferred, as part of the sale transaction of an organized part of the enterprise, to Digital Teammates S.A. (DTM). The majority shareholder of DTM is the Future Tech FIZ fund, established under the mAccelerator project.

On November 7, 2019, as part of mBank Group's plan to withdraw from real estate operations and focus on its key activities in the financial sector, mBank S.A. signed with Archicom Polska S.A. ("Archicom Polska") a preliminary agreement on the sale of shares of BDH Development Sp. z o.o. ("BDH"). The conclusion of the final agreement on the sale of shares will take place after all the conditions precedent have been met in the form of the sale by BDH of shares held in CSK Sp. z o.o. (condition met), registration of the reduction of BDH's share capital related to the redemption of shares by the registry court and the President of the Office of Competition and Consumer Protection's consent to the concentration consisting in the acquisition of control over BDH by Archicom Polska.

mBank Group (including consolidated subsidiaries) as at the end of 2019 was composed as presented on the diagram below.



**Key Subsidiaries of mBank Group from the perspective of client offer**

	<ul style="list-style-type: none"> <li>the longest track record of issuing covered bonds on the Polish capital market</li> <li>ensuring the stable, long-term and safe funding of the Group with the use of pooling model in co-operation with mBank</li> <li>improving stability and diversification of mBank Group funding through raising long-term funding in form of mortgage covered bonds in PLN and FX</li> <li>analysis and advisory services addressed to investors and entities active on the commercial real property market</li> <li>rating of Moody’s Investor Services: Aa3 – the highest possible to obtain rating for the financial instruments issued in Poland</li> </ul>
	<ul style="list-style-type: none"> <li>offer including leasing, loans, car fleet rental and management for both corporate clients and individuals</li> <li>various leasing products in corporate segment, including lease of private and commercial cars, heavy transport vehicles, car fleet management, lease of machines and equipment, real property lease</li> <li>in the retail segment the subsidiary operates the “Leasing in Retail” programme addressed to micro-enterprises and SMEs, which can sign lease contracts using dedicated lease processes</li> <li>leasing as a payment method for e-commerce offered by LeaseLink</li> </ul>
	<ul style="list-style-type: none"> <li>fifth position on the Polish factoring market among the members of the Polish Factors Association – rise by 1 position compared to 2018</li> <li>financing of ongoing business operations, receivables management, credit protection, maintenance of debtors’ settlement accounts and enforcement of receivables; the offer includes also domestic and export factoring with recourse and credit protection, as well as import guarantees</li> <li>mFaktoring’s offer available in all mBank branches providing services to SMEs and corporations in Poland</li> </ul>
	<ul style="list-style-type: none"> <li>intermediary operations as an open platform for selling financial products of various institutions, including mBank</li> <li>the offer includes loans, accounts, insurances for both individuals and companies</li> <li>offer of 13 financial entities in more than 210 outlets across Poland</li> </ul>

## **mBank's Authorities**

### **Supervisory Board of mBank**

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As of December 31, 2019, the Supervisory Board of mBank was composed as follows:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board – resigned as of December 31, 2019
3. Tomasz Bieske - Member of the Supervisory Board
4. Marcus Chromik – Member of the Supervisory Board
5. Mirosław Godlewski - Member of the Supervisory Board
6. Jörg Hessenmüller - Member of the Supervisory Board
7. Gurjinder Singh Johal – Member of the Supervisory Board
8. Michael Mandel - Member of the Supervisory Board
9. Teresa Mokrysz – Member of the Supervisory Board
10. Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board.

There were several important changes in the Supervisory Board in 2019. On September 2, 2019, Janusz Fiszer, Member of the Supervisory Board and the Audit Committee, died. On September 19, 2019, Maciej Leśny, Chairman of the Bank's Supervisory Board, received a letter of resignation from Andre Carls, who decided to resign as member of the Bank's Supervisory Board and member of the Executive and Nomination Committee, Remuneration Committee and Audit Committee of the Bank's Supervisory Board as of September 30, 2019. On December 5, 2019, Chairman of the Bank's Supervisory Board, received a letter of resignation from Stephan Engels, who decided to resign as member of the Bank's Supervisory Board and member of the Executive and Nomination Committee and Remuneration Committee of the Bank's Supervisory Board as of December 31, 2019.

There were three independent members of the Supervisory Board as of December 31, 2019: Tomasz Bieske, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska.

### **Management Board of mBank**

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As of December 31, 2019, the Management Board of mBank was composed as follows:

1. Cezary Stypułkowski - President of the Management Board, Chief Executive Officer
2. Frank Bock - Vice-President of the Management Board, Head of Financial Markets
3. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer
4. Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology
5. Lidia Jabłonowska-Luba - Vice-President of the Management Board, Chief Risk Officer
6. Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking
7. Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking

For more information on changes in the Management Board and Supervisory Board of mBank, see chapter 14. Statement of mBank on application of corporate governance principles in 2019.

Detailed résumés of all members of mBank Supervisory Board and Management Board are available on our website <https://www.mbank.pl/en/about-us/bank-authorities/>.

### 1.3. mBank Group geographical presence

mBank offers its services not only in Poland, but also in the Czech Republic and Slovakia. The leading role of mobile and internet banking provider is supplemented by comprehensive service in the branches. Retail branches network covers 353 various outlets whereas corporate network comprises 46 points of service, additionally supplemented by branches of mBank Group subsidiaries. We continue to expand our branches network in order to maximize comfort of cooperation with the clients. When contacting the consultants in the branches, clients can not only use products and services of mBank Group, but also install and learn to use mobile and internet banking.

#### Retail network:

- 89 mBank branches
- 40 light branches
- 14 advisory centres
- 166 mKiosks
- 44 Financial centres and agency service points of mFinanse

#### Czech Republic

- 11 financial centres and light branches
- 17 mKiosks



#### Corporate branches:

- 30 corporate branches
- 16 corporate offices

#### Slovakia:

- 4 financial centres and light branches
- 5 mKiosks

Depending on their needs, our clients can take advantage of full product offering and cash services in traditional mBank's branches. Comprehensive portfolio of more sophisticated financial products, such as mortgage loans and corporate funding, is available also in financial centres and agency service points of mFinanse. In the advisory centres, both individual and corporate clients are served, who can also use the services of mBank Group's subsidiaries, including Wealth Management. The light branches are dedicated to distribute basic financial products and provide clients with cash services up to defined limits. mKiosks, located in the shopping malls, allow clients to familiarize with mBank's offer, open an account and draw non-mortgage loan.

Bearing in mind comfort of our clients and best availability of our services, in 2019 we opened 32 new points of contact within retail banking network, marking mBank's availability in smaller towns. We are the only big commercial bank in Poland expanding its physical branch network. This decision results mainly from the strategy of organic growth and a remarkable potential that we see in the direct contact with our current and potential clients.

### 1.4. Information for investors



mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992.

As at December 31, 2019, mBank's registered share capital amounted to PLN 169,401,468 and was divided into 42,350,367 shares, including 42,338,367 ordinary bearer shares and 12,000 ordinary registered shares with a nominal value of PLN 4 each. Each share carries one voting right at the Annual General Meeting. In 2019, 13,385 ordinary bearer shares were admitted to trading.

The new shares were issued pursuant to:

- Resolution No. 21 of the 21st Annual General Meeting of the Bank dated March 14, 2008 on issuing bonds with the pre-emptive right to take up shares of mBank S.A., and on conditional increase of the share capital by way of issuing shares with exclusion of the pre-emptive right of the existing

#### mBank shares are included in the following indexes:

- WIG
- WIG-Poland
- WIG20
- WIG30
- WIG20TR
- WIG30TR
- WIG-Banks
- WIG-ESG
- CEEplus

shareholders in order to enable the participants of the incentive programme to take up the mBank S.A. shares, and on applying for admission of the shares to trading on the regulated market, and on dematerialisation of the shares (as amended); and

- Resolution No. 3 of the 16th Extraordinary General Meeting of the Bank dated October 27, 2008 on issuing bonds with the pre-emptive right to take up shares of mBank S.A. and conditional share capital increase by way of issuing shares with exclusion of the pre-emptive right of the existing shareholders in order to enable the participants of the employee incentive programme to take up the bank's shares, and on application for admission of the shares to trading on the regulated market, and on dematerialisation of the shares (as amended).

Information concerning mBank shares	2018	2019
Total number of shares	42,336,982	42,350,367
Nominal value per share (PLN)	4.00	4.00
Registered share capital (PLN)	169,347,928	169,401,468
Share price at closing of the year's last trading session (PLN)	424.20	389.40
P/E ratio	13.8	16.3
P/BV ratio	1.2	1.0
Maximum share price (PLN)	533.50	469.40
Minimum share price (PLN)	374.00	303.20
Company capitalisation at the year-end (PLN billion)	18.0	16.5
Average traded volume (PLN million)	8.1	8.5
Dividend per share (paid out in the year, PLN)	5.15	0

## **mBank shareholders and share price on the WSE**

### **mBank shareholders**

Commerzbank AG has been the strategic shareholder of mBank since 1994. Its stake increased gradually from 21.0% in 1995 to 50.0% in 2000 and 72.2% in 2003. Starting from 2005, Commerzbank's stake has declined due to the implementation of the managerial options programmes at the bank. As at the end of 2019, Commerzbank AG held 69.31% of shares and votes at the General Meeting. The remaining 30.69% of mBank shares in free float are held mainly by financial investors, including Polish pension funds, and Polish and foreign investment funds. Nationale-Nederlanden Otwarty Fundusz Emerytalny holds the largest stake. Periodically, i.e. by 28 January and from 24 September to 16 October 2019, Nationale-Nederlanden OFE held more than 5.0% of shares and votes at the Annual General Meeting of mBank. The third largest shareholder of mBank was AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK.

For more information about mBank's shareholders read the Statement of mBank on Application of Corporate Governance Principles in 2019 in the chapter "Significant blocks of shares".

### **Performance of shares in 2019**

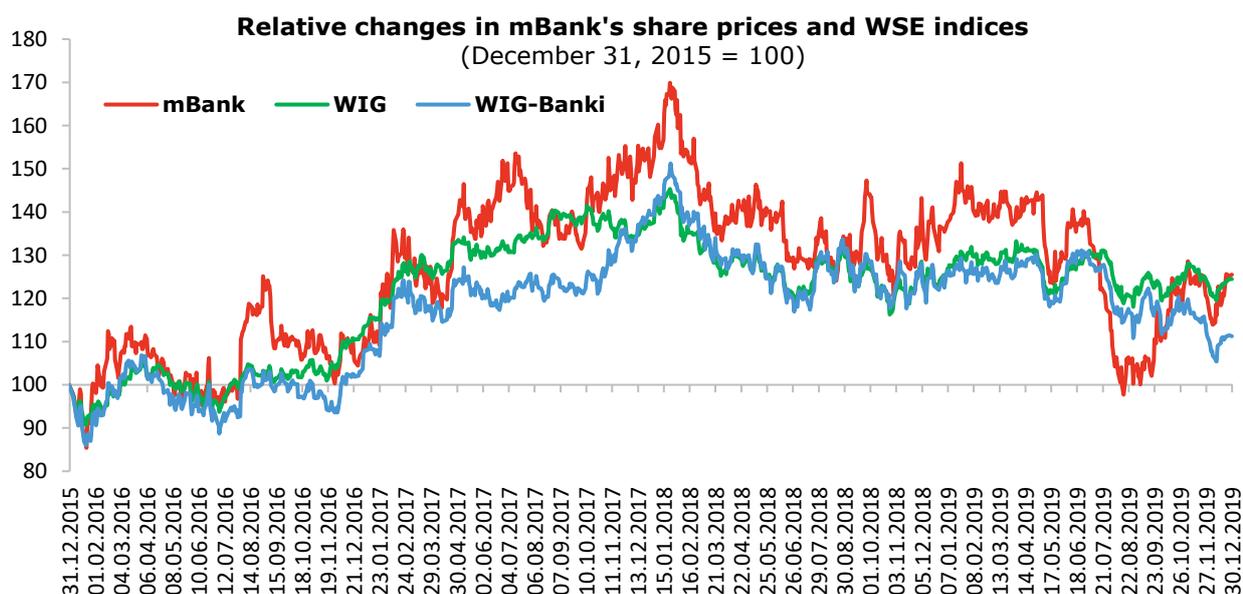
The situation on the WSE is largely affected by the situation on foreign stock markets and by foreign investor sentiment towards the emerging markets basket. In 2019 shares listed in the US were affected, among others, by fears of a bear market after a long growth period and tensions between the US and China in the aftermath of tariffs imposed on Chinese goods by the US administration. In Western Europe, sentiment on stock markets was driven, in particular, by Brexit, economic slowdown, and the European Parliament election. Despite all the risks, most global and European indices rose in 2019. The rates of return on the WSE indices fell behind the developed stock markets and emerging markets from our region.

2019 was a mixed year for the WSE. Compared with 2018, broad-based WIG Index remained practically unchanged (+0.2% year on year). Only a few companies could boast robust rates of return. This was the case mainly for small companies, especially from the IT industry, game producers, and photovoltaic firms. In 2019 there was no strong demand stimulus on the part of foreign investors or domestic institutional investors. Pension funds continued the sell-off of Polish shares. Investors redeemed their shares in investment funds in response to the GetBack case and issues connected with investment funds associated

with the troubled debt collector. Shares of large corporations performed disappointingly. Throughout 2019 WIG-20 Index sank by 5.6%. Only seven companies included in WIG20 generated positive rates of return.

The large supply of shares observed on the WSE resulted from a rebalancing of emerging market indices towards a reduced weighting of Polish assets. This was coupled with fears of bank earnings being pushed down by potentially large provisions for legal risks. Throughout 2019 WIG-Banks Index sank by 9.2%. Only 4 out of 14 companies included in WIG-Banks at the end of 2019 generated positive rates of return.

Fears of a decrease in banks’ financial performance sparked a downgrade from analysts. The key risk factors threatening the banking sector included: uncertainty about the cost of provisions for FX mortgage loans, impact of the CJEU ruling on reimbursement of fees paid by clients who repaid consumer loans ahead of schedule, and the risk of low profitability and capital shortage faced by certain banks. In addition, the sector’s profitability has become more likely to come under pressure from rising contributions to the Bank Guarantee Fund, the expected economic slowdown and its potential adverse effect on risk costs.



**mBank’s share price** at close of trade in 2019 (December 30) stood at PLN 389.40, which represents a decline by 8.2% compared with the last trading day of 2018 (December 28). The strong downward trend observed since late June was driven predominantly by investor concerns about court rulings on CHF-indexed housing loans becoming increasingly favourable to clients. The trend was bucked in mid-August after the price to book value ratio reached a level appealing to investors. In Q4 2019, mBank’s share price outperformed WIG-Banks on news that Commerzbank intends to sell its majority holding in mBank announced on 20 September. Seven out of 11 bank analysts and brokers actively monitoring mBank’s financial performance and issuing recommendations concerning mBank shares advised investors to sell their shares in the company. The remaining four analysts issued “hold” recommendations.

mBank’s capitalisation amounted to PLN 16.5 billion (EUR 3.9 billion) as at the end of 2019 compared with PLN 18.0 billion (EUR 4.2 billion) at the end of 2018. P/BV (price/book value) for mBank Group stood at 1.0 compared with 1.2 at the end of 2018. P/E (price/earnings per share) ratio stood at 16.3 compared with 13.8 in 2018.

mBank share price vs. indices	2015	2016	2017	2018	2019
mBank	-36.9%	+6.8%	+38.7%	-8.8%	-8.2%
WIG-Banks Index	-23.5%	+2.9%	+35.4%	-12.1%	-9.2%
EURO STOXX Banks Index	-4.9%	-8.1%	+10.9%	-33.3%	+11.1%

## **Investor Relations at mBank**

The Investor Relations, Group Strategy and Macro Research Department, acting in cooperation with the Management Board and other organisational units of the bank, provides analysts and investors with reliable and complete information about mBank Group, in compliance with the reporting obligations arising from the group's operation on the regulated market. mBank applies the corporate governance principles described in detail in mBank's statement on application of corporate governance principles in 2019.

Reliable and transparent communication with stakeholders and equal access to information help build confidence of the market. mBank has been actively communicating with capital market participants, which includes activities addressing and adjusted to the needs of individual groups, in accordance with the best market standards and practices.

The bank contacts its stakeholders in Polish and English at meetings, during teleconferences, via e-mail and through regularly updated information published on the official website of mBank. **Investor relations website** (<https://www.mbank.pl/en/investor-relations/>) features information divided into categories, in particular periodic reports, financial results and selected business data, presentations and video recordings of earnings conferences, data on shareholders and share price of mBank on WSE, consensus of forecast results of the Group, compendium of knowledge for new investors, current reports, information on AGMs, ratings and debt instruments. The website gives investors access to historic results of the Group and the bank (periodic reports, presentations and video recordings of earnings conferences) and to an archive of Annual General Meetings. Analysts and mBank's investors are kept abreast of the major developments in mBank Group in a monthly **Newsletter** and ad-hoc e-mails.

In 2019 investors and stock market analysts participated in four **earnings conferences** announcing mBank's financial results, both in person and online. Every conference was attended by about twenty representatives of brokerage houses and investors. All meetings with the Management Board accompanying the announcement of quarterly figures were broadcast on the Internet in Polish and English and posted on the bank's website. Relations with analysts, shareholders and potential investors are also strengthened through meetings at **conferences in Poland and abroad**. In 2019, mBank participated in three conferences in Warsaw and four conferences abroad (in London, Athens, Frankfurt and Prague). Moreover, the bank organised one roadshow in Vienna. Throughout the year, apart from meetings at conferences and roadshows, the Management Board members and/or the Investor Relations team held individual meetings with investors and analysts.

Just like in previous years, in 2019 the Management Board representatives met with analysts from **rating agencies**. Moreover, the bank has been in regular contact with rating agencies through teleconferences and emails exchanged with analysts.

### **1.5. Credit ratings of mBank and mBank Hipoteczny**

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch). These ratings are based on data provided to the agencies and talks between rating analysts and mBank's representatives. mBank has also ratings based on publically available information assigned by Moody's Investors Service (Moody's), Capital Intelligence Ratings (CI Ratings) and EuroRating.

mBank Hipoteczny is rated by Moody's and Fitch. Moody's has assigned rating for mortgage covered bonds issued by mBank Hipoteczny (a solicited rating).

#### **Ratings of mBank assigned by S&P Global Ratings**

On September 25, 2019, S&P Global Ratings lowered mBank's long-term issuer credit rating from "BBB+" to "BBB" and long-term resolution counterparty rating (RCR) from "A-" to "BBB+". The short-term rating was affirmed at "A-2". At the same time S&P changed the rating outlook from negative to developing.

As a result of the above rating action, the long-term issuer credit rating of mBank corresponds to its stand-alone credit profile (SACP). Before the rating action, the long-term rating of mBank was higher than its stand-alone credit profile by one notch. It resulted from S&P's assessment that mBank is a strategically important subsidiary of Commerzbank, which implies a high likelihood of extraordinary support. The agency verified this assessment in connection with the announcement of Commerzbank's 5.0 strategy, which provides for the sale of a majority stake in mBank. The developing outlook indicates that the rating agency

may raise, lower, or affirm the ratings over the next 12-24 months, depending on the implications of the sale process of mBank.

S&P Global Ratings	Ratings of mBank
Long-term issuer credit rating (foreign currency)	BBB (developing outlook)
Short-term issuer credit rating (foreign currency)	A-2
Stand-alone Credit Profile (SACP)	bbb
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB
Long-term resolution counterparty ratings (long-term RCR)	BBB+
Short-term resolution counterparty rating (short-term RCR)	A-2

### Ratings of mBank and mBank Hipoteczny assigned by Fitch Ratings

On October 15, 2019, Fitch Ratings lowered the Long-Term Issuer Default Rating (IDR) of mBank from "BBB" to "BBB-" and placed the rating on Rating Watch Positive (RWP).

The downgrade reflects Fitch's verified assessment of mBank's potential parental support after the announcement of the new strategy 'Commerzbank 5.0'. According to Fitch, mBank is no longer a strategically important subsidiary for Commerzbank AG. As a result of the above rating action, the Long-Term Issuer Default Rating of the Bank corresponds to its individual rating, i.e. viability rating ("bbb-"). The RWP indicates that the ownership change should be positive for mBank's credit profile. This reflects Fitch's expectation that the Polish regulator will require Commerzbank to retain the risks associated with mBank's portfolio of foreign-currency mortgage loans (primarily CHF loans).

Along with the lowering of mBank's Long-Term Issuer Default Rating, the following ratings were changed:

- Short-Term Issuer Default Rating: downgraded from "F2" to "F3";
- Support rating: downgraded from "2" to "3";
- Long-term senior unsecured debt rating: downgraded from "BBB" to "BBB-" and
- Short-term senior unsecured debt rating: downgraded from "F2" to "F3".

mBank Hipoteczny is rated by Fitch Ratings. On May 28, 2019, mBank Hipoteczny terminated the agreement on covered bonds' rating concluded with Fitch. On August 19, 2019, Fitch affirmed mBank Hipoteczny's mortgage covered bonds at "A". Fitch has subsequently withdrawn the covered bonds' rating.

On October 15, 2019, Fitch downgraded mBank Hipoteczny's long-term rating from "BBB" to "BBB-" and its short-term rating from "F2" to "F3". The support rating was affirmed at "2". As in the case of mBank, mBank Hipoteczny's ratings were placed on Rating Watch Positive.

Fitch Ratings	Ratings of mBank	Ratings of mBank Hipoteczny
Long-term IDR (foreign currencies)	BBB- (RWP)	BBB- (RWP)
Short-term IDR (foreign currencies)	F3	F3
Viability rating	bbb-	-
Support rating	3	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB-	-

### Ratings of mBank and mBank Hipoteczny assigned by Moody's Investors Service

On May 24, 2019, Moody's raised mBank's long-term deposit rating from "Baa1" to "A3" and changed the rating outlook from positive to stable. The upgrade of mBank's long-term deposit rating was driven by the

upgrade of the Bank's individual assessment - baseline credit assessment (BCA) from "ba1" to "baa3". In the opinion of the agency it reflects the bank's continued strong performance and improving risk profile. As a consequence, adjusted BCA was upgraded from "baa3" to "baa2".

In addition, Moody's has upgraded the long-term mBank's Counterparty Risk Rating (RCR) from "A3" to "A2" and the short-term RCR from "Prime-2" to "Prime-1".

On May 27, 2019, Moody's assigned "Baa2" long-term and "Prime-2" short-term issuer ratings to mBank Hipoteczny. Long-term and short-term counterparty risk ratings (CRR) were assigned at "A3" and "Prime-2" respectively. On the same day Moody's assigned rating for covered bonds issued by mBank Hipoteczny at "Aa3". It is the highest rating possible to obtain for financial instruments issued from Poland (local and foreign currency bond ceilings for Poland). The "Aa3" rating (equivalent to an "AA-" rating on the scale used by Fitch and S&P) is two notches higher than Poland's sovereign rating.

On September 27, 2019, Moody's affirmed mBank's long-term deposit rating at "A3" and changed its outlook to negative from stable. The bank's short-term deposit rating was affirmed at "Prime-2". Other ratings, including Baseline Credit Assessment, remained unchanged. Following the announcement of the new strategy of Commerzbank, Moody's has lowered the probability of parental support to mBank from high to moderate. However, this did not affect mBank's long-term rating, which includes a one notch uplift resulting from potential parental support. The negative outlook on the long-term deposit rating reflects the downward pressure that could develop on this rating in case mBank is finally sold, provided that the acquirer has a weaker credit profile than the current parent company and/or the rating agency views the probability of such acquirer providing support as low.

In addition, on September 27, 2019, Moody's affirmed the "Baa2 /Prime-2" ratings for mBank Hipoteczny adjusting its long-term rating outlook from stable to negative.

Moody's Investors Service	Ratings of mBank*	Ratings of mBank Hipoteczny
Long-term Deposit Rating (foreign currency)	A3 (negative outlook)	-
Short-term Deposit Rating (foreign currency)	Prime-2	-
Long-term Issuer Rating (foreign)	-	Baa2 (negative outlook)
Short-term Issuer Rating (foreign)	-	Prime-2
Long-term Counterparty Risk Rating (foreign currency)	A2	A3
Short-term Counterparty Risk Rating foreign currency)	Prime-1	Prime-2
Baseline Credit Assessment (BCA)	baa3	-
Adjusted Baseline Credit Assessment	baa2	-
Rating of covered bonds issued by mBank Hipoteczny	-	Aa3

\* rating based solely on publicly available information

### Other ratings of mBank based on publicly available information

#### mBank's rating by Capital Intelligence Ratings

On June 28, 2019, Capital Intelligence Ratings upgraded mBank's long-term rating from "BBB+" to "A-" and affirmed its short-term rating at "A2". The outlook of long-term rating is stable. In addition, CI Ratings assigned for mBank's standalone rating (BSR) of "bbb+" and the core financial strength (CFR) at "bbb+".

In the opinion of CI Ratings, mBank's rating reflects its strong capital base (capital ratios among the highest in the sector), and thus high loss absorption capacity, as well as a relatively low non-performing loans (NPL) ratio compared to the peer group.

Capital Intelligence Ratings	Ratings of mBank*
Long-term rating (foreign currency)	A- (stable outlook)
Short-term rating (foreign currency)	A2
Bank Standalone Rating (BSR)	bbb+
Core Financial Strength (CFS)	bbb+

\* rating based solely on publicly available information

#### mBank's rating by EuroRating

On October 9, 2019, EuroRating changed the outlook on mBank's long-term rating "BBB" from stable to negative. The agency justified this move by increasing legal risks regarding foreign currency mortgage loans, as well as Commerzbank's plan to sell mBank's shares.

#### **Summary of ratings for Poland, mBank and Commerzbank**

The table below compares long-term ratings (foreign currency) for mBank, Commerzbank and Poland assigned by Fitch, S&P i Moody's, as at the end of 2019.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB- (RWP)	BBB+ (neg.)
S&P Global Ratings	A- (stab.)	BBB (dev.)	A- (neg.)
Moody's Investors Service	A2 (stab.)	A3 <sup>1</sup> (neg.)	A1 (stab.)

<sup>1</sup> Long-term Deposit Rating

Rating outlook indicated in brackets: stab.-stable, neg.- negative, dev. – developing, RWP - Rating Watch Positive.

### **1.6. ESG ratings of mBank**

#### **Rating of mBank assigned by Sustainalytics**

On January 14, 2020, mBank Group received ESG Risk Rating from the research and rating agency Sustainalytics. Sustainalytics' ESG Risk Ratings measure company's exposure to industry-specific material ESG risks, and how well a company is managing those risks. ESG is a standard for sustainable business, comprising three areas: Environmental (E), Social (S) and Corporate Governance (G). A company's final ESG Risk Rating assigned by Sustainalytics is scored on material ESG issues such as human capital, business ethics, corporate governance, data privacy and security, ESG integration - financials and product governance.

Sustainalytics is a globally renowned independent research and rating agency, which analyses companies' sustainability for over 25 years.

According to Sustainalytics, mBank has low ESG risk (with a score of 13.4; the lower the score, the better the company's ESG performance). In its summary report Sustainalytics writes: the company is at low risk of experiencing material financial impacts from ESG factors (...) and has not experienced significant controversies.

Summary of ESG Risk Rating for mBank Group issued by Sustainalytics is available on our website: <https://www.mbank.pl/en/investor-relations/ratings-debt-instruments/>.

For more information on mBank's activities in scope of ESG please see: <https://www.mbank.pl/en/about-us/corporate-social-responsibility/>.

## Rating of mBank assigned by MSCI

mBank ranks Average (A) in the ESG rating of MSCI. According to MSCI, we are leaders e.g. in corporate governance, risk oversight and business ethics. We are scored Average in i.a. financial product safety, human capital development and access to finance. The rating is based on publically available data only.

More information can be found at <https://www.msci.com/esg-ratings/issuer/mbank-spolka-akcyjna/IID00000002158801>.

## 1.7. Key projects and innovations of mBank Group in 2019

### mBank – a strategic partner of the WOŚP

As part of the 27th Final of the Great Orchestra of Christmas Charity (WOŚP), mBank became the Foundation's banking partner for the second time. During the strategic cooperation, we provide financial services for the January money collection as well as for the year-long activity of the Great Orchestra of Christmas Charity. Apart from ensuring financial security, cooperation with mBank allows to offer donors the possibility to support the Foundation using modern technologies.



In the 2019 collection mBank paid PLN 3.7 million to the Orchestra - donating PLN 2 million as part of the special action "100 for 100". Our goal was to convince Internet users to make transfers to the Orchestra's account, offering an additional PLN 100,000 from mBank for every 100 payments to the Foundation. We also launched a new service, thanks to which our clients could transfer small amounts to the WOŚP account for each operation on the account, as well as set a monthly limit for payments under the special "We Play Together" savings target. During the 27th Final the first stationary auction of works of art in the history of WOŚP took place in the Desa Unicum auction house. mBank donated over 40 works of art from the collection completed over the years. The total amount obtained from the auction was PLN 1.7 million, which was entirely donated for the purchase of modern medical equipment for specialist children's hospitals.

The bank prepared a special "account for two hearts" for corporate clients. Entrepreneurs who decided to open an account with mBank thus supported the activities of the WOŚP. All fees for account maintenance and transfers in the period from January to June were paid into the Foundation's account. mBank also prepared a special offer for affluent clients who opened an mKonto Intensive account. For each payment made by card or BLIK, mBank transferred the equivalent of 1% of such payments to the WOŚP for 12 months from the account opening.

mBank also envisaged the continuation of this action in 2020. On this occasion, the bank's clients will be able to order a Mastercard collector payment card devoted to the topic of the 28th Final, take part in the "100 for 100" action and in an auction of works of art from mBank's own collection.

Moreover, as in the previous year, mBank took part in the Pol'and'Rock festival as a patron of the Academy of Fine Arts. On this occasion, the bank prepared a promotional account for new clients for the festival participants, thanks to which they could receive a bonus of PLN 140 for their activity and order a limited edition debit card with a special image referring to the Festival.

### mElements - mBank Group's offer for the e-commerce industry

In 2019, mElements continued to develop API (Application Programming Interface) products for the e-commerce industry, with an emphasis on Credit APIs, and focused on launching an e-commerce payment product.



In the area of e-commerce API, where mElements provides a unique credit API solution on a European scale, the company continued to grow its customer base, establishing cooperation with one of the largest online payment entities in Poland.

In 2019, mBank launched the API platform supporting access to payment initiation services and access to account history, as required by PSD2 (Payment Service Directive 2). Its test environment is provided by

mBank's so-called "sandbox", which is a special IT system designed for third-party developers, i.e. TPP (Third-Party-Provider). mBank obtained the approval of the Polish Financial Supervision Authority to act as TPP in July 2019. TPP, which is related to the financial market, will be able to use the banks' systems in the future to provide alternative services, e.g. to initiate payments or aggregate information about client transactions. The mBank's sandbox is available at <https://developer.api.mbank.pl/>.

The whole production, delivery and development of this platform was the responsibility of the mElements team, and after the launch, the quality and stability of the solution was appreciated by the market - according to mBank's API estimates, it is the most frequently used API on the market.

As a result of the PSD2 directive, several important innovations were also introduced in September 2019, including a change in the way of logging into the account (the so-called strong authentication), confirmation with a PIN code of selected contactless transactions (up to PLN 50), mobile authorization available in a separate application (mBank Token), the possibility of adding a computer or tablet to trusted devices or withdrawal of the list of one-time passwords. All relevant information for our individual, corporate, SME and corporate customers in the PSD2 area is available at <http://www.mbank.pl/psd2>.

In addition to the work on API development, in 2019 the company focused its efforts on creating and launching a strategically important business area for mBank Group - payment processing in e-commerce. In September, we completed a project lasting several months to create the required technological infrastructure for a product operating under the Paynow brand. In October, after a license process lasting several months, we received permission from the Polish Financial Supervision Authority to operate as a National Paying Authority. In the second half of the year, together with mBank, the company launched "friends and family" tests of Paynow's services, which resulted in the participation of several hundred customers and the successful launch of full acquisition activities.

Moreover, in 2019 mElements also became a member of The Chamber of Electronic Economy, which associates the largest entities operating for the development of e-commerce in Poland.

The company is ending the year 2019 with a mature product portfolio, whereas the year 2020 will be marked by dynamic acquisitions and development aimed, among others, at taking advantage of the options launched under the PSD2 directive.

### **mAccelerator - mBank's way to support start-ups**

mAccelerator has been the first investment fund in Central and Eastern Europe supporting the development and commercialization of new technologies. It was equipped with a budget of EUR 50 million (an equivalent of over PLN 200 million). The fund invests in start-ups which later should become partners for financial institutions from around the world. It focuses on cybersecurity, biometrics, Robotic Process Automation (RPA), artificial intelligence and digital marketing (in particular chatbots and communicators).



There are currently 6 companies in the fund's portfolio:

- Digital Fingerprints (a company offering a cyber-security solution based on passive biometrics);
- CyberRescue (a service supporting customers in terms of their network security);
- Digital Teammates (specializing in Robotic Process Automation);
- ChatForce (communication platform allowing automatic exchange of information with customers from mobile communication platforms);
- Samito (formerly SaveCart, a company offering marketing automation tools for online shops);
- HCM Deck - a technological HR platform acquired in 2019, which supports HR and L&D departments in managing, automating and analyzing processes related to employee development in larger organizations. The platform focuses on three areas, which are learning, communication and feedback.

## New features of online banking

The year 2019 brought many changes, including those in internet banking. On 28 October mBank clients could see a brand new desktop after logging in. In addition to its clear and simple design, the new view gives the opportunity to adjust the elements visible on it to the user's requirements. One of the most important changes after a thorough change of the service is undoubtedly the resignation from the "finance bar" thanks to which our clients no longer have to choose between the list of recent operations and the list of their accounts. Instead, users can see primarily such products as the basic account or a shortened version of the operation history.



We have also shortened the list of messages - all to make the most important information more visible. In the new desktop the users can decide for themselves what information they want to see immediately after logging in. This applies not only to the products they have, but also to the order of their presentation.

In 2019, we implemented a number of changes in the internet banking service, including:

- **Feature Switch** - i.e. the innovative process of implementation of changes is carried out in stages, enabling the analysis of comments made by customers. The solution enables us to publish new parts of the internet banking service to selected customers. It also allows to selectively enable and disable new functionalities in case of critical errors;
- **SCA in the internet banking service** - a new standard of logging in to the transaction service with the inclusion of the SCA (Strong Customer Authentication) element, which implements the provisions of the PSD2 Directive. The customer can easily manage his trusted devices registered in the service;
- **History of operations** - we have made the new history of operations function available to mBank clients as the first important module of the new generation of internet banking (Internet Banking 3.0). Based on the clients' comments, we replaced two previous views of the history with one. As far as the usability of history of operations is concerned, the important elements are: history presented on one card, the balance visible after each booked operation; full range of filtering in the dedicated filter bar and the possibility to download files with lists of operations.

When implementing changes in the internet banking service, we collect ratings and information from our customers. We take into account what is important for them in internet banking, how they evaluate the current service and how they would like to use it in the future. This is our starting point in creating new solutions and facilities.

## Mobility

In 2019 we continued our systematic development of the mobile application. During this time, mBank provided 15 application updates, which confirms the organisation's ability to make agile changes and respond to customer expectations. The work on the application was mainly focused on improving usability and communication as well as sales activities.

Despite a number of challenges related to the PSD2 (Payment Services Directive 2), following the suggestions of our users, we introduced a number of improvements to the application, which will make the use of the application easier and more pleasant.

- **New card details with an option to change the PIN** - a redesigned card details screen, so that the user can quickly find the most important information and perform important actions for him. Additionally, we have made it possible to change the PIN code for the card;
- **Option to add new recipients to the address book** - when making a transfer to a new recipient, the user has the option to save the data to the address book so that he can make subsequent transfers faster;
- **Refreshed appearance of mKantor, support for new currencies, currency calculator for card transactions** - these are a number of improvements related to travel and currency handling. The mKantor service has been enriched with new currencies. At the same time, we have rebuilt mKantor's screens to make transactions made on currencies even more intuitive. We have also introduced a

currency calculator, thanks to which the client, by entering the transaction amount in the local currency, will receive the equivalent in PLN, converted at current exchange rates;

- **Extension of transaction notifications with details of operations** - the customer can decide whether the transaction notifications he receives are to include details immediately: transaction amount, name of the recipient and sender of the transfer and name of the store (for card operations);
- **Partial withdrawal of funds from a savings target** - we have made available to customers the possibility of partial withdrawal of funds, without the need to liquidate the target;
- **Renewing transfers to ZUS and Tax Office** - we have extended the possibility of renewing transfers from history, for transactions to ZUS and Tax Office. The client, from the level of transaction details to ZUS or Tax Office, has the option of retransfer, which automatically fills in the transfer data based on the previous transaction;
- **Refreshed BLIK screen** - a new, more legible version of the screen with the BLIK code, taking into account the existing comments and suggestions of customers and preparing an application to make available subsequent BLIK services (the "Ask for a transfer" service started in Q1 2020);
- **mFactoring service** - is addressed to corporate clients, giving the possibility to activate a factoring limit, register new invoices and repay debt;
- **The "Your assets" screen** - a screen summarizing the client's finances.

Currently, the application is used by 1,894.7 thousand clients, i.e. over 70% of active customers. This is the highest rate in the Polish banking sector. On average, clients use it ca. 31 times a month. As much as 72.1% of all bank logins come from the application. Currently, we sell 43.6% of travel insurance and 12.5% of cash loans using the application. The value of unsecured loans launched using the application increased by 102.4% compared to 2018.

In March 2019, the mBank application was ranked 1st in the nationwide Mobile Trends Awards competition, in the "Banking and Finance" category. At the same time, the application was ranked 5th in the Forrester ranking: "The Forrester Banking Wave™: European Mobile Apps".

### **mBank reduces coal financing and supports RES**

mBank, as a socially responsible organisation, takes into account its own impact on the environment in its activities. We have decided to limit the financing of coal and mine energy. Therefore, in March 2019, we made an important decision to change the lending rules for the mining and coal power industry. Since April 1, 2019, mBank has not financed new coal mines and coal-fired power units. It will also not establish relations with companies in which the share of electricity from this raw material (calculated on the basis of the measurement of production capacity) exceeds 50%. At the same time, we want to promote solutions related to environmental protection, in particular by financing projects that reduce CO<sub>2</sub> emissions and coal consumption.

In H2 2019, mBank decided to significantly increase the pool of funds for RES (Renewable Energy Sources) projects - from PLN 500 million allocated earlier to PLN 1 billion. The financing is dedicated to investments implemented under the auction support system. Moreover, the bank also declares its interest in projects operating on market terms, including those based on PPAs (Power Purchase Agreement).

So far, our support was allocated mainly to the wind sector, while the remaining funds have been used for the development of photovoltaics. Our goal is to focus on financing projects operating within the government support system.

One of the most important undertakings in 2019 was the conclusion of the largest photovoltaic portfolio financing agreement on the Polish market. We granted a loan of PLN 90 million for this purpose. The investment enabled start of the construction of 34 solar power plants with 33 MW capacity, which cover an area of ca. 70 hectares. In total, the project will produce ca. 35,000 MWh of energy per year, which will provide it for 15,000 households and contribute to the reduction of carbon dioxide emissions by 30,000 tonnes each year.

One of our subsidiaries, mLeasing, has also introduced financing for photovoltaic panels. The company has implemented an offer addressed to entrepreneurs in the SME sector. Thanks to this offer, the owners of the companies can successfully reduce their electricity bills by up to 70% and use renewable energy

sources. Due to the new regulations, entrepreneurs can obtain the status of "prosumer" of electricity. Importantly, the company's initial own contribution to the photovoltaic installation is low and the lease instalments can be included in the tax deductible costs. The use of "solar panels" also allows entrepreneurs to avoid the effects of energy price rises to a great extent.

The new offer of mBank's leasing subsidiary allows for financing a photovoltaic installation worth up to PLN 250,000 and a capacity of up to 50 kW. The leasing period can be up to 6 years and the entrepreneur's own contribution should constitute 10% of the investment value. The decision to grant financing is made by mLeasing within one business day.

## **1.8. Awards and distinctions**

### **Mobile application**

- In Q1 2019 mBank received two awards in the Mobile Trends Awards competition. The competition honours companies and institutions that best use mobile technologies in their projects. We took first place in the "Banking and Finance" category and second place in the Internet users' voting. Apart from the awards for the application, we were appreciated for the implementation of the mobile authorization and mTransfer mobile service.
- In the fifth edition of the "Wprost" weekly ranking, mBank won first place in the category "Convenience and wide access" for the best mobile application.
- In September 2019, we were ranked third in the category "Mobile Banking" by Newsweek Polska weekly.
- In the competition organised by the International Banker magazine, mBank was awarded for technologically advanced solutions and cooperation with start-ups, receiving a statuette for the most innovative retail bank in Poland. In the justification of the contest, the jury focused on the rich product offer and services created according to the "digital by design" principle.

### **Product offer and customer service quality**

- We were named the most friendly company in the opinion of consumers, winning a statuette in the "Star of Service Quality" competition, organized by the Polish Service Quality Program. Its mission is to raise the standard of relations with customers by constantly monitoring their level of satisfaction.
- We received two distinctions in the "Złoty Bankier 2019" ranking. The first one, in the "Safe Bank - Best Practices" category for best banking security practices. Experts from Observatorium.biz and SecurRing awarded mBank one of the three main prizes for the high quality of security measures used in our mobile and online banking. Moreover, another award in the "Fin-tech Innovation" category went to mBank and Digital Fingerprints for breakthrough behavioural biometrics.
- In the "Banking Stars" ranking organized by Dziennik Gazeta Prawna and PwC Polska, we were ranked second in the main category "Whole Business". mBank also won first place in the "Star of Innovation" category, and third place for "Customer Relationship".
- mBank received a double distinction in the "Trustworthy Brand 2019" survey in the "Bank offering loans and advances to companies" and "Bank offering a corporate account" categories. The purpose of the survey published by the business monthly "My Company Polska" was to determine the level of confidence of Polish entrepreneurs in brands of products and services addressed to business.
- mBank was the winner of a competition organized by Global Finance magazine in the category "World's Best Corporate/Institutional Digital Banks 2019". Our online transactional service for corporate clients was recognized as the best not only in Poland, but also in Central and Eastern Europe. During the selection of the winners, the following factors were taken into account: strategy towards digitalization, increase in the number of users of digital services and the number of online banking clients, product offer, as well as the evaluation of the website functionality of the transactional and mobile service.
- In Q4 2019, the magazines Professional Wealth Management and The Banker, published by the Financial Times group, honoured mBank for the best private banking in Poland. mBank's offer was recognized as the best in Poland thanks to a responsible and mature approach to asset management, which resembles the model often found in Western European countries. Moreover, the bank's services in the area of

wealth management were appreciated, including individual consultancy, asset management, intergenerational planning and comprehensive financing.

### **Other awards**

- Forbes magazine appreciated mBank in the famous ranking "Banking Innovation of the Year 2019", during which our pioneering behavioural biometrics pilot program was awarded. The second place on the podium was taken by the "mBank business starter" service, which allows to open a company remotely through the bank, without visiting the public office.
- We won the "Online Communication Leader" award in the Golden Issuer Website competition organised by the Polish Association of Listed Companies. mBank won first place in the category of Large Companies. In the competition, the jury evaluated companies from the WIG20 and mWIG40 indexes for, among others, social media communication and investor presentations.
- The President of mBank, Cezary Stypułkowski, received the prestigious title of "Global Leader of the Banking Sector" during the Banking Technology Forum Congress. The distinction for mBank was awarded, among others, for the implementation of a modern user interface and full online banking according to the latest model, which set the directions on the domestic and European financial market.
- We were honoured in the "Employer Branding Excellence Awards 2019" competition. In the "Internet Campaign" category, mBank won a distinction for the "Modelling Mission" project, which we addressed to students interested in developing in analytical banking as a modeller in the risk area.
- During the meeting Horizons of Banking 2019 mBank won first prize in the category "Innovation" and "Bank for Young". The second prize was awarded on the basis of questionnaires with the participation of bank customers up to 26 years old, who gave marks for, among others, the services offered or the quality of service.
- In October 2019, we won an honourable place on the podium in the category "Best Employer Brand on LinkedIn" in the first Polish edition of LinkedIn Talent Awards. We were awarded for the image and recruitment activities that we conduct on this portal.
- In the competition for listed companies "The Best Annual Report", organised by the Institute of Accounting and Taxes, mBank was awarded the "Best of the Best" statuette and received a distinction for the best Statement of Corporate Governance.
- In another edition of the prestigious "Effie Awards Poland" competition, mBank received three silver statuettes - in the "Finances" and "Business to Business" categories for the "Setting up a company with mBank" campaign and in the "Finances" category for the "Yearbook 2000" campaign, in which mBank addressed directly to people entering adulthood in 2018.
- The 9th edition of the "Executive Summit 2019" congress took place in November. During the Final Gala of the Competition, Marketing Director of the Year, Iwona Ryniewicz, Director of the Communication and Marketing Strategy Department, was awarded in the category "Low budget - high impact" for exceptional social effectiveness. The submitted project was the activity of the Foundation for the promotion of mathematics. Rafał Jakubowski, Director of Retail Banking Marketing at mBank in the category "Long Term Marketing Excellence" was also a winner of the competition.
- On 3 December, 2019, the 10th Jubilee Gala of "Eurobuild Awards 2019" was held, during which awards for the best projects, companies and personalities in the commercial real estate market were presented. mBank was ranked among the top three banks in the CEE real estate financing market and was awarded the "Financing Provider of the Year in CEE" statuette in the "Jury Awards" category.
- In this year's edition of the "Cashless Poland Programme", mBank took the third place in the category of entities for the largest sale of contracts. The main objectives of the organisation are, among other things, to popularise and promote non-cash trade, actions aimed at expanding and expanding the network of merchants of electronic payment instruments at points of sale and offices, as well as to raise awareness and knowledge of citizens about non-cash trade mechanisms.

More information about the awards and distinctions is available on the bank's website in the Press Office section: <https://en.media.mbank.pl/>.

## 2. mBank Group's environment

### 2.1. Macroeconomic environment

#### Economy and the banking sector in Poland

Key macroeconomic indicators	2019	Banking sector parameters	2019
Real GDP growth rate (forecast)	4.1%	Base interest rate	1.5%
Nominal GDP per capita (EUR)	12,900 <sup>1</sup>	Loan to Deposit ratio	90.2%
GDP per capita in PPS (EU-28=100)	70.3% <sup>1</sup>	NPL ratio	6.4%
Average annual inflation rate	2.3%	Total Capital Ratio (TCR) <sup>2</sup>	18.9%
Average annual unemployment rate	3.3%	Net Return on Assets (ROA)	0.7%
Population	38 million	Net Return on Equity (ROE)	7.1%

Source: Statistics Poland (GUS), Eurostat, Polish Financial Supervision Authority.

<sup>1</sup> Data as at the end of 2018

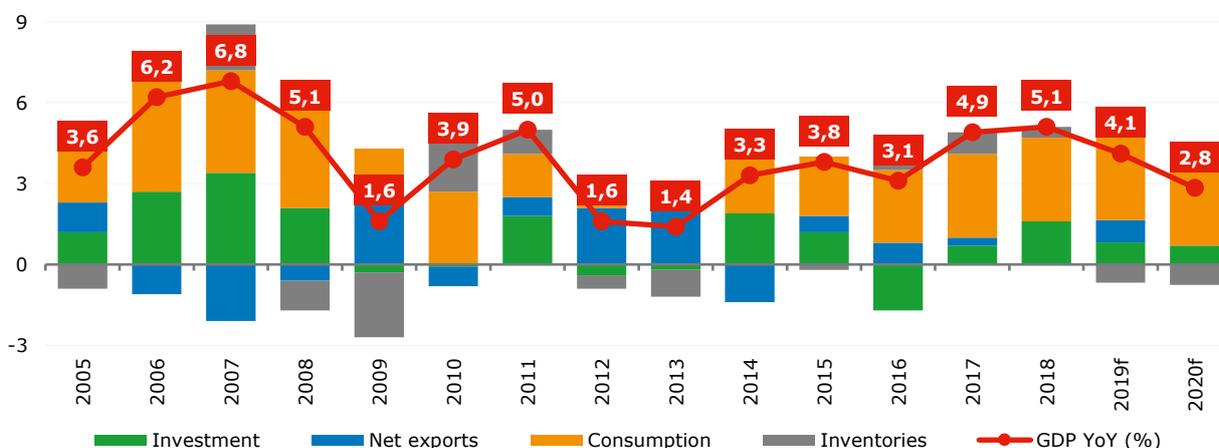
<sup>2</sup> Data as at September 2019

#### Summary of developments

The global economic slowdown deepened for most of the past year, affecting virtually all of the world's main economies and regions. Many economic indicators hit ten-year lows. This was down to, among others, an abrupt increase in fiscal uncertainty caused by the escalation of the Sino-American trade and economic war; problems experienced by some sectors of the economy (in particular the automotive and semiconductor industries); as well as inherent factors, such as the waning fiscal stimulus in the USA and further weakening of domestic consumption in China. The economy stabilised only in the autumn when a truce was reached in the US-China trade war with global industry indicators starting to grow by the end of the year. The gap between relatively good consumer and services sector sentiment and the sentiment of the industrial sector persisted throughout 2019.

The Polish economy was almost unaffected by the condition of the global economy for most of the past year. This was caused by a relatively high increase in domestic consumption, i.e. continued fast growth in the key components of Poland's economic cycle (i.e. private consumption and investment). However, this does not mean that Poland was totally immune to the global economic slowdown. On the contrary, economic indicators and other short-term economic figures were in a downward trend. GDP growth fell from 4.8% year on year in Q1 to approximately 3.1% year on year in Q4. As a consequence, the Polish economy is likely to have grown by 4.1% in the whole of 2019 compared with 5.1% a year before.

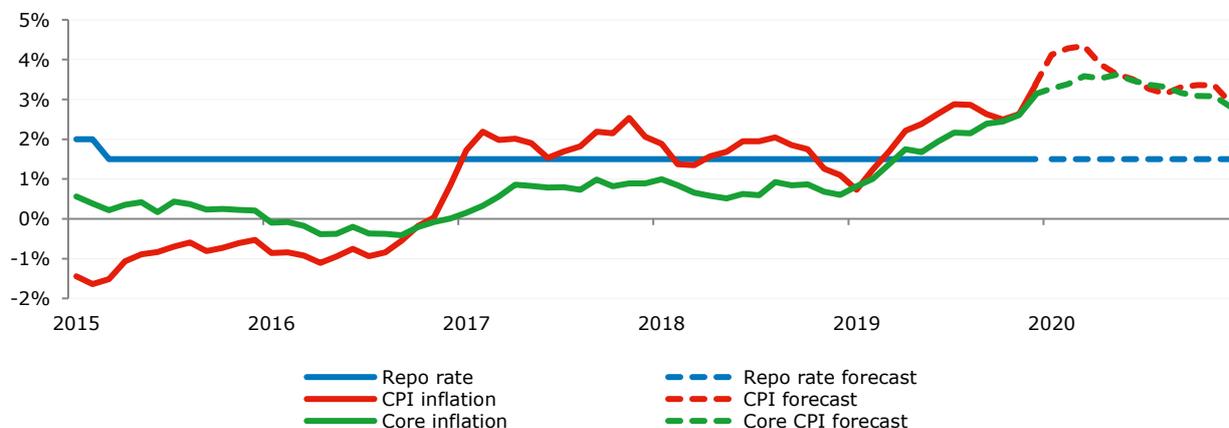
#### Contributions to GDP growth



Private consumption and investment were the two main drivers of the economy. The sources of the consumption boom (private consumption continued to grow by over 4% year on year throughout 2019) have been already extensively discussed. It is worth reiterating that it was propelled by favourable situation on the labour market (record-low unemployment), fast-rising household incomes (especially from contract-based employment), unflinching consumer optimism, relatively high immigration to Poland, highly active real property market, and solid growth in consumer credit. In 2019, these factors were reinforced by the fiscal stimulus comprising social benefits and personal income tax cuts (accounting for approx. 1.8% of GDP in total). Investment was volatile and followed a downward trajectory throughout the year. The year began with an over 12% increase in investment spurred by the completion of public investment projects and an abrupt rise in investment projects implemented by foreign companies. It is likely to have ended with a slight year-on-year decrease mainly due to a slowdown in public investment – central and local government investment spending fell compared with the previous year already in Q3 to decrease even further by the end of the year.

The past year was marked by a fast increase in inflation, making it probably the most exciting and talked-about Polish economic indicator of 2019. Growth in consumer prices accelerated from 0.7% year on year in January to 3.4% year on year in December. This trajectory was down to several factors. Firstly, 2019 saw a fast increase in food prices, which affected almost all components of the basket, including the most volatile ones. It was caused, among others, by agricultural drought in Central Europe, spread of the ASF virus in Asia, and the impact of rising labour costs on processed food prices. Secondly, core inflation was on an upward trajectory throughout 2019. With 3.1% the December reading was one of the highest in history. The increase in core inflation was down to a combination of factors, including: an increase in regulated prices, the end of price wars on the mobile network and cable TV markets, growing labour costs pushing up the prices of services, and rising prices of public services. Prices of energy carriers and effects of the electricity price freeze (which, as a result of the electricity excise duty cut, were classified by Statistics Poland as a decrease in the price of electricity supplied to households) were among the few factors that pushed inflation down.

**CPI inflation and NBP reference rate**

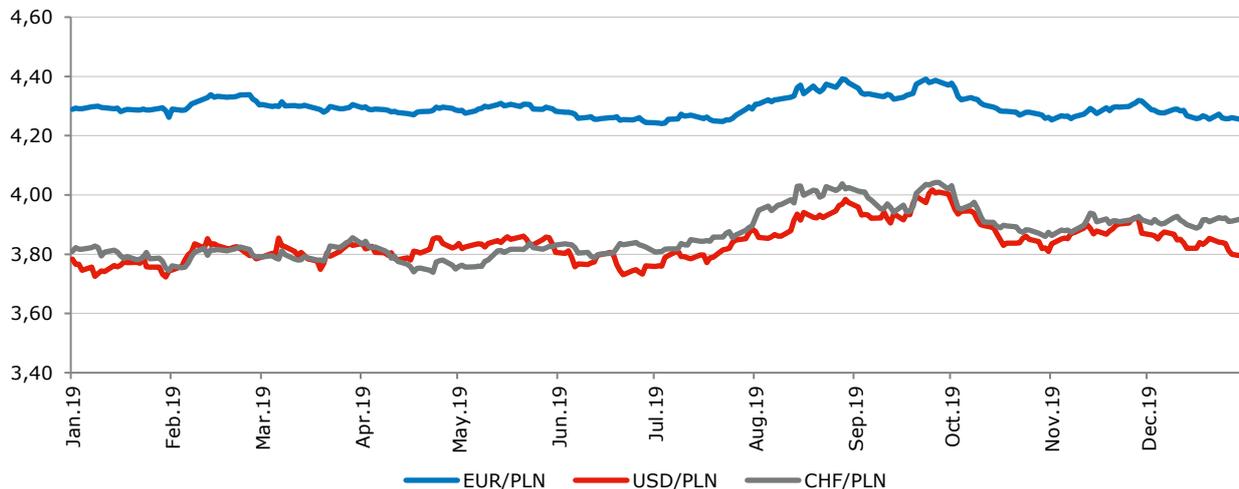


2019 was another year of monetary stability with interest rates remaining flat throughout the year. The Monetary Policy Council’s rhetoric was becoming more dovish along with the deterioration in global sentiment. At the same time, neither the Polish economic data, nor inflation readings encouraged the Council to soften or tighten its stance. Projections assuming weaker growth and inflation remaining close to the target over the next two years added to the rationale for an unchanged monetary policy. At the end of the year, the MPC’s declarations to keep interest rates unchanged were extended by the end of its current term of office. The Monetary Policy Council does not expect any interest rate increases or decreases until the end of its current term of office. However, suggestions that rate cuts are more likely than rate hikes have been reiterated by the Council many times.

The zloty remained stable throughout 2019. It appreciated against the euro by approximately PLN 0.04 (from PLN 4.30 to PLN 4.26) but slid by PLN 0.10 against the Swiss franc (from PLN 3.82 to PLN 3.92) and by PLN 0.04 against the US dollar (from PLN 3.76 to PLN 3.80 at the end of the year). The changes against

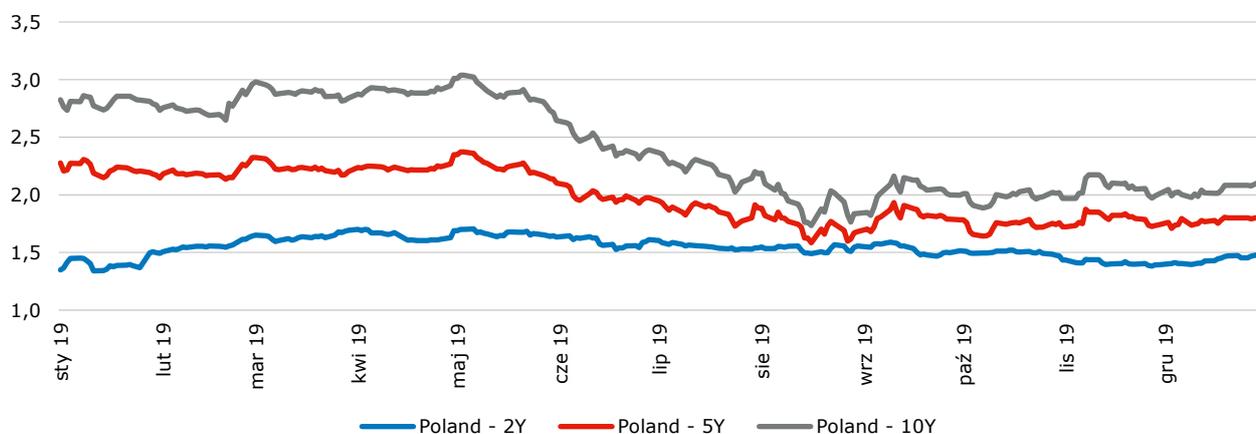
USD and CHF derive largely from a moderate weakening of the euro against a basket of other currencies in 2019, whereas the appreciation of the zloty against Europe’s single currency deserves a comment. It can be attributed to both domestic and foreign factors. The former include CJEU’s ruling on foreign currency mortgages and growing concerns about inflation growth in Poland at the end of the year. The latter comprise monetary loosening by central banks, which triggered an inflow of portfolio capital to emerging markets. Nevertheless, the entire year was marked by low fluctuations, compared with both the previous years and other emerging market assets. Consequently, to Poland, being a sound and open economy, the exchange rate is no longer a factor mitigating adverse shocks.

**Currency exchange rates in 2019**



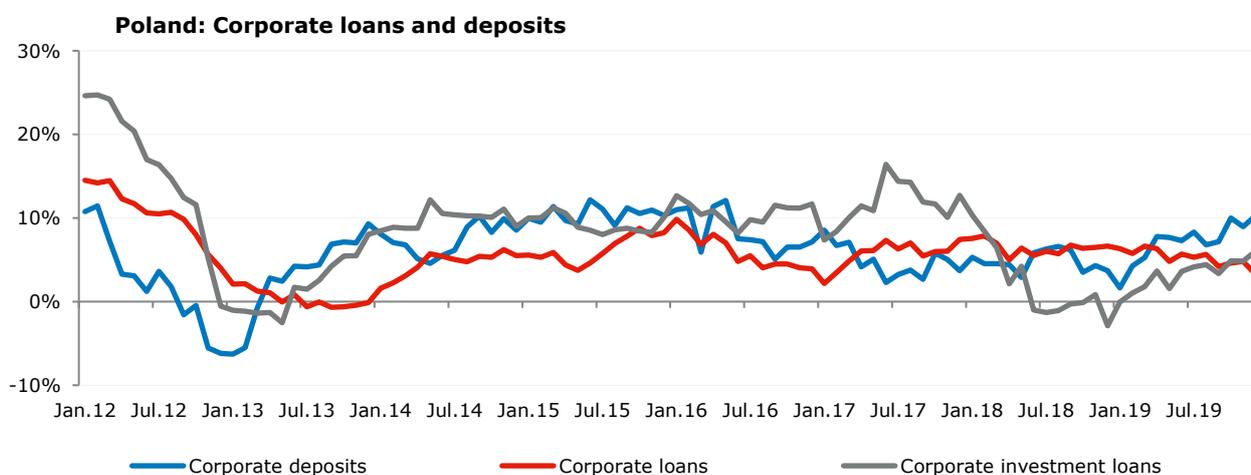
Those who expected market interest rates to decline were again the biggest winners on the market for Treasury debt securities. At the end of 2019, bond yields and swap rates fell from the levels reported at the beginning of the year. In August 2019 yield curves hit a record-low with all rates falling to their lowest since 2015. Despite better sentiment on global markets and the end of monetary loosening conducted by the main central banks, yields on ten-year Polish Treasury debt securities are currently quite similar to the yields on their US counterparts. Throughout the year the market was affected by several trends: mounting fears over global economic growth, especially in the second half of the year; low supply of Treasury debt securities (resulting from strong fiscal performance); inflows and outflows of capital from emerging markets in response to decreases and increases (respectively) of market interest rates in the United States and in Europe. Judging from the performance of the Polish bond market in 2019, it seems clear that it represents features characteristic of a developed rather than an emerging-market economy.

**Bond yields in Poland**

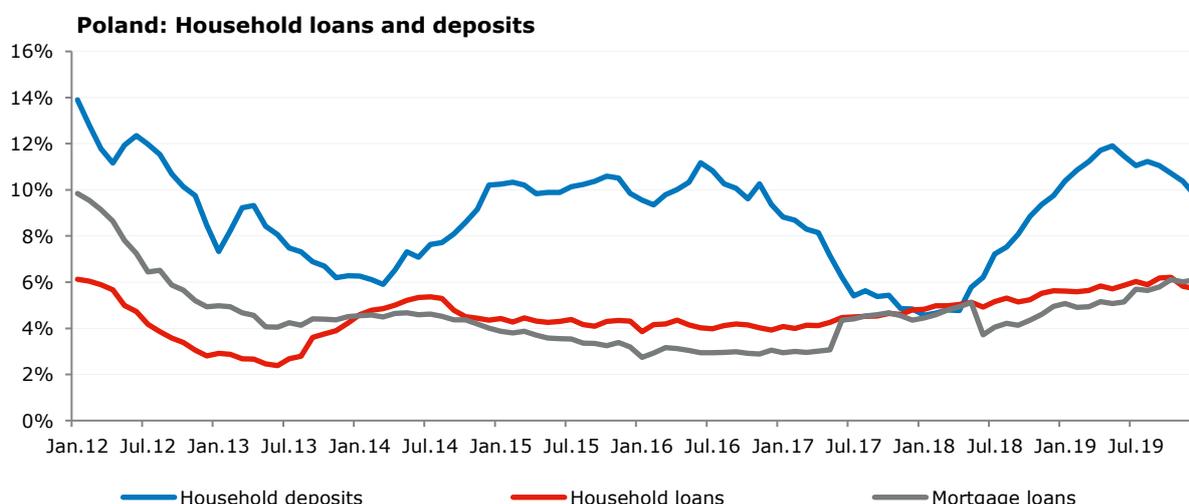


**Banking sector**

The 2019 growth in loan volumes was similar to the figure reported in the previous year. Growth in household loans accelerated from 5.6% to 5.7% year on year (net of the FX effect), whereas corporate lending advanced by 3.3% from the previous year (down from 6.7%). The former category deserves more attention. The strongest growth in retail loans since 2012 was driven by a nearly two-digit surge in consumer credit and record-breaking sales of real property loans. The quarterly origination of the latter (PLN 16.9 billion in Q3 2019) hit a historic high in the PLN-denominated loans category. The entire 2019 is likely to have seen a record-high volume of new loans, exceeding PLN 60 billion, thereby breaking the 2008 record. It stems directly from the highly active real property market and upbeat consumer sentiment. Consumer credit, in turn, should be treated as a gauge lagging behind the consumption cycle; in other words, it supports consumption at the time of a slowdown rather than fuels it during a revival. The corporate lending segment witnessed a major shift in the lending structure with investment loans systematically replacing real property loans and overdraft facilities (in consequence, the total volume of corporate loans decreased). On the one hand, it was caused by the relatively small role of bank loans in financing investments, and, on the other hand, by lower demand for liquidity due to the waning effects of salary increases and tax system tightening.



2019 was marked by an increase in deposits, but the growth rates varied across sectors. Household deposits were rising by 10%-12% in the course of the year, while growth in corporate deposits jumped from 3.7% to 10.3% year on year. Retail deposit stabilisation was largely due to the fiscal stimulus and rotation of households’ assets (high inflow of money to the market for new homes continued). In addition, it was propped up by an increase in the household savings ratio. High growth (in relation to the previous years and close to the multiannual average) in corporate deposits is attributable to lower pressure on financial performance in the enterprises sector (slower growth in salaries accompanied by rising inflation), the weak increase in investment, and waning effects of tax system tightening.



## Economy and the banking sector in the Czech Republic

Key macroeconomic parameters	2019	Banking sector indicators	2019
Real GDP growth rate (forecast)	2.5%	Base interest rate	2.00%
Nominal GDP per capita (EUR)	19,500 <sup>1</sup>	Loan to Deposit ratio	72.8%
GDP per capita in PPS (EU-28=100)	90.5% <sup>1</sup>	NPL ratio	2.5%
Average annual inflation rate	2.6%	Total Capital Ratio (TCR)	20.3% <sup>1</sup>
Average annual unemployment rate	2.1%	Return on Assets (ROA)	1.2% <sup>1</sup>
Population	10.6 million	Return on Equity (ROE)	16.0% <sup>1</sup>

Source: Eurostat, Česká národní banka (CNB).

<sup>1</sup> Cumulative data for 9 months (as at September 30, 2019) or the latest data available

### GDP, inflation, interest rates and FX rates

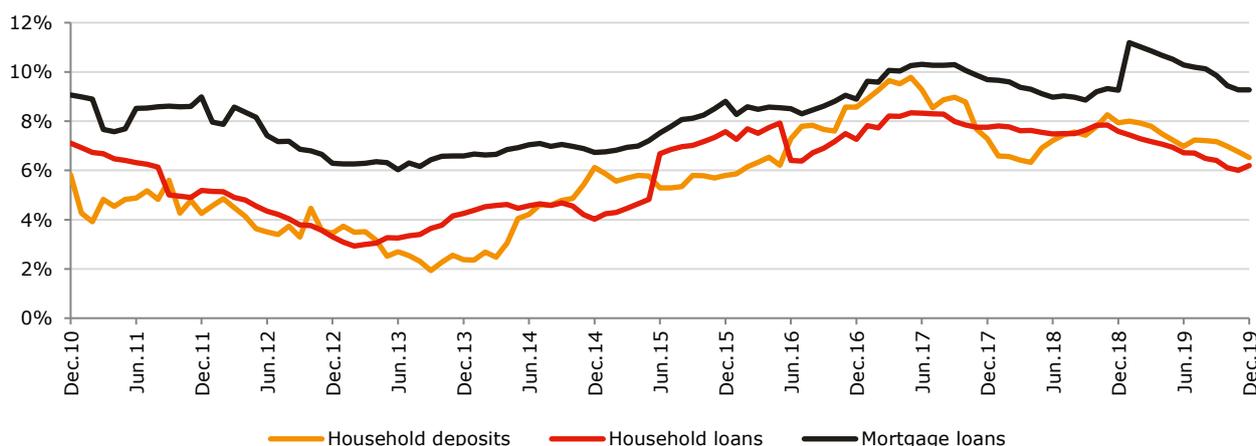
Economic growth in the Czech Republic is expected to have slowed down from 3.0% in 2018 to 2.5% in 2019, the main reason being sluggish internal demand, as reflected mainly in weaker growth in investment (down from 7.2% to 1.1% year on year) and a modest slowdown in private consumption increase. Owing to its strong commercial ties with the euro zone and export-oriented nature, the Czech economy benefits when the global economy picks up (like in 2017), but is strongly affected during a slowdown (like in 2019). At the same time, a tightening labour market (Czech Republic has the lowest unemployment rate in the EU) and robust growth in salaries bode well for private consumption. The inflow of EU funding fuels public investment, while easing trade tensions are expected to boost private investment. Czech GDP is expected to grow by an average of 2.1% annually in 2020-2021, which is roughly in line with the potential output growth rate.

A dynamic increase in salaries and relatively fast economic growth (compared with the potential GDP growth rate) keep inflation high. The average annual inflation rate stood at 2.6% in 2019, while core inflation readings were even higher. In view of the mounting risk of inflation being persistently above the target in the medium term, the Czech National Bank (CNB) continued its monetary policy normalisation throughout 2019. At the end of 2019, the CNB's reference rate stood at 2.00% and is among the region's highest (only Romania has a higher rate). As the external environment of the Czech economy was in equilibrium, the start of monetary policy normalisation did not cause rapid appreciation of the koruna. The CNB is expected to abide by its current policy in the quarters to come, although at a reduced pace.

### Banking sector

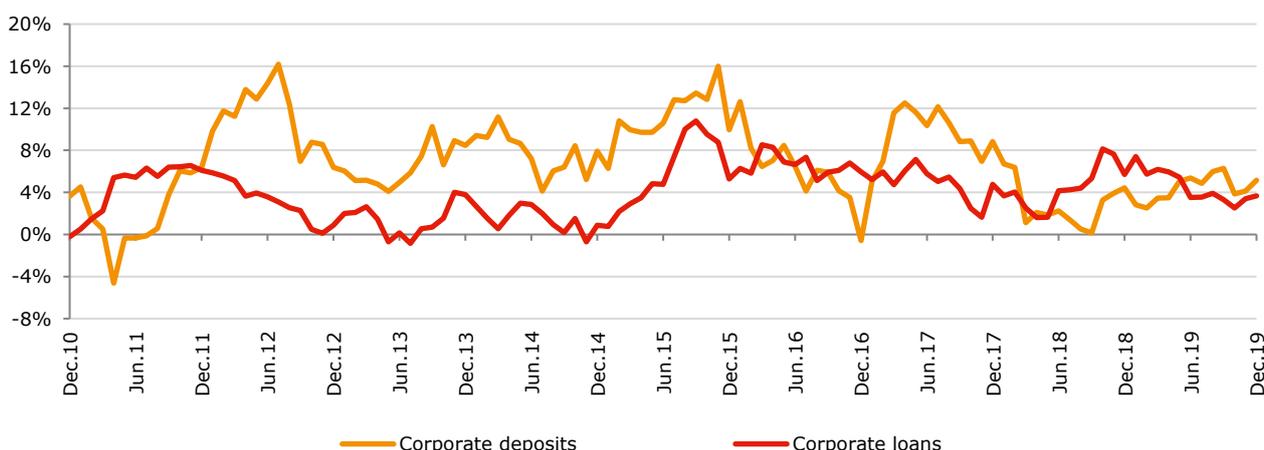
The favourable developments recorded in the Czech financial sector in past years continued into 2019. Good economic conditions were reflected in growth of the assets of the banking sector, which managed to maintain high profitability. Czech banks benefited mainly from rising monetary policy rates and their slower transmission to deposit rates than to loan rates, which allowed for a rebound of net interest margin. This, together with growing volumes, resulted in a double-digit increase of net interest income. A six-year downtrend of net fee and commission income was halted in 2018, but persisting competitive pressure has hindered any visible improvement of the line. Profits of the Czech banks have been also boosted by exceptionally low risk costs thanks to minor default rate, good recovery performance and some sales of impaired receivables. Asset quality remained very resilient as demonstrated by a further decrease of NPL ratio to 2.5% at the end of 2019 from 3.3% observed a year earlier, which is the lowest level compared to other countries in the CEE region. Funding and liquidity profiles continued to be solid with the sector's loan-to-deposit ratio of 72.8%. Czech banks have been very well-capitalized. However, responding to the risk associated with the phase of the business cycle, the central bank (ČNB) has been gradually rising the countercyclical capital buffer rate. It amounted to 1.50% in H2 2019, and starting from January 2020 was raised by 25 basis points to 1.75%, while another increase to 2.00% has been announced with effect from July 2020.

**The Czech Republic: Household Loans and Deposits (YoY dynamics)**



The growth in total loans to households maintained above 6% in 2019, but the annual dynamics decelerated slightly compared to the 2 preceding years. The development was predominantly driven by mortgage loans, which expanded by 9.3% from December 2018, while the volume of consumer and other loans showed a much slower increase during the same period. The ČNB tightened mortgage lending conditions as of October 2018, stating that the loan should not exceed nine times the net annual income of applicants, who should also spend no more than 45% of their net monthly income on debt service. The ČNB also recommended that the loan-to-value (LTV) ratio should not exceed 90% and that a LTV of over 80% should be for only 15% of loans provided by banks. The share of non-performing loans in the total volume of loans to households was 1.7% in December 2019, declining from 2.1% at the end of 2018. After a slight slowdown in Q1 2018, the annual growth pace of household deposits regained to 8% in December 2018 and then it inverted again, approaching to 6.5% at the end of 2019. The maturity structure of deposit base was evolving significantly in 2013-2018, with demand deposits rising at double-digit rate and term deposits falling on average by 5% annually. However, 2019 brought some reversal of this long-lasting trend as inflows to term deposits reappeared.

**The Czech Republic: Corporate Loans and Deposits (YoY dynamics)**



Expansion of the outstanding corporate loan volume slowed down slightly in H2 2017, showing a subdued growth until mid-2018. After an acceleration at the turn of the year, the annual dynamics stabilized in the range of 3-4% in H2 2019. The share of non-performing loans in the total volume of loans to non-financial corporations has been constantly declining since 2011 and amounted to 3.2% at the end of 2019, compared to 3.6% a year earlier. Corporate deposits decelerated visibly during 2018, reaching near zero growth pace in September. Then, the dynamics restored and oscillated around 5% in H2 2019.

## Economy and the banking sector in Slovakia

Key macroeconomic parameters	2019	Banking sector indicators	2019
Real GDP growth rate (forecast)	2.7%	Base interest rate	0.00%
Nominal GDP per capita (EUR)	16,500 <sup>1</sup>	Loan to Deposit ratio	104.5%
GDP per capita in PPS (EU-28=100)	73.1% <sup>1</sup>	NPL ratio	2.6%
Average annual inflation rate	2.7%	Total Capital Ratio (TCR)	18.3% <sup>1</sup>
Average annual unemployment rate	5.8%	Return on Assets (ROA)	0.6% <sup>1</sup>
Population	5.4 million	Return on Equity (ROE)	6.5% <sup>1</sup>

Source: Eurostat, Národná banka Slovenska (NBS).

<sup>1</sup> Cumulative data for 9 months (as at September 30, 2019) or the latest data available

### GDP, inflation and interest rates

The Slovak economy continues to grow steadily. After a 4.0% increase in GDP in 2018, the country's economy is estimated to have grown by 2.7% in 2019 due to weaker growth in investment and private consumption. The slowdown in investment was driven by lower inflow of EU funds and mounting trade tensions. Private consumption, in turn, has slowed down compared to the record highs in 2017, but still remains strong. It benefits from the continuous improvement in the labour market, subdued inflation, and the resulting growth in real disposable incomes.

As an Eurozone member, Slovakia has its reference rate set by the European Central Bank (ECB). In 2019 there was only one change in interest rates, i.e. a cut in the deposit facility rate.

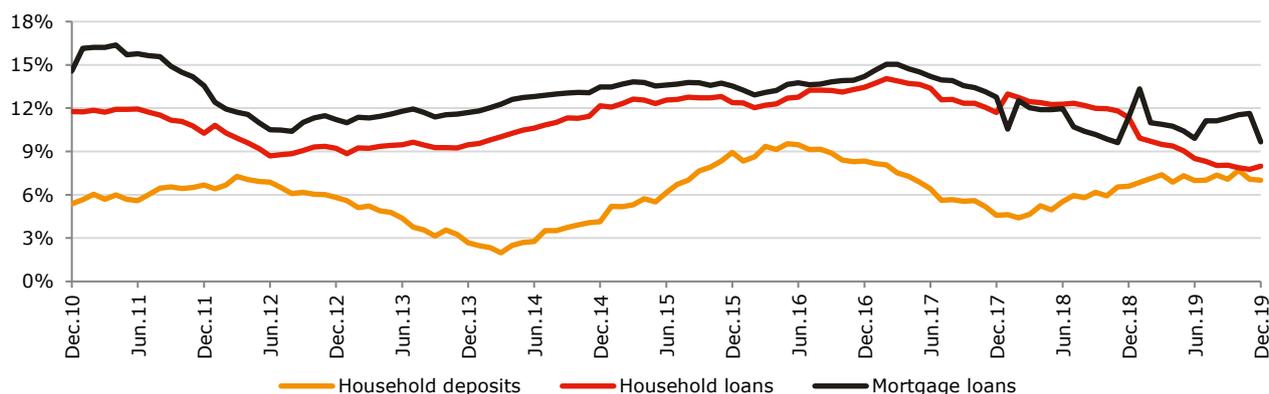
The inflation rate stood at 2.7% in 2019, up from the 2.5% rise in consumer prices observed a year before. The reading was inflated by some components of the core part of the inflation basket. Inflation in Slovakia is thus higher than the Eurozone average.

The unemployment rate has been falling gradually since 2014 thanks to growing economic activity and creation of new jobs. The seasonally adjusted unemployment rate stood at 5.8% in December 2019 which represents a year-on-year decrease.

### Banking sector

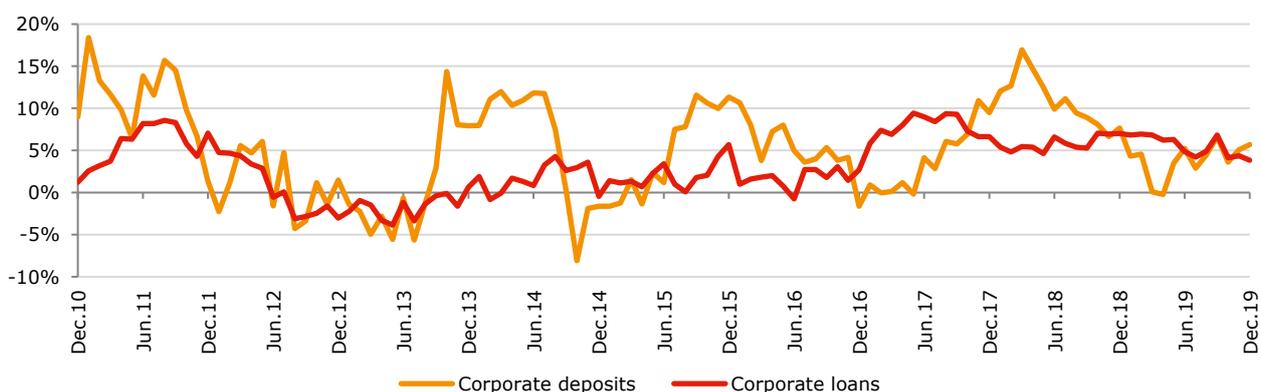
Although Slovak banks have operated in a relatively supportive economic environment in recent years, their profitability has remained lower than in many countries of the CEE region. The protracted period of ultra-low interest rates has continued to put pressure on their business model. In 2019, a further expanding lending activity was not enough to compensate for falling net interest margin, what resulted in negative dynamics of net interest income and consequently a marginal decline of total banking revenues. In addition, banks in Slovakia have been paying the special levy, which at present is set at 0.2% of total liabilities per year and costs the sector around 18% of its net profit on average. A key counterbalancing factor has been development of loan impairment provisions. The credit risk costs have descended significantly over the past years and is now at a historically low level, but the default rate has stopped falling. The improvement of asset quality was mainly the result of both dynamic expansion in loans and a decline in the stock of non-performing receivables. The NPL ratio for Slovakia is among lowest in the CEE region, reaching 2.6% at the end of 2019 and dropping from 2.7% a year earlier. The overall loan-to-deposit ratio continued to be above 100% in 2019, but did not materially change compared to the end of 2018. The Slovak banking sector's resilience has been strengthened by its increasing capital adequacy. However, at its meeting in July 2019, the Board of Slovak National Bank decided to increase the countercyclical capital buffer rate for Slovak exposures by 50 basis points, to 2.0% of risk weighted assets, with effect from August 2020.

**Slovakia: Household Loans and Deposits (YoY dynamics)**



The growth rate of total loans to households gradually moderated in 2019, to 8.0% at year-end. The slowdown was particularly large in the case of consumer loans. Its main causes were the central bank’s tightening of regulatory lending requirements and the incipient saturation of certain market segments. The volume of new housing loans has surged, partly due to borrowers taking advantage of lower rates to refinance or top up their existing loans. The portfolio expanded by more than 10% for most of the year. The continuing high loan growth has largely reflected strong demand supported by a long-running uptrend in borrowing capacity. According to the local central bank, thanks to wage growth and falling interest rates, the loans that borrowers can afford are one-third higher now than they were in 2016. This increase is roughly consistent with the rise in residential prices over the same period. The share of non-performing loans in the total volume of loans to households remained broadly stable and reached 2.9% in December 2019. Development of retail deposits showed a constant downward trend from mid-2016 and bottomed out in Q1 2018. Then, client inflows accelerated, what translated into faster annual dynamics, which stabilized at around 7% in H2 2019. Since the mid-2013 the structure of household deposit base has been changing. The volume of term deposits has been mostly decreasing over the past years, what was more than compensated by strong growth of retail demand deposits, which continued to expand by more than 10% in 2019.

**Slovakia: Corporate Loans and Deposits (YoY dynamics)**



In 2017, the corporate credit market was in the expansionary phase of its cycle, with the average annual growth rate oscillating at around 7-8%. For most of 2018, the volume increase remained slightly decelerated to mid-single digit, while the pace advanced to 7.0% in December. The Slovak economy’s recent slowdown had an impact on the activity of enterprises in H2 2019. The year-on-year increase in total loans to this segment decelerated to around 4%, mostly driven by lower financing granted for investments and contracts with terms longer than one year. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 3.3% at the end of 2019 from 3.7% in 2018. After an acceleration of corporate deposits from mid-2017 to a local peak in Q1 2018, the year-on-year dynamics visibly slowed down and finally recorded 0% in April 2019. In H2 2019, the annual growth rebounded and ended the year at around 5%.

## 2.2. Market and regulatory environment – key challenges and actions taken



mBank Group is an active participant and often a leader of changes introduced in expectation of and in response to developments in its environment, including the area of regulations and technology. The Group employees spare no effort in proactively adjusting the offer and principles of operation to new challenges, always with an eye on building top quality relationships with stakeholders. Some of the requirements imposed on mBank and the Group subsidiaries do not affect clients directly, but still involve a heavy workload connected with adjusting internal processes. Below we discuss selected key developments significantly affecting mBank Group observed in 2019 or expected in the nearest future. Capital requirements and regulations on accounting and reporting standards have been addressed in dedicated sections of the report.



### **Clients and products**

#### **Ruling of the Court of Justice of the European Union dated October 3, 2019, in case C-260/18 (Dziubak vs Raiffeisen Bank International AG)**

On October 3, 2019, the Court of Justice of the European Union issued the ruling in the prejudicial mode regarding a mortgage linked to the Swiss franc granted by a Polish bank. The submitted prejudicial questions were to determine, among other things, if a generally applicable custom can be used where there is no provision in domestic law that could replace an abusive exchange rate clause. In accordance with CJEU's ruling, the question of abusiveness will be decided by Polish courts. CJEU did not refer to this issue. In addition, CJEU did not make a clear-cut decision regarding the consequences of an exchange rate clause being considered abusive by a domestic court. However, the possibility of a credit agreement being performed further in PLN and with interest calculated according to LIBOR was found doubtful by the Court. If an exchange rate clause is found abusive, a domestic court must decide whether the agreement in question can be performed further or should be declared invalid, taking into account the client's will and the consequences of invalidity for the client. CJEU approved the application of a disposable norm (in the bank's opinion article 358 of the Polish Civil Code referring to the NBP fixing rate can be considered to be a disposable norm), if the invalidity of the agreement would be unfavourable for the client. CJEU rejected the application of general provisions referring to a custom or equity principles.

There are individual court proceedings initiated against mBank by its customers in connection with CHF loan agreements. Out of the individual proceedings, 2,902 proceedings with the total value of claims amounting to PLN 430.1 million related to indexation clauses in CHF loan agreements and include claims for declaring invalidity of the loan agreements in part (i.e. to the extent that the agreement contains contractual provisions related to indexation) or in whole. The final rulings to-date in the indexation clauses proceedings are favourable to the Bank in the majority of the cases.

As far as the legal proceedings relating to indexation clauses in mortgage and housing loans in CHF are concerned, in the opinion of the Management Board of the bank, the current state of judicial decisions is unstable and the line of verdicts is not consistent, hence it is extremely difficult to estimate the level of provisions for the legal risk associated with this portfolio of loans. The bank believes that currently observed market practice of implementing of portfolio approach towards creation of provisions for legal risk relating to such cases is to some extent the response to ongoing public debate and position of audit firms. These methodologies are burdened with numerous doubts and assumptions that reflect current court cases statistics and the level of understanding of extremely diversified judgments that cannot yet be interpreted as a shaping line of verdicts at this stage. In the opinion of the Management Board of the bank a large part of court judgments unfavourable to banks results from misunderstanding of the essence of banking activity, which is reflected in the content of justifications for judgments issued. They undermine the basic paradigms of banking activity and regulatory directives to which banks are subject, which can lead to a deep redefinition of banking activity and questioning the current understanding of such categories as loan and interest.

Detailed information concerning proceedings before a court, arbitration body or public administration authority are described in the Note 32 of the mBank S.A. Group IFRS Consolidated Financial Statements 2019. mBank Group's approach to the calculation of legal risk provisions related to the indexation clauses

in the CHF loans agreements is described in greater detail in Note 4 Major estimates and judgments made in connection with the application of accounting policy principles.

### **Real estate financing – Recommendation S of PFSA**

On December 3, 2019, the Polish Financial Supervision Authority (PFSA) passed amendments to Recommendation S, a best-practice guideline for the management of mortgage-backed credit exposures. The amended recommendation sets out new principles for offering fixed rate or semi-fixed rate mortgages by banks and allows clients to change their existing floating rate loans into fixed rate (or semi-fixed rate) loans. In addition, the recommendation introduces a new “key for debt” option, under which a client who transfers the ownership of a real property financed by a bank loan to the bank has his/her debt cancelled by the lender. However, the new Recommendation S does not oblige banks to offer this new solution, but only sets out the best practice for its application. When launching a new product, in particular fixed rate (or semi-fixed rate) loans, banks are obliged to provide clients with full information about the product and the risk it carries as well as to sell the product to clients according to their needs and understanding. Commercial banks must comply with the amended Recommendation S by December 31, 2020.

### **Act on Amending the Act on Assistance to Home Loan Borrowers in a Difficult Financial Situation and Certain Other Acts**

On July 4, 2019, the Sejm passed the Act on Assistance to Home Loan Borrowers in a Difficult Financial Situation, which entered into force on January 1, 2020. The new regulation modifies the eligibility criteria for borrowers, in particular, by raising the minimum income entitling borrowers to apply for assistance, increasing the monthly support from the Fund from PLN 1,500 to PLN 2,000, and extending the period of assistance from 18 to 36 months and the period of interest-free repayment from 8 to 12 years. In addition, the act provides for a partial cancellation of debts owed to the Fund, in particular, for borrowers who repay their instalments in a timely manner. Moreover, a borrower who sells a property financed by a bank loan may apply to the Borrower Support Fund for an interest-free loan when the proceeds from the sale are too low to cover the borrower’s debt in whole, on the terms and conditions applicable to borrowers applying for assistance in the repayment of credit instalments. The said regulations apply to borrowers who took out loans in the Polish zloty and in foreign currencies.

### **Ruling of the Court of Justice of the European Union dated September 11, 2019, in case C-383/18, announcement of the Polish Bank Association on starting work on amending the Consumer Credit Act, resolution of the Supreme Court dated December 12, 2019**

In its judgement of September 11, 2019, the Court of Justice of the European Union ruled that Article 16 (1) of Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers and repealing Council Directive 87/102/EEC must be interpreted as meaning that the right of the consumer to a reduction in the total cost of a credit in the event of early repayment of the credit includes all the costs imposed on the consumer. The CJEU ruling, its consequences, and their implications are currently subject to economic and legal analyses. Detailed information about actions taken by mBank to comply with the ruling is provided in Note 4 to the mBank S.A. Group IFRS Consolidated Financial Statements 2019.

### **Act of August 30, 2019, on Amending the Bankruptcy Act and Certain Other Acts**

The purpose of amendments to the Bankruptcy Act passed in 2019 is to simplify and facilitate the consumer bankruptcy process. The amended regulations apply to consumers unable to repay their debts. They serve to write off the debts of insolvent debtors and help creditors recover (collect) their receivables. Most of the new regulations will enter into force on March 24, 2020. The potential consequences of their introduction include a rising number of consumers declaring bankruptcy and new restrictions on debt collection under bankruptcy proceedings that may be imposed on banks.



### **Secure banking**

#### **Strong customer authentication under PSD2**

On September 14, 2019, banks implemented strong customer authentication in accordance with the Payment Services Act of August 19, 2011 and EU regulations on payment services and strong customer

authentication. It introduces an additional security step for clients logging in to their accounts and for payment transactions. Strong authentication uses at least two of the following three elements: something the user knows (e.g. PIN), something the user has (e.g. phone app) and something the user is (biometric data). For more information about mBank's actions taken to implement the new regulations, go to our website: <https://www.mbank.pl/psd2/strona-glowna/>.

### **Register of Beneficial Owners**

The Ministry of Finance has published on its website a Central Register of Beneficial Owners (Polish: CRBR) in accordance with the Act of March 1, 2018 on Anti-Money Laundering and Counter-Terrorism Financing. The purpose is to collect and process information on beneficial owners of companies, i.e. natural persons controlling companies, either directly or indirectly. By April 13, 2020 selected companies are obliged to register in CRBR, while information on new companies and changes in data registered in CRBR must be provided within seven days from the date of incorporation or the date of registration in the National Court Register (KRS), whichever applies. The purpose of maintaining a public register offering free access to information on beneficial owners is to improve confidence in the financial market and participants of business transactions.

### **Act of August 30, 2019, on Amending the Code of Commercial Partnerships and Companies and Certain Other Acts**

The act provides for mandatory dematerialisation of shares of non-public joint-stock companies and limited joint-stock partnerships. It means that every shareholder will be mandatorily entered in registers kept by entities indicated in the act, e.g. banks or brokerage houses. The amendments serve to improve the transparency of the capital market, give tax authorities enhanced access to shareholder information, and to counteract money laundering. In addition, the act obligates joint-stock companies and limited joint-stock partnerships to run their own websites for the required communication with shareholders.

### **Stance of the PFSA on the application of EBA Guidelines on outsourcing arrangements**

On September 16, 2019, the Office of the Polish Financial Supervision Authority (PFSA) announced its intention to apply the Guidelines on outsourcing arrangements published by the European Banking Authority (EBA) on February 25, 2019 (EBA/GL/2019/02). The guidelines set out principles for managing outsourcing arrangements, in particular critical or important functions outsourced to service providers. Among others, the guidelines set out detailed requirements concerning the minimum content of outsourcing arrangements as well as principles of selecting service providers, developing exit plans, and managing risk inherent in the process. Banks have been obliged to comply with the guidelines by June 30, 2020 with the exception of cloud outsourcing, which will be governed by a national framework. Apart from facilitating the management of outsourcing arrangements at banks, the revised guidelines also seek to address the technological development and digitalisation in the sector.

### **Act on Strengthening Financial Market Supervision and Protection of Investors**

July 1, 2019, was the effective date of new tighter regulations on bond issues and the resulting disclosure obligations introduced under the Act of November 9, 2018 on Amending Certain Acts in Connection with Strengthening Financial Market Supervision and Protection of Financial Market Investors. Aiming at greater transparency and security of bond issues, the regulations stipulate, among others, mandatory dematerialisation of securities and their registration in the securities depository, and oblige issuers to involve an issue agent in the process, i.e. a professional entity tasked with verifying whether an issue complies with law.



### **Organisational changes arising from new regulations**

#### **Act on Employee Capital Plans**

On January 1, 2019, the Act on Employee Capital Plans (Polish: PPK) entered into force. It establishes legal framework for a universal and voluntary pension savings system. In line with the assumptions of the government's Strategy for Responsible Development, PPK may increase not only the individual pension savings of employees, but also the overall savings in Poland and give a positive boost to the capital market. On July 1, 2019, employees of the largest companies were the first to join the programme. The act affects

the operation of banks both directly (with banks being employers withholding PPK contributions) and indirectly (via its presence on presumably revived the capital market, on which financial institutions play an active role).

### **Recommendation B restricting banks' investment activity**

On March 26, 2019, the Polish Financial Supervision Authority released the amended recommendation on investment risk management at banks. The recommendation reflects supervisory expectations and good practices regarding banks' proprietary investments in financial instruments or shares in companies, but not in derivatives. Among others, the recommendation outlines expectations about investment strategy and policy, staff qualifications and internal procedures that banks must have in place, in keeping with the proportionality principle.

### **Act of January 17, 2019, on Amending the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution and Certain Other Acts (the "BFG Act")**

On March 7, 2019, the amended BFG Act setting out detailed principles of banks' resolution entered into force. Its purpose is to streamline the resolution procedure and strengthen the deposit guarantee scheme. In particular, a new category of claims satisfied from the bankruptcy estate of a bank was added to Bankruptcy Law in order to improve the effectiveness of the bail-in tool. Moreover, the PFSA was further empowered to decide on the takeover of a bank by another bank when the conditions set out in law materialise (e.g. when a bank's own funds fall below the required minimum) and the BFG was authorised to support this process. At the same time, mortgage banks were exempt from certain provisions of the act and the obligation to include the bail-in clause in the terms and conditions of issue and in financial instruments agreements was limited.

In April 2019, the PFSA permitted the BFG to set up the first bridge bank in Poland ("Pierwszy Bank BFG") as its sole owner. In December 2019 another bridge bank was set up, under the name "Bank Nowy BFG". In accordance with the BFG Act, a bridge bank, being one of the resolution tools, allows for continuing the critical functions of a bank placed under resolution and protects the financial stability of the banking sector after the resolution procedure has been instigated. In January 2020 a dedicated part of cooperative bank Podkarpacki Bank Spółdzielczy, which is under resolution, was moved to Bank Nowy BFG.

### **CRR 2 and CRD 5**

On June 7, 2019, a package including CRR 2 and CRD 5 was published in the Official Journal of the European Union. The regulations govern long-term liquidity (introduction of NSFR), market risk in the trading book, leverage ratio, interest rate risk in the banking book, proportionality principle and special approach to financing SMEs and infrastructure projects. The broad scope covered by the package requires banks to make numerous adjustments, e.g. as far as measurement of capital used by products or stress testing are concerned, but the transitional provisions give banks time to gradually adjust to the new regulatory framework. At the same time, discussions about the Basel IV areas not covered by the CRR 2/CRD 5 package, in particular the revision of the standardised approach and the IRB approach for credit risk, are underway. Banks take active part in analysing the proposed solutions.

### **IFRS 16**

Starting from January 1, 2019, institutions applying the International Financial Reporting Standards are obliged to comply with IFRS 16 *Leases*. The obligation to recognise lease contracts in the balance sheet (not in the off-balance sheet as before) affects the level of financial ratios. At mBank we have analysed all contracts falling within the scope of the standard. We adjusted our accounting policy and operational procedures. Moreover, we modified our IT systems to improve data collection and processing.

### **Commission Implementing Regulation (EU) 2019/482 of March 22, 2019, amending Commission Implementing Regulation (EU) 2016/1368 establishing a list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council**

On March 26, 2019, Commission Implementing Regulation (EU) 2019/482 entered into force. Under the regulation, the Warsaw Interbank Offered Rate (WIBOR) was recognised by the European Commission as a critical benchmark. The decision was an element of a broader reform of benchmarks used to determine the price of many financial instruments and financial contracts. Since WIBOR was recognised as a critical

benchmark, the period for bringing it into compliance with the EU Benchmarks Regulation (Regulation 2016/1011 of June 8, 2016 or BMR) was extended by two years. As a result, GPW Benchmark S.A. (WIBOR administrator) is obliged to implement all necessary modifications by the end of 2021. On July 19, 2019, the PFSA published its stance on the standard for the provision of benchmarks arising from Regulation 2016/1011 in which it emphasized the need to remain flexible in determining benchmarks due to the volatility of financial markets. In accordance with the PFSA's stance, lenders are obliged to inform consumers about the names of benchmarks and their administrators, while the responsibility for defining and formulating the method for determining benchmarks rests with benchmark administrators.

### 2.3. mBank Group's market position of segments

Our objective is to provide an attractive offer to a wide range of clients while achieving business and financial goals. This is reflected in the development dynamics in particular areas: the non-mortgage loan portfolio for retail clients in 2019 increased by 17.4% at mBank compared to 5.0% for the sector (based on NBP comparable data). Market share in the mortgage loans segment increased to 7.3% throughout the year.

#### Performance indicators<sup>1</sup>: mBank vs sector

Net interest margin **2.63%** vs 2.51%

Cost-to-income ratio **50.5%** vs 55.4%  
(including banking tax)

Return on Assets **0.66%** vs 0.75%

Return on Equity **6.6%** vs 7.1%

Loans to deposits **90.3%** vs 90.2%

The market position and shares of mBank and selected subsidiaries at the end of periods are illustrated in the following table:

Business category (# - market position)	Market share			
	2016	2017	2018	2019
<b>Corporate Banking</b>				
Corporate loans	6.1%	6.4%	6.6%	<b>7.5%</b>
Corporate deposits	10.1%	9.6%	9.0%	<b>9.9%</b>
Leasing	6.9%	7.4%	7.4%	<b>6.8%</b>
Factoring ( <b>#5 on the market</b> )	7.3%	7.2%	7.9%	<b>7.9%</b>
<b>Retail Banking in Poland</b>				
Total loans	6.5%	6.3%	6.5%	<b>7.0%</b>
of which mortgage loans	7.5%	6.9%	6.9%	<b>7.3%</b>
Non-mortgage loans	5.0%	5.4%	5.8%	<b>6.5%</b>
Deposits	6.1%	5.9%	6.4%	<b>7.0%</b>
<b>Retail Banking in the Czech Republic</b>				
Total loans	1.4%	1.4%	1.4%	<b>1.3%</b>
of which mortgage loans	1.8%	1.7%	1.6%	<b>1.4%</b>
Non-mortgage loans	0.7%	0.8%	0.9%	<b>1.0%</b>
Deposits	1.6%	1.6%	1.7%	<b>1.6%</b>
<b>Retail Banking in Slovakia</b>				
Total loans	0.7%	0.6%	0.6%	<b>0.7%</b>
of which mortgage loans	0.8%	0.6%	0.6%	<b>0.6%</b>
Non-mortgage loans	0.4%	0.6%	0.7%	<b>0.8%</b>
Deposits	1.6%	1.7%	1.8%	<b>1.9%</b>
<b>Investment Banking</b>				
<b>Financial markets<sup>3</sup></b>				
Treasury bills and bonds	16.2%	14.8%	14.3%	<b>11.3%</b>
IRS/FRA	11.5%	12.5%	10.7%	<b>15.1%</b>
Non-Treasury securities (the value of debt)				
Short-term debt securities ( <b>#3 on the market</b> )	9.8%	7.4%	11.6%	<b>9.2%</b>
Corporate bonds ( <b>#3 on the market</b> )	11.5%	12.9%	12.0%	<b>12.1%</b>
Bank debt securities <sup>4</sup> ( <b>#1 on the market</b> )	34.6%	31.2%	23.4%	<b>23.8%</b>
Brokerage				
Equities trading ( <b>#13 on the market</b> )	4.4%	5.3%	4.1%	<b>3.4%</b>
Futures ( <b>#3 on the market</b> )	12.3%	11.9%	15.6%	<b>13.0%</b>
Options ( <b>#5 on the market</b> )	9.7%	12.8%	12.0%	<b>9.4%</b>

Source: Own calculations based on data from mBank, NBP, WSE, Česká národní banka (ČNB), Národná banka Slovenska (NBS), Fitch Polska, Polish Factors Association, Polish Leasing Association, press reports.

<sup>1</sup> mBank Group ratios calculated as defined in chapter 6. Financial position of mBank Group and mBank in 2019, except for Net Interest Margin which was adjusted to sector calculation (net interest income divided by average total assets).

Sector data as at December 31, 2019 (released on February 14, 2020). Sector ratios calculated based on the monthly data of banking sector published by PFSA (banking sector together with branches of credit institutions).

**Net interest margin:** net interest income divided by average total assets (calculated based on the end-of-month data)

**Cost/Income ratio (incl. banking tax):** total costs (sum of administration costs and depreciation) divided by net total operating income.

**Return on assets:** profit for the year divided by average total assets (calculated based on the end-of-month data)

**Return on equity:** profit for the year divided by average total equity (calculated based on the end-of-month data)

## **mBank S.A. Group**

### Management Board Report on Performance of mBank S.A. Group in 2019

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**Loan to deposit ratio:** *sum of loans and advances at amortised cost, loans and advances/other receivables at fair value through other comprehensive income and loans and advances/other receivables designated at fair value through profit or loss divided by deposits (measured at amortised cost) as of the end of period.*

<sup>2</sup> 2017 market share updated compared to value presented in the Management Board Report on Performance of mBank S.A. Group in 2017 due to update of data by the Polish Factors Association.

<sup>3</sup> Data as at November 2019

<sup>4</sup> Excluding "road bonds" issued by Bank Gospodarstwa Krajowego (BGK).

## 2.4. Outlook for the banking sector and mBank for 2020

### What will 2020 be like for the Polish economy?

Key macroeconomic parameters	2018	2019	2020F
GDP growth (YoY)	5.1%	4.1%	2.8%
Domestic demand (YoY)	5.3%	3.4%	2.8%
Private consumption (YoY)	4.3%	4.1%	3.4%
Investment (YoY)	8.9%	6.0%	-2.8%
Inflation (EOP)	1.1%	3.4%	3.0%
NBP reference rate (EOP)	1.5%	1.5%	1.5%
CHF/PLN (EOP)	3.81	3.92	4.06
EUR/PLN (EOP)	4.29	4.25	4.40

Source: mBank's estimates as at January 27, 2020. YoY – year on year, EOP – end of period.

The bank expects GDP growth to slow down in 2020 to 2.8% from 4.1% reported in 2019. As a result, the economic growth rate will temporarily fall below the potential output growth rate. This is attributable to several factors.

Firstly, a recovery in the household savings ratio, lower real increase in incomes and worsening sentiment (accompanied by the end of labour market tightening) will push growth in consumer spending down to approx. 3.0% year on year in the last quarter of 2020.

Secondly, the slowdown in public investment will continue; however, construction site activity will be spread unevenly across the year. Early in the year, the trends observed in H2 last year will be continued, in particular in road investment and investment of local governments. Towards the end of the year, the annual growth in public investment will pick up on favourable base effects and the start of a new mini cycle of investment of local governments. Nevertheless, the schedule of EU funding programmes has been fixed and the overall public investment will drop in 2020.

Thirdly, activity of foreign investors, a large contributor to the investment surprise seen in H1 2019, will start to recede. Judging from the past investment performance of entities dominated by foreign capital, the period of intensive investment activity is likely to last from four to six quarters. It means that in H2 2020 investment of private companies will no longer add to GDP growth.

The beginning of 2020 will be marked by rising inflation and followed by a period of deceleration. Inflation will be driven by, among other factors, an increase in regulated prices (of electricity and waste disposal), the secondary effects of growing energy prices and higher salaries, as well as base effects related to the prices of energy carriers and food. Consequently, inflation will rise to approx. 4.3-4.5% year on year in Q1. Over the next months the base effects in the food category and reduced pressure on prices (for cyclical reasons) will push inflation down to about 3% year on year at the end of 2020. It is worth stressing, however, that 2020 will be characterised by a very strong impact of non-economic (administrative and regulatory) factors on inflation. The projected inflation trajectory will be revised as new data will be released.

The economic slowdown accompanied by rising inflation is unlikely to become a tough nut to crack for the Monetary Policy Council. In our opinion, the MPC will keep low interest rates unchanged throughout the year. The MPC will probably consider the increase in inflation to be only temporary and posing no risk to the achievement of the inflation target as long as it will remain within the target band. We expect the MPC to further signal no rate changes until the end of its current term of office.

#### PLN

The bank does not expect any significant changes in the PLN exchange rates. The zloty is highly likely to weaken, but only subtly, in the first half of the year amid worse sentiment and USD appreciation. At the end of 2020 the zloty will stand at approx. PLN 4.40 per EUR, which is only marginally above the level reported at the beginning of the year. In addition, since the internal and external environments of the

Polish economy are in equilibrium, the exchange rate will be less affected by external factors, while its role as a mitigant of macroeconomic shocks will be limited.

Banking sector and monetary aggregates

<b>Banking sector - monetary aggregates</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>
Corporate loans	7.5%	3.0%	5.9%
Mortgage loans	7.0%	8.1%	9.0%
Non-mortgage loans	6.8%	6.4%	4.0%
Corporate deposits	4.3%	8.6%	6.8%
Household deposits	10.1%	9.1%	6.3%

Source: mBank's estimates as at January 27, 2020.

The loan to deposit ratio for the banking sector will decrease in 2020 as a result of strong growth in deposits, in particular household deposits, and a weaker increase in lending. Growth in deposits will be driven by households' shift from investment funds and financial assets to bank deposits and by a relatively high nominal increase in incomes. At the same time, growth in corporate deposits will not contract considerably in 2020. Demand for mortgages will slip into contraction amid a slowing housing market and deteriorating consumer confidence. Demand for consumer loans will be dampened by dwindling private consumption. Last but not least, growth in corporate loans (which will still be dominated by overdrafts and working capital loans) is expected to shrink.

**Outlook for mBank**

**Net interest income & NIM**

**(slightly positive)**



- Continued gradual increase of margin driven by changing structure of loan portfolio (more higher-yielding products).
- Very limited room for further reduction of funding costs.

**Net Fee & Commission income**

**(slightly positive)**



- Constantly rising client transactionality and strong client acquisition.
- Selective adjustment of tariff of fees and commissions.

**Total costs**

**(slightly negative)**



- Underlying expenses to be kept under control.
- Rising depreciation due to ongoing investments in IT.
- Potential higher contribution to the Bank Guarantee Fund.

**Loan Loss Provisions**

**(slightly negative)**



- Small downside risk due to changing loan book mix.
- Resilient asset quality supported by good financial standing of both retail and corporate customers.
- Expected slowdown in the Polish economy.

### **3. Strategy of mBank Group**

#### **3.1. mobile Bank - Strategy for 2016-2020 and mBank's activities**

Since 2016, mBank has been guided by its "mobile Bank" strategy, based on three pillars: Empathy, Mobility and Efficiency. Our strategic initiatives and operations focused on clients. We developed our competitive advantage in the mobile area. We continue to improve the resources management. We described the most important activities within the pillars of strategy in 2019 below.

#### **Empathy**

Empathy is a quality that is rarely associated with the financial sector. We use various tools to instil it in our organisational culture, our employees' mindsets, and our processes and products. Empathy helps us provide better customer service, improves relations with our partners, and enhances cooperation among our employees. We make sure our products and services meet four core requirements applied whenever we interact with our customers. The requirements include:

- addressing customers' needs – we fulfil customers' actual needs and solve their real problems;
- simplicity – we work in a simple and customer-friendly, almost inconspicuous manner;
- customer experience follows mBank's brand – we inspire positive emotions in line with brand positioning. We are a mobility icon and support our clients anytime and anywhere;
- trust – we make every effort to maintain high level of trust and earn it with every decision we make.

In order to help our employees better understand the bank's strategy, we have created the Snapshot ("Stopklatka"). It is a set of crucial, open-ended questions together with answers, dealing with customers' legitimate expectations from the bank and the desired way of cooperation within the organisation.

People are at the core of our empathy-related vision and strategy. That is why we provide our employees with know-how and indicate a course of direction for the bank's development. Every three months, the Management Board holds open staff meetings which are broadcast for everyone interested. Their objective is to comment on results, discuss strategic projects, and answer questions. Last year we invited over 800 line managers to take part in workshops on empathy. We encourage our employees to visit other places in the company for quick "work experience". Employees gain work experience in places where the bank meets customers: in retail and corporate branches, and the contact centre.

The corporate culture is also developed with the help of agents of change, also known as ambassadors. There are approximately 80 ambassadors from the head office, 30 ambassadors from the corporate branches, and 40 ambassadors from the retail branches. They make sure that our employees properly understand the definition of empathy and promote it in their respective units. Ambassadors meet with the members of the Management Board at least once a year to participate in strategy-related lectures and workshops. The meetings feature inspiring guest appearances. Last year we invited an expert in learning from one's mistakes, and trained empathy with improvisational actors. Workshops improve our knowledge of the way the bank works as a whole and allow us to test new solutions. Employee engagement surveys show that ambassadors have a better understanding of the concept and significance of empathy in the bank. They are more eager to indicate areas that work well and those in need of improvement to the team responsible for client-centricity and empathy. We know that empathy is in mBank's DNA.

Two years ago we introduced a new position of the Chief Ethics Officer to mBank. The Chief Ethics Officer (who also acts as the Plenipotentiary of the Management Board for Client-Centricity Culture and Client Relations) co-authors and coordinates ethical standards in the bank. She verifies the bank's compliance with the ethical standards and promotes ethical conduct among employees. Furthermore, the Chief Ethics Officer creates guidelines, issues opinions and helps employees solve ethical dilemmas. She is a member of the Anti-Mobbing Committee and represents the bank in the Ethics Committee of the Polish Banks Association. In 2019 we checked whether our employees know how to solve ethical dilemmas by surveying the popularity of reporting channels to file their questions. We launched an initiative to introduce training in ethics and implemented ethics in mSygnał as an additional category where our employees can report unethical conduct the same way other wrongdoing can be reported. The Chief Ethics Officer has addressed ethics-related topics and dilemmas in many off-site meetings with employees, including call center consultants, ambassadors of the empathy strategy, and members of the Management Board and the Supervisory Board. She also co-organised a manager conference on integrity, compliance and ethics for

approximately 700 employees. Our Chief Ethics Officer was in charge of the ethics panel during the European Financial Congress.

For over five years we have been implementing the rules of simple and empathetic communication in mBank under the "mKanon" project. We believe that good and effective communication is clear, informative, brief, correct in terms of language, honest, empathic and conveyed using the first-person perspective. In the first place we have changed communication in the call centre and the complaint-handling team, i.e. areas directly communicating with clients. We have made changes in internal communication in the bank, including the compliance, internal legislation, and security areas. We organise workshops for employees during which we teach them how to write to clients experiencing difficult time, e.g. clients subject to debt collection or whose relative has died. We try to increase employees' awareness in this respect by cooperating with ambassadors of mKanon (rules of clear, transparent and simplified communication). The group consists of 120 employees who help their co-workers to communicate more effectively. In 2019 we trained approximately 840 employees and organised 32 workshops. Fundacja Języka Polskiego (the Polish Language Centre) audited our communication and awarded measures taken by mBank with a language quality certificate. The President of the Management Board signed a regulation implementing the standard on internal communication in mBank.

To promote empathy at mBank, we take, among others, the following measures:

- We measure clients' loyalty and satisfaction by carrying out the survey defining the Net Promoter Score (NPS). On this basis, we identify key reasons why clients decide to recommend our brand to their friends and family; we analyse both corporate and retail clients in a relationship survey and at particular points of contact;
- We collect suggestions and assessments directly from clients thanks to digital solutions. For two years, we have been collecting customer feedback with the use of the "Share your opinion" option in the transaction system. In this way thousands of clients can share their thoughts about the bank. In 2019, we received a total of 142,732 scores, out of which 51,826 included comments.
- We also introduced the "design thinking" methodology to design processes and services for clients and employees. Design thinking is a method for launching products and services based on understanding of users' needs and problems. What is important from the point of view of the strategy, the first stage of the method is *emphatisation*, i.e. gaining broad knowledge about the client. We have appointed a group of mDesigners - design thinking coaches - who support projects using own expertise. Using this methodology we worked on new mobile app functionalities and cash management for travellers (travel mode). We also designed a tool for checking the status of applications for a mortgage loan in the transaction system and the model of assistance to be applied in retail branches. We also developed new standards for consultants and advisors, designed insurance project and communication project in procedure of mortgage loan granting and servicing. As testers, clients help us design and test new solutions. We encourage our clients to take part in surveys and workshops - in 2019, approximately 200 clients attended meetings in our mLab. Within the "Client's friend" initiative, clients provided us with 7,138 suggestions. We listen to our clients, analyse their needs, and improve our processes, products and services accordingly.
- We make it easier for customers with disabilities by providing them service which accommodates their special needs. The initiatives taken to improve access of persons with disabilities to financial services have been described in chapter 12 mBank and Corporate Social Responsibility.

## **Efficiency/operations**

At mBank we strive for efficiency both in serving our customers and performing operations invisible for outside world, but crucial for correct, quick and secure functioning of the bank.

In 2019, we continued the initiatives within the scope of the **DigitAll** programme. We implemented a standardised process maturity and quality matrix in the entire Operations area to continually increase process effectiveness. By carrying out initiatives and ongoing inspections, we optimised processes, thus increasing the efficiency of the Operations area by more than 10%. We finalised the implementation of the Business Process Management System, a platform for managing and automating complex business

processes, where subsequent processes are successfully launched in various areas of the bank. In order to ensure ongoing, continual analysis, optimisation, and monitoring of the effects of changes made to processes, we selected the provider of a process mining tool. Its implementation will be continued in 2020.

After the verification of the best solutions available on the market, we selected a provider and launched the platform for managing electronic documentation (ECM, Enterprise Content Management). We are migrating data and reducing the scope of existing document repositories. The first migrations were successful. Further migrations and deactivation of repositories are planned.

In the IT area, goals in the field of effectiveness were defined in the **Effect** programme. Within the programme, we focused on optimising the infrastructure use. Last year, we successfully consolidated data centres. We increased the utilisation of current resources (mass storage and servers) and optimised the resource purchasing process. Moreover, under the *Effect* programme, software must be developed so as to only use the required infrastructure capacity and manage efficiency well. Thanks to these activities, we reduced the IT costs growth rate more than twice. Additionally, changes made to the infrastructure have made its maintenance easier. Moreover, it enhanced infrastructure security and efficiency.

In 2019, we continued the cooperation with **Digital Teammates (DTM)** in the scope of robotising back-office processes. Since the beginning of 2018, robots have been working in the Operations area, in particular by supporting teams responsible for payments, monitoring, and instructions. Process automation makes it possible to cope with increased and one-off workloads, e.g. occurring as a result of regulatory requests, without the need to raise the headcount. Currently, robots provided by DTM handle 39 processes at mBank. The robots perform, among others, the following tasks:

- entering accounts for costs, fees and commissions related to payments (which they receive in Excel files) on a daily basis. They introduce required data in apps and authorise transactions based on relevant guidelines,
- supporting employees at the key stages of handling insurance policies (pertaining to mortgage loans and car loans), i.e. registering relevant applications in the app, uploading document scans and entering client data in the archiving app. At the final stage of the process, robots verify if human-entered data were correctly copied to other banking systems and correct them if necessary,
- facilitating the preparation of bank references and credit opinions. The robots search for necessary data in the banking systems based on a client's instruction. Then, they enter the data in the bank reference/credit opinion form, which is then submitted to the client.

In parallel to increasing effectiveness in Operations and IT, a project aimed at creating a single data warehouse has been implemented at the bank in the recent years. Thanks to these efforts, **Common Data Layer (CDL)**, a single platform containing detailed data from the areas of corporate banking, retail banking, and brokerage operations, was established. CDL functions as a data warehouse, which uses a logical relational data model to link data from key areas of the bank, such as the general ledger, client data, contracts, agreements, products etc. All data warehouse users can apply uniform definitions of terms available in CDL thanks to the Dictionary of Business Terms. We strive to ensure a high level of CDL data correctness. To this end, we have developed relevant quality principles in cooperation with the Data Quality Management (DQM) project team, which is responsible for enhancing data quality in the whole organisation.

## **Mobility**

In 2019 we continued our systematic development of the mobile application. During this time, mBank provided 15 application updates, which confirms the organisation's ability to make agile changes and respond to customer expectations. The work on the application was mainly focused on improving usability and communication as well as sales activities.

More information on mBank's mobile app can be found in chapter 1.7. Key projects and innovations of mBank Group.

### 3.2. Financial objectives achieved in 2019

mBank Group financial aspirations and their achievement in periods allowing for comparison to the sector are presented in the table below. The reference base is understood as the peer banks listed on the WSE.

Financial measure	Target point	Performance of mBank Group <sup>1</sup>	Comment on achievement
Cost efficiency, <b>Cost/Income ratio (C/I)</b>	<b>Top 3 in Poland, each year</b> i.e. to be one of the three most cost-efficient banks listed in Poland	<b>C/I</b> 2019: 42.2% <b>#3</b> among peer banks (9M 2019)	According to the Polish Financial Supervision Authority's (PFSA) data, the ratio for the banking sector in Poland reached 55.4% in 2019, including the banking tax (for mBank Group 50.5% respectively).
Return on Equity, <b>Net ROE</b>	<b>Top 3 in Poland, each year</b> i.e. to be among the three most profitable listed banks in Poland from the standpoint of ROE adjusted for dividend distribution	<b>ROE net</b> 2019: 6.6% <b>#6</b> among peer banks (9M 2019)	The ratio for the banking sector in Poland according to PFSA's data was 7.1% in 2019.
Return on Assets, <b>Net ROA</b>	<b>Top 3 in Poland, in 2020</b> i.e. to be one of the three listed banks in Poland with the highest return on assets	<b>ROA net</b> 2019: 0.66% <b>#7</b> among peer banks (9M 2019)	The ratio for the banking sector in Poland according to PFSA's data amounted to 0.75% in 2019.
Capital position, capital adequacy in terms of core capital <b>CET1 ratio</b>	Maintain the ability to pay out dividend in terms of CET1 ratio, each year - maintain the CET1 ratio <b>at least 1.5 pp. above the capital requirement for mBank</b>	<b>CET1</b> 2019: 16.5%	According to the data as at September 30, 2019, mBank had the <b>second best</b> capital position among the peer banks listed on the WSE; CET 1 ratio for banking sector in Poland reached 17.0% as at the end of September 2019, according to PFSA's data.
Financial stability, <b>Loans/Deposits ratio (L/D)</b>	Maintain an L/D ratio of no more than <b>slightly above 100%, every year</b>	<b>L/D</b> 2019: 90.3%	The ratio for the banking sector in Poland reached 90.2% according to PFSA's data as at the end of 2019.

<sup>1</sup> Comparison to peer group was prepared based on the information as of September 30, 2019 owing to lack of actual data.

### 3.3. Growth fuelled by our clients - new strategy for 2020-2023

In December 2019, we adopted the new **Strategy of mBank Group for 2020-2023** titled "**Growth fuelled by our clients**". It was developed as our response to the current changes in the market and regulatory environment and the expected trends in the future. We took into account, among others, economic prospects, technological progress, evolution of consumer behaviour and expectations, local constraints as well as internal conditions. Building upon the experience gathered during the implementation of the previous strategy, we confirm that mBank Group's mission and values continue to be valid under the new plan.

The macroeconomic and regulatory environment in Europe is becoming increasingly demanding for the banking sector. Although Poland remains the leader of economic growth and the central bank keeps positive

interest rates, GDP growth in subsequent years will be lower than in the past. In the long run, the challenge will be also an ageing population. In addition, banks is also subject to competitive pressure from the so-called fintechs. These entities are characterised by light structures, innovativeness and the use of new technologies. At the same time, they are subject to less regulatory rigour, which makes it easier for them to compete with traditional banks in terms of selected products and services. The threat may be also technological giants from the United States and China, i.e. the so-called GAFA (American Google, Apple, Facebook, Amazon) and BAT (Chinese Baidu, Alibaba and Tencent). They have an access to unique data in real time and a huge base of potential customers as well as the ability to deal with large volumes of information. This gives the opportunity to analyse and assess the creditworthiness of individuals and companies, which until recently was a competence reserved for banks. It shows that the financial market will undergo an intensifying transformation.

In the strategy for 2020-2023, we will focus on **4 areas, corresponding to the key components of its business model**:

- **Client (acquisition and long-term relationships)**: As a bank, we will be growing organically by constant attracting new clients (especially young and firms) and strengthening our position in the 30-45 age group. We will improve the retention of individual customers by developing products that anchor them in the bank at particular stages of their life cycle. In the corporate segment, we will shape our customer portfolio by anticipating trends and changes in the market environment, while maintaining a high diversification of exposures. We will expand our knowledge of customers in order to more precisely identify and satisfy their needs by constructing a personalised offer. In pursuance of the assumptions of empathy, we will communicate with our clients in an understandable way and distinguish ourselves by the transparency of the offer, including our pricing policy.
- **Platform (ecosystem and user experience)**: We will be constantly improving remote bank access channels and promote digital self-service. We will give the leading role to the mobile application, which will have the same scope of functionality as the Internet banking service, while contact center and outlets will play a supportive role. We will be developing the retail platform by supplementing it with value-added services and the offer of selected partners, including non-financial ones. Focused on providing convenience, ease and speed of use, we will build the best digital banking for corporations in Poland.
- **Efficiency (operational advantage)**: We will maintain the technological advantage in the financial sector. We will rely on agile interdisciplinary teams to design and deliver end-to-end solutions. We will modify IT architecture using industry best practices. We will increase the digital self-service of our customers while optimising our sales network. We will improve the operational efficiency of mBank by implementing automation on a large scale and simplifying processes.
- **Employees and organisation culture**: We will ensure that the work environment and its organisation in mBank Group will foster efficiency, cooperation, high engagement and the creation of innovative solutions. We want to make managers think outside the box and inspire development, and employees who seek new solutions and take care of our clients. We will use technology to relieve employees from routine tasks and implement automated tools to facilitate compliance with regulations.

For the first time, **the ESG/CSR strategy** has also become an integral part of the document. As mBank Group, we intend to conduct our business in accordance with the principles of sustainable development. We want to educate, take care of the climate and the environment and promote prosperity.

### **3.4. Pillars of the strategy and main directions of development**

In view of the dynamically changing business and regulatory environment, mBank Group will be monitoring and actively responding to market opportunities and threats. As a universal bank, we will provide a full range of products and services through all access channels. Our growth will be fuelled by new and existing, retail and corporate, clients. Therefore, we will remain focused on acquisition in the target segments and the development of long-term customer relationships. The key challenge for the coming years will be to maintain mBank's market position in the conditions of unfavourable demographic dynamics.

In line with the market perception of our brand, we intend to be a modern, technologically advanced and friendly bank, which offers products that are understandable to the customer as well as fast, intuitive

solutions. Due to the better use of data, the service will become more personalised. The transactionality will remain a key element of our development, as it is a space of daily, most frequent interactions between the bank and the customer. We will build our offer based on the mobile first paradigm, increasing the share of sales and services in the digital area. We want to be appreciated for our quality, professionalism, innovation, reliability and security. In our daily operations, we will take into account the aspects of corporate social responsibility and sustainable development.

At mBank, "we are distinguished by people", and their commitment, competence and work input are the foundations of our achievements. Therefore, we want to recruit and retain employees with a specific profile that match our values and challenges for the future. Adjustments to the organisational structure, promotion of internal transfers or projects implemented jointly by people from different areas will support the culture of cooperation within the Group.

In financial terms, we will focus on building the long-term value of the company, backed by a positive trajectory of the results. Our revenues will be growing faster than costs, translating into further improvement in efficiency. We intend to increase business volumes and our market share and at the same time take care of efficient use of capital. A change in the structure of the loan portfolio and the entire balance sheet will have a positive impact on margin and profitability. Our goal is to ensure a satisfactory return for mBank's shareholders.



Key initiatives and business activities which we intend to undertake and execute in the horizon of this strategy have been grouped into 4 strategic blocks:

1. Client (acquisition and long-term relation development)

Our goals:

- **to grow organically through the continuous acquisition of new customers and strengthen our position in the most profitable age group of 30-45.** We want to maintain our advantage in the acquisition in the segment of young people (aged 13-28 years) and start-ups, as well as a high share in the e-commerce market. With relatively high penetration in large agglomerations, we want to strengthen our position in mid-sized cities. Leveraging on the social role of parents who are mBank's clients, we plan to faster enter into relations with clients aged 8-13. We will solicit the segment of professionals providing services for other entrepreneurs (e.g. accountants).
- **to improve customer retention and loyalty throughout their life cycle.** We want to systematically recognise the needs of our customers at every stage of their lives and satisfy them in the most appropriate form, so that they do not look for products and services in other banks. We will make the offer more attractive so that it includes aspects that are important from the point of view of accumulating funds and the challenges of ageing and inheritance. At the same time, we will focus on the products anchoring the client in the bank, in particular convenient mortgage loan, savings and investments.
- **to increase the likelihood of recommending mBank's services by our clients.** We will focus our activities on increasing customer confidence. We intend to provide a sense of security with reliable technological banking solutions and services supporting data and financial security in the digital world. We want to act in a predictable manner and represent a uncompromising business ethics as well as eliminate waiting and unnecessary efforts of the customer. We will appreciate loyalty and personalize clients' experiences.
- **to create a platform for cooperation with corporate clients based on partnership, convenience and professionalism.** The strength of our relational banking is trust based on advisors' competences and experience, therefore we will promote proactive attitude of our employees and we expect their involvement in understanding the customers' business. We intensify activities aimed at the development of knowledge and the flow of experience. As a bank we want to be useful and perceived as an efficiently operating part of the enterprise.

- **to shape the portfolio of corporate clients anticipating trends and changes in the environment.** Preferred industries, in which we want to develop, include: e-commerce, renewable energy sources and businesses engaged in energy transformation, financing of automation and digitalisation solutions, new technologies, health care and leisure time industry. We strive to assure that our portfolio comprises dynamic companies with an attractive and prospective business profile. At the same time, we will continue to maintain a high diversification of credit exposures in order to ensure the long-term security of the bank.
- **to extend our knowledge about the customers in both segments.** We will organise the available data in order to create useful information that we will use to providing the customers with better service and looking for areas for further growth. We will complement the clients' assessment models with parameters resulting from the prediction of their behaviour.
- **to continue the principles of empathy in contacts with customers as well as take care of the transparency of the offer.** We will communicate in a clear and understandable way, explaining the circumstances of bank's decisions and providing the clients with all the necessary information. We will simplify the offer in each business line, including the price list and tariffs.
- **to shape the positive image of the bank and make the brand appealing for retail and corporate customers.** We will maintain the already existing positive associations with mBank and make up for certain shortcomings by adding attributes that we lack. We intend to rely more on the feedback provided by customers (based on the knowledge from contact center, complaints, evaluations and conversations with advisors) in order to excel the organisation in accordance with their expectations.

## 2. Platform (ecosystem, user experience)

Our goals:

- **to continuously improve remote bank access channels using the digital first (mobile first) approach.** The mobile application, equipped with the same range of functionalities as online banking, will be given a leading role in finance management, whereas contact center and branches will support remote channels and serve to solve problems. We will add digital assistance in the service model. We will accelerate the transformation of the distribution structure to reach an average of 80% of sales in digital channels (own channels and API) and 50% in mobile mode within 4 years.
- **to develop mBank's retail platform by complementing it with additional products and services, including non-financial ones, in order to ensure complete customer service.** We want to use the transaction-related moments effectively for the contextual presentation of our offer of unsecured loans and their sales through mobile channels. We are striving to provide the most convenient and fast mortgage loan on the market. We will expand our offer through selective partnerships with the use of API and cooperation with mAccelerator fund.
- **to build the best digital banking offer for corporations in Poland.** Our guiding principle will be simplification first and then digitisation. We want to retain only the necessary steps, data and documents. Our work will include improvement of customer contact channels with the bank (internet transactional platform mBank CompanyNet and mobile application), as well as internal sales, after-sales and credit processes (for K3 as well as K1 and K2 clients) and tools for advisors, including CRM.

## 3. Efficiency (operational)

Our goals:

- **to maintain our technological advantage in the financial sector and optimise our IT architecture using leading solutions.** We plan to expand our business-technology team, and working within it interdisciplinary teams will ensure a delivery of end-to-end solutions. We intend to migrate our key applications to a modern technological pile based on microservices and containers as well as fully release the potential of a public cloud computing within the framework of existing regulations.
- **to increase the scope of customer digital self-service and optimise our sales network.** We plan to implement a digital assistant and adaptive user interface in the mobile application and transactional service, which will allow for contextual customisation of the customer's screen. We will improve customer

experience in the inter-channel service process (omniservice). We will implement significant product and service changes using advanced tests and with the involvement of our customers. After completing the project of physical network development, we will maintain the number of our branches at the 2020 level.

- **to provide our customers with the highest security standards.** We will continue to intensively develop solutions that protect our customers, based on the latest technologies, including machine learning, artificial intelligence, biometrics and other emerging techniques.
- **to improve the operational efficiency of the bank by implementing automation on a large scale and simplifying processes.** The main activities assume: centralisation of operational processes, including their takeover entirely by specialised units, elimination of paper documents flow within the organisation and the need to archive them, introduction of a unified methodology for managing operations, supported by a central measurement system as well as analytical and process engineering tools.
- **to shorten the time of issuing opinions and internal consultations in implementing new solutions, while maintaining full alignment with regulations and compliance requirements.** Legal support functions will also be organised according to "agile" working methods and based on new technologies. This will allow us to more effectively meet the growing number of regulatory requirements without paralysing our business.

#### 4. Employees and organisation culture

The people and culture we create are at the core of our organisation. Cooperation and sincere and empathic relationships allow us to create value that delivers results. We believe that the way we treat our employees, they treat our customers. We build a technology-supported work environment that inspires to be innovative. The main assumptions for the HR area include 3 dimensions:

##### **People**

We want to coach smart managers who know how to inspire development and motivate to care about clients. Through strategic thinking, innovation and willingness to take up challenges, they will simplify and achieve the intended results efficiently. We will encourage employees to look for new solutions, automate processes and be open to technologies. We aim to make them empathic, collaborative and engaged. They are supposed to show a holistic approach to the customers to support them at every stage of their life cycle and to respond to their needs. Our employees will be honest and aware of current and new regulations.

##### **Technology**

We plan to increase work efficiency by providing the best applications, software and IT equipment. We will automate simple and repetitive tasks so that our employees can focus on key tasks and bring value, wherever it is important to build true contact with other people. We will implement RegTech solutions, which help to comply with procedures and regulatory requirements. We will use new HR technologies and predictive analytics to make informed decisions about investing in people.

##### **A culture of cooperation**

We want to promote the particular value of feedback. On the basis of that, we develop and appreciate each other as well as building the culture of cooperation, which is the foundation of our organisation. We have a better understanding of the network of interdependencies and are able to work together. At mBank, we are open to other people, trust each other and believe in good intentions. We clearly show what attitudes and behaviours are expected from our employees, presenting simple and understandable values. We promote agile working methods, focused on breaking down hierarchical organisational structures and operating on the basis of a network of cooperating teams. We are implementing a transparent Objectives and Key Results system (OKR), linked to the strategic directions of the organisation. We will increase the diversity of characters, personalities, experiences, gender and age, which will help us to make decisions from a multilateral perspective and build better solutions.

These objectives and business assumptions are part of mBank's mission, which remains: **"To help. Not to annoy. To delight... Anywhere"**. Our employees identify themselves with a culture based on empathy towards clients, co-workers and corporate social responsibility.

### 3.5. Financial targets of mBank Group

Strategic assumptions, concerning a product offer, the aim to strengthen or keep a market position in particular categories as well as an assessment of key trends and competitive situation, are reflected in the projections of mBank Group's financial results. In particular, we intend to further consistently increase the share of higher yielding assets and customer deposits in the balance sheet structure, as well as maintain diversification of funding sources through issuances of Eurobonds (EMTN Programme) and covered bonds by mBank Hipoteczny.

Our strategic goal is to keep the position among top Polish banks in terms of key financial metrics. In the mid-term horizon, our profitability shall systematically improve thanks to rising revenues, decent cost discipline and prudent approach to risk management. Favourable changes in the balance sheet structure are going to translate into gradual improvement of net interest margin, while a growth of total income outpacing an inflation of costs will ensure higher efficiency. Consequently, we assume to generate a return for the shareholders that will be attractive compared to other Polish banks.

The activities of mBank Group in the coming years will be focused on achieving the following financial targets, defining our **profitability, stability and growth**:

- Net interest margin (NIM): increase to ~3.0% in 2023,
- Cost/Income ratio (C/I): reduction to ~40% in 2023,
- Return on equity (ROE net): improvement to ~10.5% in 2023,
- Loans/Deposits ratio: in a range of 92-94% every year,
- Capital ratios: year-end level minimum 1.5 p.p. above the PFSA requirements,
- Average annual growth (CAGR) in 2019-2023 at: ~6% for loans and deposits, ~8% for total income, ~5% for total costs.

In line with long-term strategy of mBank Group, our goal is to pay 50% of net profit as a dividend. The adopted dividend policy allows for keeping capital ratios at the safe levels.

### 3.6. Corporate social responsibility and sustainable development strategy of mBank

We want to conduct our business in a sustainable manner and go beyond what we are required to do by law to benefit our customers, the environment, our employees and the society. Therefore, for the first time in the history of mBank, we include ESG/CSR objectives as an integral part of our business strategy. Sustainable Development Goals (SDGs), which are global sustainability targets set by the United Nations to be achieved by 2030, were our guidelines in formulating them.

Our activities in the CSR area will be centered around 3 aspects:

#### 1. mBank educates

We want to help developing mathematical skills of children and adolescents. We trust that such knowledge affects a high level of competence in adult life and facilitates a good start in professional career. Mathematical thinking also helps in decision-making on personal finance issues. We believe that everyone, regardless of their place of residence and origin, should have equal access to quality education. Through the activities of mFundacja, we will continue to strive to equalize opportunities for students, irrespective of their stage of education and place of living. We will organize national competitions and grant programs.

We want to provide the users with knowledge on how to safely use internet and mobile banking as well as make our clients aware of cybercrime threats. For this purpose, we will continue with our social campaigns, informing how to avoid the unwanted consequences of the online activities and protect the finances.

#### 2. mBank cares about the climate and the environment

We want to encourage the behaviours that help to stop and reverse adverse climate and environmental changes. We will pursue an active credit policy towards clients who seek financing for pro-ecological industrial, infrastructural and housing investments, including special programs directed to renewable energy sources and issue of green bonds. We will implement investment strategies in instruments based

on ESG analysis and offer product solutions that build the pro-environmental awareness of consumers. We will implement credit policy for industries relevant to EU climate policy and strive for further presence in the WIG-ESG index.

We will measure and gradually reduce our total carbon footprint. We will limit electricity and energy consumption, thanks to progressive replacement of the current equipment with more modern ones, introduction of innovative solutions in our buildings, use of office space in energy-efficient buildings with high thermal insulation parameters. We will save water and sensitize employees to the need for rational use of it. We will reduce the use of paper and office supplies, modifying business processes in order to further digitize documents. We plan to successively replace our car fleet with low-emission vehicles, and take care of their regular service and technical condition. We will establish a supplier selection and cooperation system that takes ESG aspects into account.

### 3. mBank promotes prosperity

We are a signatory to the Ten Principles of the UN Global Compact. In accordance with them, we want to grow in a sustainable manner, make the world a better place and contribute to the prosperity of our stakeholders: customers, employees, investors, partners and the society.

Investment in health serves the achievement of this goal. Therefore we will continue our cooperation with the Great Orchestra of Christmas Charity, which has been providing hospitals and clinics with modern medical equipment for 28 years. We want to conduct inclusive banking and be accessible to customers with disabilities. We have introduced a service for people with hearing impairments in sign language. We will adjust mBank's transactional services to the needs of visually impaired people. Our outlets and headquarters will be adapted for people with reduced mobility. We speak about our products and services using clear and simple language in accordance with mKanon. We will be guided by ethical values in our dealings with the customers. We also want to promote equality and diversity in our organisation, assisting development of women and eliminating pay inequalities in the same positions. We will carry out activities that support women entrepreneurs.

## 4. Risk management

### 4.1. Risk management foundations

mBank Group manages risk on the basis of regulatory requirements and best market practice by developing risk management strategies, policies and guidelines.

The risk management process is conducted at all levels of the organisational structure, starting at the levels of the Supervisory Board (including Risk Committee of the Supervisory Board) and the bank's Management Board, through specialised committees and units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit.

Risk management roles and responsibilities in mBank Group are organised around **the three lines of defence scheme**:

- The first line of defence is **Business** (business lines), whose task is to take risk and capital aspects into consideration when making all business decisions, within the risk appetite set for the Group;
- The second line of defence, mainly the **risk management area, Security and Compliance function**, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure. The second line of defence acts independently of the Business;
- The third line of defence is **Internal Audit**, which independently assesses risk management activities performed by the first and the second line of defence.

In the communication between organisational units in the risk management area and business lines in mBank as well as between the bank and the Group subsidiaries an important role is played by the **Business and Risk Forum of mBank Group** which is constituted by the Retail Banking Risk Committee, Corporate and Investment Banking Risk Committee, and Financial Markets Risk Committee. The main function of these committees is to develop the principles of risk management and risk appetite in a given business line, by making decisions and issuing recommendations concerning in particular: risk policies, risk assessment processes and tools, risk limit system, assessment of the quality and profitability of the portfolio of exposures to clients, approval of introducing new products to the offer.

The management function at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the risk management area supervised by the Vice-President of the Management Board, Chief Risk Officer.

### Pillars of risk management

Risk management framework in mBank Group rests on **three pillars concept**:

- **Customer Focus** which means striving to understand and balance specific needs of the risk management area's various stakeholders (Business, Management Board, Supervisory Board, shareholders, regulatory authorities).
- **One Risk** understood as an integrated approach to risk management and responsibility towards the clients for all types of risk defined in the Risk Catalogue of mBank Group.
- **Risk vs Rate of Return** perspective understood as a support for the business decision-making process based on the long-term relationship between risk and the rate of return, avoiding tail risks.

### Vision of the risk management area

#### Vision of the risk management area

**Engaged and happy employees manage the risk efficiently, boldly and safely.**

### **Mission of the risk management area**

The **Mission** of the risk management area is to be actively involved in the initiatives and actions undertaken while realization of the strategy of mBank Group. This support is organized around challenges facing the risk management area:

- **Employees** – I work in a collaborative environment, which develops people who are curious and look for solutions. I acquire new knowledge and skills;
- **Client** – I operate efficiently based on the real needs of different customer groups. I make and verify bold hypotheses;
- **Strong balance sheet** – In partnership dialogue, we shape risk appetite which ensures a balance between the level of capital, liquidity and profitability of the bank. I operate on the basis of friendly processes, consistent data, functional tools, reports, clear regulations.

### **4.2. Main risks of mBank Group's business**

The Management Board of mBank takes measures to ensure that the Group manages all material risks arising from the implementation of the adopted strategy of mBank Group, in particular, through approving strategies and processes for managing material risks in the Group.

The following risks were recognized as material in the Group's operations as of December 31, 2019: credit risk, operational risk, market risk, business risk (including strategic risk), liquidity risk, reputation risk, model risk, capital risk (including risk of excessive leverage) and regulatory risk.

The following sections present the rules of monitoring credit, market, liquidity and operational risk in mBank Group. The detailed information on managing the abovementioned risks as well as information concerning the management of other risks (business risk, reputational risk, model risk, capital risk and regulatory risk) are presented in Note 3 of the mBank S.A. Group IFRS Consolidated Financial Statements 2019.

#### **Credit risk**

The bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (PFSA) (in particular Recommendation S, T and C) and CRR/CRDIV, which address issues related to credit risk management.

#### Tools and measures

Credit risk inherent in financing of mBank Group clients is assessed based on shared statistical models developed for the AIRB (Advanced Internal Rating-Based) approach and uniform tools, and is based on common definitions of terms and parameters used in the credit risk management and rating process. The bank ensures their cohesion at the Group level.

The Group uses different models for particular client segments. The rules governing clear assignment of clients to a system are defined in the bank and the Group subsidiaries internal regulations.

In their credit risk management process, the bank and the Group subsidiaries use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%);
  - LGD (Loss Given Default) – estimated relative loss in case of default (%);
  - EAD (Exposure at Default) – estimated exposure at the time of default (amount);
  - EL – Expected Loss taking into account the probability of default (amount);
- and related measures including:
- RD (Risk Density) – relative expected loss defined as EL to EAD (%);
  - LAD (Loss at Default) – estimated loss (amount) in case of default (the product of EAD and LGD).

In the decision-making process, for reporting and communication with business units, PD and EL are expressed in the language of rating classes whose definitions (Masterscale) are uniform across Commerzbank Group.

In its credit risk management process, the bank also attaches great importance to the assessment of unexpected loss. For this purpose, the bank uses the RWA (Risk Weighted Assets) measure, which is applied, under the AIRB approach, to calculate regulatory capital required to cover credit risk (unexpected loss).

In managing mortgage-secured credit exposures the Group uses the LtV ratio (Loan to Value), i.e. the value of the loan to the market value (or mortgage banking calculated value) of the real estate which secures the loan.

Stress testing is an additional tool of credit risk assessment. Stress testing of the regulatory capital and economic capital required to cover credit risk is carried out quarterly.

In addition to the tools listed above, which are applied both in the corporate and in the retail credit risk measurement, the Group uses tools specific to these areas.

**For corporate credit risk** the Group defines maximum exposure to a client/group of related clients using the following credit risk mitigating measures:

- MBPZO (Maximum Safe Total Exposure), which defines the maximum level of financial debt of an entity from financial institutions calculated under the bank's methodology, approved by the bank's competent decision-making body. An alternative measure used by the bank to clients applying for small exposure is Borrowing Capacity (BC);
- LG (General Limit), which defines the level of credit risk financial exposure to a client/group of related clients acceptable to the Group, approved by the bank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit.

In order to minimise credit risk, the Group uses a broad range of collateral for credit products, which also enable active management of the capital requirement. In the assessment of the quality of collaterals for risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value) reflecting the pessimistic variant of debt recovery from the collateral through forced sale. The RORAC ratio (Return on Risk Adjusted Capital) is applied in the decision-making process and the assessment of profitability of a client in the CRM system.

**Retail credit risk** measures are constructed to reflect the characteristics of this customer segment and, in the case of portfolio measures, the high granularity of the loan portfolio:

- DtI (Debt-to-Income) - i.e. monthly credit payments to the net income of a household (used for individual customers);
- DPD (Days-Past-Due) - a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value);
- Vintage ratios, which present the quality of cohorts of loans grouped by disbursement time at a different phase of their lifetime;
- COR (Cost of risk) - cost of risk for a loan portfolio (segment), i.e. ratio of provisions result and changes in valuation of contracts based on fair value approach to the exposure;
- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

## Strategy

### *Corporate and Investment Banking*

In accordance with the Corporate Credit Risk Management Strategy in mBank Group, the main goal in this area is defining a safe level of risk appetite in sales of risk-bearing products to the Group clients and use synergies by integrating the offer of the bank and Group subsidiaries. The Strategy is realised by credit risk policies, limits reducing the risk and the principles of risk assessment of business entities applying for financing. The bank manages credit risk both at the single entity level and the consolidated level.

The Group actively manages credit risk aiming to optimise profitability taking into account the cost of risk. In its current credit risk management and determination of concentration risk, the bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

The bank monitors credit portfolio on a quarterly basis including an analysis of the dynamics of change in size and (sector) segmentation of the credit portfolio, client risk (analysis of PD rating), quality of collateral against credit exposures, the scale of change in EL, Risk Density, and default exposures.

The Group strives to avoid concentration in industries and sectors where credit risk is considered excessively high. The bank uses internally defined industry limits for day-to-day management of the sector concentration risk.

In compliance with the Recommendation S of the Polish Financial Supervision Authority (PFSA), the bank has identified a mortgage-secured credit exposure portfolio in retail and corporate banking and applies the Mortgage-Secured Credit Exposure Risk Management Policy. The bank manages the mortgage-secured credit exposure portfolio risk with a focus on defining an optimised portfolio structure in terms of quality (rating), currencies, country regions, tenors, and types of properties.

For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products with low capital consumption, in particular products of investment banking, transactional banking and financial markets instruments.

mBank offers financing alternative to banking loans by arranging public and private programmes and club deals for bonds issued by clients with a stable financial position.

#### *Retail Banking*

Lending in retail banking is a key segment of the Group's business model, both in terms of the share in total assets and the contribution to its profits.

As credit exposures are highly granular (more than 2.5 million active loans), the retail banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

Furthermore, the Retail Banking credit risk management has the following characteristics:

- high standardisation and automation of the credit process, including decision-making, both in acquisition, post-sale services, and debt collection;
- little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g. no discretionary adjustment of clients' ratings);
- extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and roll-rates analysis.

The main point of reference in the retail banking credit risk management process is risk appetite defined in correlation with the strategy of mBank Group. The general principle underlying the lending strategy of the Group in terms of sales of retail loans is to address the offer to clients who have an established relationship with the bank or to address it to new clients for whom the loan is a product initiating a long-term relationship of highly transactional nature. Thereby, the bank continues to focus its non-mortgage loans policies on lending to existing clients with a high creditworthiness while systematically growing the acquisition of external clients. As part of these activities, the bank increasingly participates in financing customers making purchases via Internet. To reduce risks of accepting new clients, the bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

The new acquisition focuses on products which may be financed with issue of mortgage bonds. Those exposures will then be transferred to mBank Hipoteczny in the pooling process to enable the issue of mortgage bonds. The conservative policy of assessing borrowers' reliability and creditworthiness is applied; taking into account, inter alia, current, historically lowest, levels of interest rates, the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness.

In order to mitigate the risk associated with a decrease in the value of mortgage collateral in relation to the value of credit exposure, the Group's credit offer is (and will be) directed mainly to clients who buy standard properties within large urban areas.

Quality of mBank Group loan portfolio

As of December 31, 2019, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) decreased to 4.5% from 4.8% at the end of 2018. The change of the indicator applies mainly to retail banking and is caused by the realization of debt collection processes, as well as the increase of the retail loan portfolio.

In accordance with the EBA guidelines on management of non-performing and forborne exposures, which came into force from June 30, 2019, Banks are obliged to monitor and manage the NPL portfolio. Banks should strive to maintain the value of the NPL portfolio below the threshold set by the regulator at 5%. As of December 31, 2019, the NPL<sub>REG</sub> ratio (ratio calculated according to EBA guidelines) was at 4.0%. The difference between NPL and NPL<sub>REG</sub> ratios results mainly from inclusion of central banks' receivables.

Provisions (defined as credit risk costs for loans and advances to customers, i.e. provisions for loans and advances at amortised cost and fair value change of loans and advances mandatorily at fair value through profit or loss) increased from PLN 3,437.4 million at the end of December 2018 to PLN 3,574.2 million at the end of December 2019.

The coverage ratio (with provisions as defined earlier) decreased in the analysed period from 62.5% in December 2018 to 60.7% in December 2019. The change of the ratio is caused by the sale of the loan portfolio highly covered provisions.

The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all of the client's liabilities towards the bank.

The table below presents the quality of mBank Group loan portfolio as at the end of December 2019 and as at the end of December 2018.

Loans and advances to clients 31.12.2019 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	106,393,532	2,517,750	108,911,282
Non-performing loans and advances	4,343,285	514,222	4,857,507
Non-performing loans ratio (NPL)	4.1%	20.4%	4.5%
Provisions for non-performing loans	-2,619,125	-331,454	-2,950,579
Provisions for performing loans	-571,153	-52,485	-623,638
Coverage ratio	60.3%	64.5%	60.7%
Coverage ratio, including provisions for performing loans	73.5%	74.7%	73.6%

Loans and advances to clients 31.12.2018 (PLN thou.)	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	95,059,979	3,134,502	98,194,481
Non-performing loans and advances	4,185,766	531,615	4,717,381
Non-performing loans ratio (NPL)	4.4%	17.0%	4.8%
Provisions for non-performing loans	-2,606,709	-339,358	-2,946,067
Provisions for performing loans	-435,838	-55,533	-491,371
Coverage ratio	62.3%	63.8%	62.5%
Coverage ratio, including provisions for performing loans	72.7%	74.3%	72.9%

**Non-performing loans and advances** - loans and advances at amortised cost with impairment (basket 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default

**NPL ratio** - loans and advances at amortised cost with impairment (basket 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default in the whole portfolio

**Provisions for non-performing loans** – provisions for loans and advances at amortised cost with impairment (basket 3 and POCI) and fair value change of loans and advances mandatorily at fair value through profit or loss in default

**Provisions for performing loans** – provisions for loans and advances at amortised cost without impairment (basket 1 and 2) and fair value change of non-default loans and advances mandatorily at fair value through profit or loss

**Coverage ratio** – coverage ratio of loans and advances related to the portfolio in default.

## **Market risk**

In the process of organisation of the market risk management, the bank follows requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

### Tools and measures

In its operations, the bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the bank's portfolios due to changes of the market risk factors, in particular:

- interest rates;
- foreign exchange rates;
- stock share prices and indices;
- implied volatilities of relevant options;
- credit spreads (to the extent reflecting market fluctuations of debt instruments prices, reflecting credit spread for corporate bonds, and spread between government yield curve and swap curve - for government bonds).

In terms of the banking book, the bank distinguishes the interest rate risk, which defines as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

For the purpose of internal management, the bank quantifies exposure to market risk, both for banking and trading book, by measuring:

- the Value at Risk (VaR);
- expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall);
- the Value at Risk in stressed conditions (Stressed VaR);
- economic capital to cover market risk;
- stress tests scenario values;
- portfolio sensitivities to changes of market prices or market parameters (IR BPV – Interest Rate Basis Point Value, CS BPV – Credit Spread Basis Point Value).

For the banking book, the bank also uses the following measures (described in more detail in the chapter on interest rate risk):

- sensitivity of the economic value of capital (delta EVE);
- sensitivity of net interest income (delta NII);
- repricing gap.

Measurement and analysis of market risk takes place in two perspectives (including and without taking into account the modelling of stable parts of equity capital and current accounts, insensitive to changes in interest rates), which allows controlling the impact on the market risk level of the applied strategy for stabilising the net interest income.

## Strategy

The implementation of market risk management strategy involves managing the bank's positions in a way enabling to maintain market risk profile within the risk appetite defined by the bank.

The market risk profile is derived from the strategic goals of business units, the decisions of dedicated committees and the limits on market risk exposures established at the level of the bank's organisational units, the mBank Group and the Group entities. The limit system reflects the defined risk appetite in a quantitative manner.

The bank is focused on meeting customers' business needs, while reducing trade in derivatives in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions. mBank has limited appetite for currency risk, which is expressed through market risk limits. The bank conducts trading activity on well-known markets using financial instruments the bank has adequate expertise in and that have been approved for trading.

The bank stabilises interest income using long-term fixed-rate assets and derivatives and assuming - for equity capital - the maximum modelled maturity of 10 years and for current accounts - the maximum modelled maturity of 5 years. The management of interest rate risk of the banking book takes into account the economic and accounting perspectives, and the financial instruments used for hedging are adequate to the bank's expertise and have been approved for trading.

The main principle stipulates separation between the market risk monitoring and control functions and the functions related to opening and maintaining open market risk positions. In addition, the bank applies the rule of organisational separation between managing banking book and trading book positions.

## Market risk measurement

The mBank's positions constitute the main source of market risk for the mBank Group.

### *Value at risk*

In 2019, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), remained at a moderate level in relation to the established VaR limits.

The table below presents VaR and Stressed VaR for the Group's and mBank's portfolios (including modelling of equity capital and current accounts):

PLN 000's	2019				2018			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2019	Mean	31.12.2019	Mean	31.12.2018	Mean	31.12.2018	Mean
VaR IR	4,294	3,840	3,778	3,759	3,223	3,439	3,248	3,443
VaR FX	767	957	728	961	317	427	341	421
VaR EQ	0	0	0	0	0	51	0	51
VaR CS	21,908	21,927	20,989	21,241	18,234	13,674	17,839	13,255
<b>VaR</b>	<b>22,494</b>	<b>21,999</b>	<b>21,978</b>	<b>21,344</b>	<b>18,155</b>	<b>13,768</b>	<b>17,776</b>	<b>13,436</b>
<b>Stressed VaR</b>	<b>97,073</b>	<b>108,369</b>	<b>94,229</b>	<b>104,269</b>	<b>106,235</b>	<b>93,723</b>	<b>104,743</b>	<b>90,316</b>

*VaR IR - interest rate risk*

*VaR FX - FX risk*

*VaR EQ - stock price risk*

*VaR CS - credit spread risk*

The Value at Risk (VaR) was largely influenced by the portfolios of instruments sensitive to the interest rates and the separate credit spread - mainly the portfolios of the Treasury bonds (in the banking and trading books) and positions resulting from interest rate swap transactions.

### *Sensitivities measures*

The table presents the values of IR BPV and CS BPV (+1 b.p.) for the Group's and mBank's portfolios, broken down into the banking and trading books (including modelling of equity capital and current accounts):

PLN 000's	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Banking book	257	-306	263	-237	-8,302	-8,131	-8,075	-7,957
Trading book	56	33	56	33	-504	21	-504	21
<b>Total</b>	<b>312</b>	<b>-273</b>	<b>318</b>	<b>-204</b>	<b>-8,806</b>	<b>-8,110</b>	<b>-8,579</b>	<b>-7,936</b>

The credit spread sensitivity (CS BPV) for the mBank's banking book, results in c.a. 40% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

*Interest rate risk of the banking book*

In 2019, in order to expand the existing portfolio of measures to assess the interest rate risk of the banking book, mBank introduced a new risk measure to quantify net interest income volatility in line with the EBA guidelines. The volatility of net interest income is calculated and monitored over a five-year horizon in the bank's base scenario assuming a normal situation and in more than 20 defined stress-test scenarios. The table below presents the volatility of the net interest income within 12 months horizon, assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curves by 100 bps with floor on product level) and based on a stable portfolio over the period.

PLN M	31.12.2019
	Δ NII
PLN	-190.8
USD	-2.1
EUR	-119.2
CHF	+7.9
CZK	-40.5
Other CCY	-0.6
<b>Total</b>	<b>-345.3</b>

**Liquidity risk**

mBank organises liquidity risk management processes in line with the requirements resulting from the law and supervisory recommendations in particular the PFSA Recommendations (among others P, C, H and S) as well as EBA guidelines concerning liquidity risk management.

Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e. the risk of being unable to honour its payment obligations, arising from the bank's balance-sheet and off-balance-sheet positions, on terms favourable to the bank and at a reasonable price. In terms of its sources, liquidity risk may result from internal factors (reputational risk resulting for instance in excessive withdrawal of cash by bank clients, materialisation of credit risk) and external factors (turbulences and crises in the financial markets, country risk, turbulences in the operation of clearing systems).

The bank has defined a set of liquidity risk measures and a system of limits, buffers and warning thresholds which protect the bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Balance Risk Management Department. The main measures used in liquidity risk management of the bank include measures based on liquidity gap calculation in LAB methodology, the regulatory measures (M3, M4, LCR) and also NSFR (Net Stable Funding Ratio) for analysis only. LAB measures reflect the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the bank, which represent potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario.

The methodology for measuring the liquidity gap (LAB) includes normal conditions scenario (LAB Base Case) describing the situation under normal conditions, i.e. without specific, negative occurrences. For the purpose of this scenario, no continuation of activity is assumed (the so-called run-off scenario) and stress scenarios, of which the following are limited:

- LAB Bank Stress (short-term) – short-term scenario (up to 2 weeks) of the idiosyncratic stress;
- LAB Market Stress (long-term) – long-term scenario (up to 2 months) of the market crisis;
- LAB Combined Stress I – combined stress scenario that presents the effects of the simultaneous occurrence of short-term idiosyncratic stress and long-term market related stress.

Cash flow projections used in LAB measures are based on crisis scenarios, which include among others excessive withdrawal of cash by the bank's clients and being unable to liquidate some assets due to an external crisis occurring to various extent dependent on assumed scenario.

Moreover, the bank has a process of reporting and monitoring of intraday liquidity position including crisis scenario for intraday liquidity. The reverse stress scenario is the complement of the liquidity stress testing system.

In order to support the process of liquidity risk management, the bank has a system of early warnings indicators (EWI) and recovery indicators. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the bank's balance sheet. Exceedance of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan for mBank Group.

LCR calculation and reporting is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, which has been in force since October 2015. With the respect of NSFR, the bank reports to the NBP according to the standards established by EBA in 2014, and reports to the PSFA in the form of a dedicated questionnaire.

### Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the bank and the current market situation as well as funding needs of the Group subsidiaries. The bank manages liquidity risk at two levels: strategic (within committees of the bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory (M3, M4, LCR) and internal measures. The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in stress conditions in specific time horizons and for different liquidity risk profiles (for all currencies in aggregate converted to PLN and for individual foreign currencies).

The bank has a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. The subsidiaries are financed by mBank through the Treasury Department. Additionally, mBank Hipoteczny raises funding in the market by issuance of covered bonds and short-term debt securities and mLeasing raises funding by issuance of short-term debt securities.

The bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by mBank Group and aimed at neutralising this threat. The document defines the division of responsibility for monitoring and identifying threats, and actions during the emergency situation. The Contingency Plan is tested at least annually.

The bank limits the volume and term concentration of foreign currency funding of mBank with FX swaps and CIRS. In addition, the limit is decomposed into individual limits for CIRS and FX swaps as well as limits for funding in EUR and CHF. The structure of these limits reflects the bank's preferences for funding structure in those currencies.

### Measuring mBank's liquidity risk

The liquidity of mBank remained at a safe level in 2019, as reflected in the high surplus of liquid assets over short-term liabilities in LAB measures and in the levels of regulatory measures.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures M3, M4, LCR in 2019:

Measure <sup>1</sup>	31.12.2019
<b>LAB Base Case 1M</b>	14,683
<b>LAB Base Case 1Y</b>	12,849
<b>M3</b>	4.30
<b>M4</b>	1.38
<b>LCR</b>	169%

<sup>1</sup> LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.

### Measuring the Group's liquidity risk

The Group's liquidity risk measurement includes in addition mBank Hipoteczny and mLeasing. mBank monitors liquidity risk of the subsidiaries to protect liquidity also at the Group level in the event of adverse events (crises).

The Group's liquidity was at a safe level in 2019, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB measures and the LCR calculated at the Group level.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the LCR at mBank Group level:

Measure <sup>1</sup>	31.12.2019
<b>LAB Base Case 1M</b>	16,536
<b>LAB Base Case 1Y</b>	14,925
<b>LCR Group</b>	190%

<sup>1</sup> LAB measures are shown in PLN million; LCR is relative measure presented as a decimal.

### **Operational risk**

mBank organises the operational risk management process taking into account the rules and requirements set out in external regulations, in particular in the Recommendations M, H and D of the Polish Financial Supervision Authority (PFSa), CRR Regulation and Regulation of the Minister of Development and Finance (on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks), which constitute a starting point for the framework of the operational risk control and management system in mBank Group.

#### Tools and measures

In order to effectively manage operational risk, the bank applies quantitative and qualitative methods and tools, which intend to cause-oriented operational risk management.

The basic qualitative tool is the Internal Control System Self-Assessment carried out by the bank's organisational units and the Group subsidiaries. The Self-Assessment process aims to provide communication about the need to change and improve control processes, and thus a more pro-active approach to operational risk management and increasing operational risk awareness in mBank Group. The end result of the Self-Assessment is the evaluation of risks, control mechanisms and independent monitoring of control mechanisms as well as the creation of corrective action plans aimed at changing the structure or the optimization of the control mechanisms and their independent monitoring.

The bank also prepares scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences.

In accordance with the requirements of Recommendation M, the bank has a process for identifying threats associated with operational risk in all relevant areas of the bank's operations and for creating new and modifying existing products, processes and systems, as well as for changes in the organisational structure.

Quantitative tools include mainly collection of data on operational events and effects. With the use of the database available at mBank Group, data on operational risk losses are recorded with an emphasis on the cause. Recorded data are analysed by the Integrated Risk Management Department and at organisational units. This approach allows organisational units to carry out ongoing monitoring of their current risk profile. mBank has an access to external operational loss databases and applies them to analyse operational risk and potential threats, that institutions operating in the financial sector are exposed to.

The key risk indicators (KRI) are another tool. Ongoing monitoring of risk factors recognized as key at the given moment allows for prediction of an increased level of operational risk and adequate response by the organisational units in order to avoid the occurrence of operational events and losses.

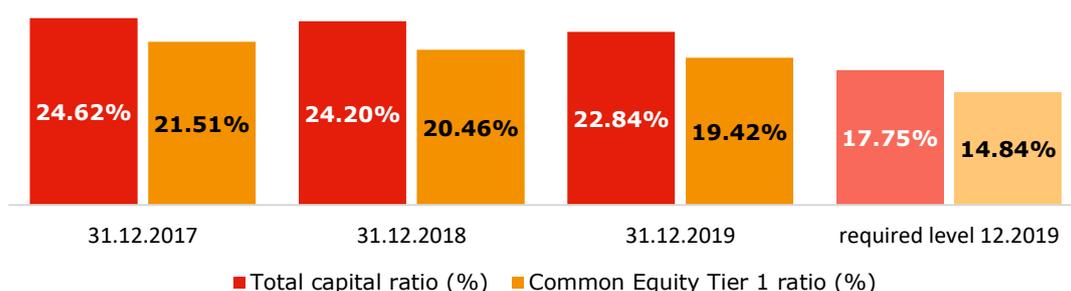
Strategy

The organisation of the operational risk control and management system is aimed at enabling effective control and management of this risk at every level of the bank’s organisational hierarchy. The structure of operational risk control and management covers in particular the role of the Management Board of the bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the bank. The operational risk control and management process at the bank is developed and coordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk. The operational risk control process is supervised by the Supervisory Board of the bank through its Risk Committee.

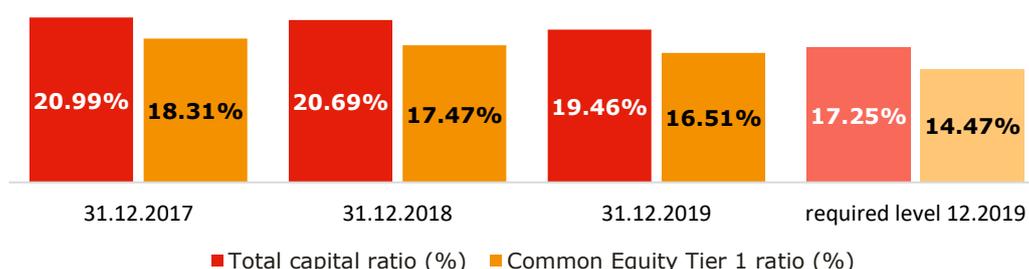
**4.3. Capital adequacy**

One of the bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy, the bank creates a framework and guidelines for the most effective planning and use of the capital base. The strategic goals of mBank and mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the levels required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

**Capital adequacy of mBank**



**Capital adequacy of mBank Group**



The capital ratios of mBank Group in 2019 were driven by the following factors:

- inclusion, in Common Equity Tier 1 capital, of the remaining part (not included earlier) of the net profit of mBank Group for the year 2018 as approved by the General Meeting of Shareholders;
- inclusion in the calculation of own funds of the amount of impairment or reversal of impairment of financial assets not measured at fair value in the financial result in 2019;
- expansion of mBank Group business activity;
- implementation from January 1, 2019 of the International Financial Reporting Standard 16.

mBank Group is obligated to maintain own funds on the level exceeding regulatory and supervisory requirements. Consequently the level of the required capital ratios encompasses:

- the basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%;
- the additional capital charge in Pillar II with regard to FX mortgage loan portfolio – 3.11% at the level of total capital ratio and 2.33% at the level of Tier 1 capital on consolidated basis (and on individual basis 3.62% and 3.71% accordingly), according to the PFSA decision of November 5, 2019, and the subsequent communication of November 18, 2019;
- the combined buffer requirement of additional 6.14% (on consolidated basis), which consists of:
  - the capital conservation buffer (2.50%);
  - the other systemically important institution's buffer (0.75%) - according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer; according to the PFSA decision of October 14, 2019, the capital buffer amounted to 0.75%;
  - systemic risk buffer (2.83%) – due to the fact that not all exposures are located in Poland, due to mBank two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to mBank Group amounted to 2.83% in December 2019;
  - countercyclical capital buffer (0.06%).

On individual basis the value of the combined buffer requirement is 6.13% mainly due to a lower, than at the Group level, value of the systemic risk buffer (2.81%) and higher countercyclical capital buffer (0.07%).

Capital ratios, both on consolidated and individual basis, were above the values required throughout the 2019. With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement and the combined buffer requirement.

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and the Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, including provisions regarding transitional period, amounted to 8.25%. The stand-alone leverage ratio amounted to 8.60%.

More details on capital adequacy of mBank Group at the end of 2019 can be found in the Disclosures regarding capital adequacy.

## 5. mBank Group capital and funding

### 5.1. mBank Group capital base

#### Structure of own funds including Tier 1 and Tier 2 capital

The amount of capital maintained by mBank Group and mBank meets the regulatory requirements and allows for the planned business expansion at the defined risk appetite level. This is reflected in the Common Equity Tier 1 capital ratio (19.4% at the stand-alone level and 16.5% at the consolidated level at the end of 2019) and the Total Capital Ratio (22.8% at the stand-alone level and 19.5% at the consolidated level at the end of 2019), which are above the levels recommended by the Polish Financial Supervision Authority (PFSA). The factors which influenced the capital ratios of mBank Group in 2019 are described in details in chapter 4.3. Capital adequacy. Capital requirements for mBank Group decreased in November 2019, along with the decrease of individual additional Pillar 2 capital requirement for risk related to FX retail mortgage loans by PFSA (from 3.64% to 3.11% for the Total Capital Ratio and from 2.73% to 2.33% for the Tier 1 capital ratio).

Regulatory capital requirements for mBank Group as of December 31, 2019, are presented below.

■ **Countercyclical Capital Buffer** is calculated as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located.

■ **Systemic Risk Buffer** determined at 3.0% in Poland entering into force from January 1, 2018; it replaced the previous PFSA add-on; for mBank it applies only to domestic exposures.

■ **Other Systemically Important Institution (O-SII) Buffer** imposed by an administrative decision of the PFSA, in which mBank has been identified as other systemically important institution; its level is reviewed annually.

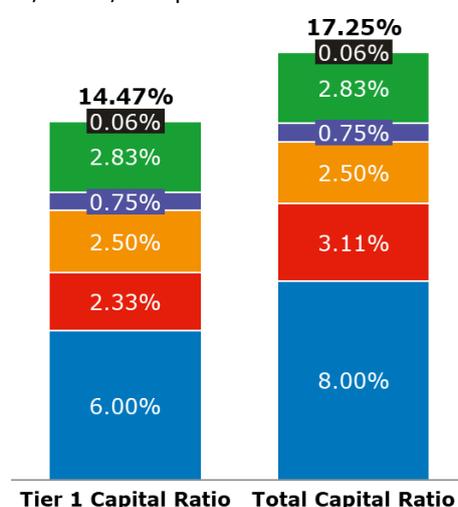
■ **Conservation Capital Buffer** is equal for all banks in Poland as introduced by the Act on Macroprudential Supervision Over the Financial System and Crisis Management in the Financial System; the implementation was gradual and it was raised from 1.25% to 1.875% from January 1, 2018 and to 2.5% from January 1, 2019.

■ **Individual additional Pillar 2 capital requirement for risk related to FX retail mortgage loans** imposed as a result of risk assessment carried out by the PFSA within the supervisory review and evaluation process ("SREP"); its level is reviewed annually.

■ **CRR Regulation minimum level** based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Own funds at the consolidated level stood at PLN 16.4 billion at the end of 2019, out of which PLN 13.9 billion (84.8%) was Tier 1 capital. The main components of **Tier 1 capital** include: share capital, share premium, other reserve capital, undistributed profit from previous years, funds for general banking risk, recognized current profits and accumulated other comprehensive income. Tier 1 capital is strengthened mainly through retained earnings.

**Tier 2** capital stood at PLN 2.5 billion at the end of 2019, which represents an increase of PLN 26.2 million year on year.



The table below presents the balances of mBank Group's subordinated debt as at December 31, 2019.

Type	Nominal value	Currency	Maturity date	Tier 2 Capital
Loan	250 M	CHF	21.03.2028	Yes
Bond	750 M	PLN	17.01.2025	Yes
Bond	550 M	PLN	10.10.2028	Yes
Bond	200 M	PLN	10.10.2030	Yes

Subordinated debt with a fixed maturity included in own funds is amortised on a daily basis for five years prior to final maturity. The current structure of the bank's capital base derives from prior decisions regarding retained earnings and additional capital increases. Between 2002 and 2011, mBank retained all of its earnings by decision of the Annual General Meeting, while the 2012 dividend made up 35% of mBank's net profit followed by a 67% dividend payment in 2013. The profit for 2014, 2015 and 2016 was included in whole in the bank's own funds. In April 2018 General Meeting of Shareholders decided on dividend payout of PLN 217.9 million, i.e. 20% of net profit generated in 2017. The undistributed profit from previous years in value of PLN 1.2 billion was transferred to the supplementary capital of the bank. In March 2019 the Annual General Meeting decided not to pay out the dividend from the 2018 net profit. The amount of PLN 248.2 million was allocated to the losses from previous years and the amount of PLN 1,069.3 million was left undivided. More information on capital adequacy are presented in Note 45 of the mBank S.A. Group IFRS Consolidated Financial Statements 2019. Detailed information concerning dividend policy are presented below.

### **Dividend**

The ability to pay out dividends is provided for in the "mobile Bank" strategy of mBank Group for 2016-2020 and remained in the strategy for 2020-2023. However, in its decision recommending the dividend payment to the Supervisory Board, the Management Board of mBank mainly considers current recommendations of the Polish Financial Supervision Authority concerning dividend payments by banks. In March 2019 PFSA issued its standpoint concerning dividend policy of commercial banks in mid-term horizon. Its assumptions were maintained in the PFSA's standpoint from January 2019 referring to dividend policy in 2019. This guidance remains consistent with the PFSA's recommendation regarding dividend payout for 2018. According to the mentioned recommendations, a dividend could be paid only by banks meeting the criteria below (both on stand-alone and consolidated level):

- the bank is not subject to a restructuring programme;
- the bank performed well in the Supervisory Review and Evaluation Process – final SREP score not worse than 2.5 (master scale – score 1 or 2);
- with financial leverage (LR) level higher than 5%;
- with Tier 1 capital ratio not lower than the minimum value set for this ratio increased by 1.5%: 6% + 75%\*add-on + the combined buffer requirement + 1.5%;
- with Total Capital Ratio not lower than the minimum set for this value increased by 1.5%: 8% + add-on + the combined buffer requirement + 1.5%.

It is recommended that banks which meet all the above criteria can pay out up to 75% of the profit generated in a year preceding the decision.

Moreover, it is recommended to pay out dividend up to 100% of the profit generated in a year preceding the decision by banks meeting all of the above criteria, taking into account, within capital criteria, the bank's sensitivity to an unfavourable macroeconomic scenario (measured by stress tests conducted by the PFSA).

For banks with exposure to FX housing loans for households (which have more than 5% of FX mortgage loans for households in their portfolio of receivables from non-financial sector) the dividend rate should be adjusted based on following criteria:

Criterion 1 – based on the share of FX housing loans for households in the whole portfolio of receivables from the non-financial sector:

- banks with the share exceeding 10% – dividend rate adjustment by 20 p.p.;
- banks with the share exceeding 20% – dividend rate adjustment by 30 p.p.;
- banks with the share exceeding 30% – dividend rate adjustment by 50 p.p.;

Criterion 2 – based on the share of FX housing loans granted in 2007 and 2008 in the portfolio of FX housing loans for households:

- banks with the share exceeding 20% – dividend rate adjustment by 30 p.p.;
- banks with the share exceeding 50% – dividend rate adjustment by 50 p.p.

Whenever a bank with undistributed profit from previous years intends to pay out dividend, it is obliged to report this plan to the Polish Financial Supervision Authority which will assess it on an individual basis. Only banks which meet the criteria for paying out dividends may apply for such consent.

### **Minimum requirement for own funds and eligible liabilities (MREL)**

In accordance with the BRRD and the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution (the "BFG Act"), banks will be obliged to meet the minimum requirement for own funds and eligible liabilities (MREL), which is equivalent to the total loss absorption capacity (TLAC) requirement imposed on global systemically important institutions. Both requirements address the need to ensure an adequate level of eligible liabilities (liabilities that can be converted to equity or written down) at times of financial difficulties, and consequently, facilitate resolution without the need to use public funds.

In July 2017 the Bank Guarantee Fund (BFG) published a methodology for calculating MREL on its website, which was subsequently updated in November 2018. Banks were ordered to comply with the MREL targets set by the resolution authority by January 1, 2023.

Bank-specific MREL targets were communicated to individual banks in the process of developing their resolution plans; the targets varied depending, among others, on the resolution strategy adopted for a given bank. MREL targets present the contribution to loss absorption and recapitalisation as a percentage of total liabilities and own funds. According to information from BFG dated February 5, 2020 the consolidated MREL target to be met by mBank by the end of 2022 is 14.54% of total liabilities including own funds (TLOF), which accounts for 27.515% of the total risk exposure amount (TREA). The requirement has been set taking into account the resolution strategy for Commerzbank AG Group basing on multiple point of entry (MPE) approach. At the same time, mBank was informed how it should progress towards meeting the target. MREL targets to be met at the end of 2019, 2020 and 2021 were set as a percentage of TLOF (9.248%, 11.012% and 12.776%, respectively) and TREA (17.500%, 20.838% and 24.177%, respectively).

In accordance with the BFG Act, MREL-eligible liabilities include instruments which have been issued and fully paid up, are not secured or guaranteed and held by the institution itself, and have a maturity of at least one year.

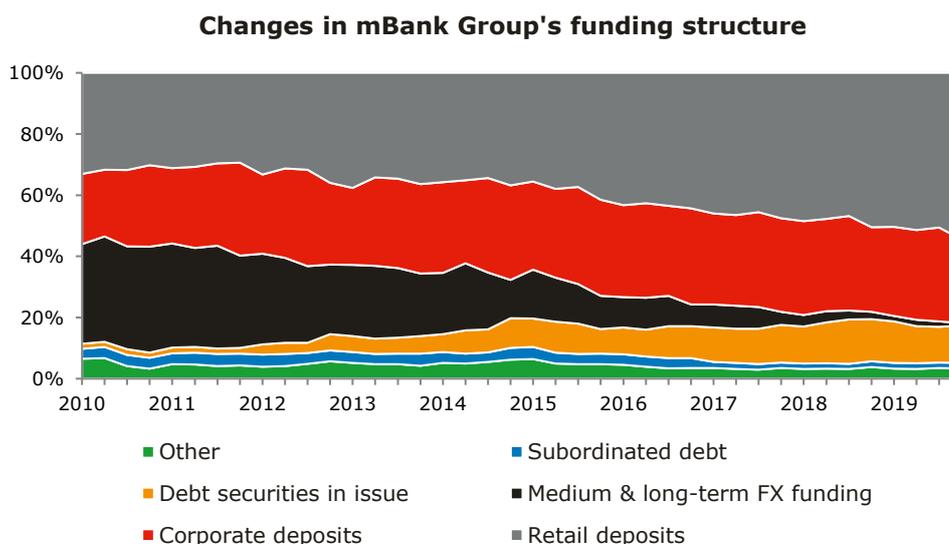
Furthermore, BFG expects that MREL targets will be complied with using only own funds and subordinated liabilities which in accordance with Bankruptcy Law rank below class five liabilities in the insolvency hierarchy. It is worth noting that the Act of January 17, 2019 Amending the BFG Act introduced a new class of debt (class six), i.e. non-preferred senior debt, to Polish legal framework (Bankruptcy Law), thereby broadening the catalogue of MREL-eligible instruments. In addition, BFG expects these instruments to be available only to professional investors at a minimum nominal value of PLN 400,000 per instrument.

In the case of commitments entered into to meet the consolidated MREL target in the part where it exceeds the individual MREL target, BFG requires only that the instruments should be made available to professional investors.

The BFG methodology is likely to evolve further, among others, due to the implementation of amendments to prudential regulations for banks and investment firms published in June 2019 (CRD V/CRR II) and the resolution framework (BRRD II/SRMR).

## 5.2. mBank Group funding

The “One Bank” Strategy for 2012-2016 provided for optimisation of the Bank’s balance sheet in terms of its profitability and structure by increasing the share of client deposits in funding, further diversification of the funding base, and a bigger share of high-yield assets. The “mobile Bank” Strategy, implemented in mid-2016, provided for the strengthening of the funding profile due to the increasing volume of covered bonds and transaction deposits and maintaining the loan-to-deposit ratio on the level of at most slightly above 100% every year (90.3% at the end of 2019). It was reflected in the changes of the structure of mBank Group’s funding in previous years.



The new strategy of mBank Group for 2020-2023 provides for the growth of the share of total client deposits as well as further deployment of the wholesale financing sources for lending, especially via issuances of Eurobonds within EMTN programme and covered bonds by mBank Hipoteczny. We intend to keep the loan to deposit ratio in the range of 92-94%.

### Bond issued under the EMTN Programme

After the successful first eurobond issue in October 2012 and issue of CHF bonds in October 2013, mBank Group completed further issues under the EUR 3 billion EMTN Programme in 2014. In 2015, there were no issues under the EMTN Programme, whereas on October 12, 2015, bonds worth EUR 500 million were repaid. On September 21, 2016, mBank, through its foreign subsidiary mFinance France, completed the issue of bonds with a nominal value of EUR 500 million, maturing in 2020. In 2017, there was one issue under the EMTN Programme. On March 28, 2017, mFinance France issued 6-year bonds with a nominal value of CHF 200 million and 1.005% coupon.

In 2018 two issuances under the programme took place. On June 7, 2018, mBank issued unsecured bonds at nominal value of CHF 180 million, with 0.565% coupon and four-year maturity. On September 5, 2018, an issue of EUR 500 million, 1.058% coupon and four-year maturity was completed. Two EMTN tranches were repaid in 2018, CHF 200 million in October and CZK 500 million (a private placement) in December.

On April 1, 2019, the tranche on the amount of EUR 500 million was redeemed. Only several days later, on April 5, 2019 mBank issued 5.5-year unsecured bonds in the amount of CHF 125 million with the coupon of 1.0183%. Bonds are subject to the English law and are traded on the Swiss stock exchange SIX Swiss Exchange Ltd.

The following table presents a summary of outstanding tranches:

Issuer	Issue date	Nominal value	Maturity date	Coupon
mFinance France	26.11.2014	EUR 500 M	26.11.2021	2.000%
mFinance France	26.09.2016	EUR 500 M	26.09.2020	1.398%
mFinance France	28.03.2017	CHF 200 M	28.03.2023	1.005%
mBank	07.06.2018	CHF 180 M	07.06.2022	0.565%
mBank	05.09.2018	EUR 500 M	05.09.2022	1.058%
mBank	05.04.2019	CHF 125 M	04.10.2024	1.0183%

mBank continues its efforts aimed to diversify the sources of funding and to ensure stable refinancing on attractive terms.

### Activity on the covered bond market

mBank Hipoteczny (mBH) is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market. As of December 31, 2019, the value of issued mortgage covered bonds amounted to PLN 8.2 billion.

Covered bond issues conducted by mBank Hipoteczny constitute an important part of mBank Group's funding strategy.

In 2019, mBank Hipoteczny placed two issues of mortgage covered bonds in the total nominal amount of PLN 1.4 billion. A summary of mBH activity on the public market in 2019 is presented in the following table.

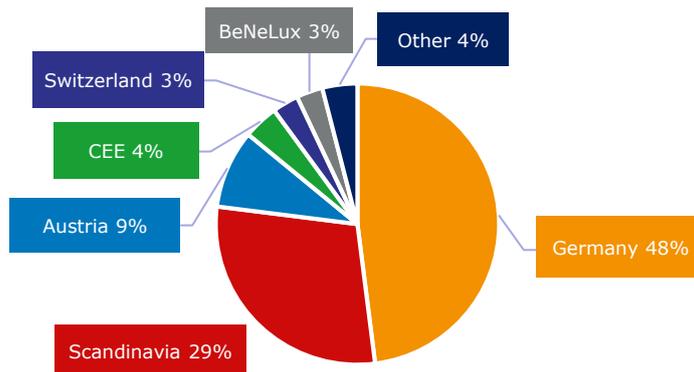
Volume	Currency	Issue date	Maturity	Tenor (in years)	Coupon	Place of quotation
100 mln	PLN	22.02.2019	20.12.2028	9 years 10 months	WIBOR3M +80 bps	WSE Secondary Market and Bondspot
300 mln	EUR	12.11.2019	15.09.2025	5 years 10 months	0.242% (MS+43 bps)	Luxembourg Stock Exchange

PLN 100 million issue was performed under the Domestic Covered Bonds Issuance Programme accepted by the PFSA in 2016. Book building was run by mBank, 8 investors declared their will do purchase covered bonds, including asset management firms, banks, insurers and pension funds. It is currently the covered bonds issuance quoted at the WSE with the longest maturity.

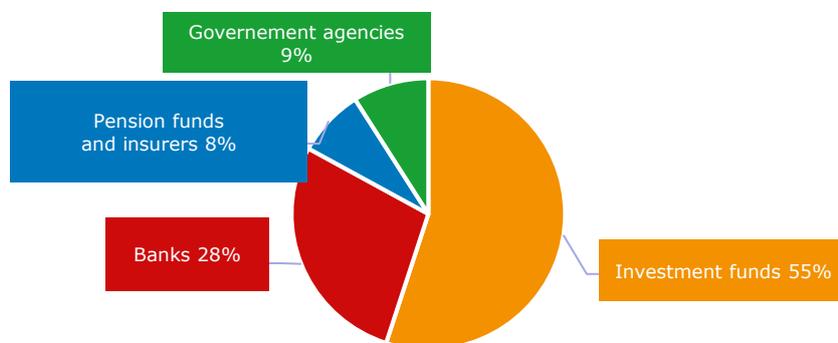
EUR 300 million issue was another benchmark covered bonds issuance on the international market performed under the International Covered Bonds Issue Programme. The final pricing reached 43 basis points over MS (Mid-Swap) and coupon was set at 0.242%. From the mBank Group's perspective, it is the most favourably placed debt issuance on the international market in the history.

In total 74 investors declared their will do purchase covered bonds for a joined value of over EUR 1 billion (3.4 times the placed amount). After the allocation, the structure of the transaction by the geographical and institutional distribution was the following:

**Geographical distribution**



**Allocation by type of investor**



Covered bonds issued by mBank Hipoteczny are characterised by low investment risk, which is a result of the statutory obligation to apply complex security mechanisms while issuing and trading in such instruments.

On May 27, 2019, Moody’s Investors Service assigned a rating Aa3 to the covered bonds issued by mBank Hipoteczny. It is the highest possible to achieve rating for the financial instruments issued in Poland (local and foreign currency bond ceilings for Poland). It is higher by 2 notches than the rating of Poland and by 5 notches than the long-term issuer rating, assigned by the agency at Baa2. On November 12, 2019, the rating of EUR covered bonds was affirmed at Aa3.

Moody’s Investors Service assigned also the short-term issuer rating for mBank Hipoteczny at Prime-2. At the same time, the agency assigned the Counterparty Risk Assessment (long-term and short-term) at the level of A3 (cr) and Prime-2 (cr), respectively, and Counterparty Risk Rating (long-term and short-term) at the level of A3 (cr) and Prime-2 (cr), respectively. The outlook of long-term ratings is stable.

## 6. Financial position of mBank Group and mBank in 2019

### 6.1. Financial position of mBank Group

#### Profit and loss account of mBank Group

mBank reported a profit before income tax of PLN 1,555.0 million in 2019, compared with PLN 1,786.6 million in 2018 (-PLN 231.3 million or -13.0%). Net profit attributable to the owners of mBank reached PLN 1,010.4 million, compared with PLN 1,302.8 million in the previous year (-PLN 292.4 million or -22.4%). Income tax paid by mBank Group amounted to PLN 544.8 million in 2019 v. PLN 483.9 million a year before (+12.6%). A summary of the financial results of mBank Group is presented in the table below.

PLN M	2018	2019	Change in PLN M	Change in %
Interest income	4,518.2	5,071.7	553.5	12.2%
Interest expense	-1,021.7	-1,068.9	-47.2	4.6%
<b>Net interest income</b>	<b>3,496.5</b>	<b>4,002.8</b>	<b>506.3</b>	<b>14.5%</b>
Fee and commission income	1,630.3	1,704.6	74.3	4.6%
Fee and commission expense	-654.5	-740.0	-85.5	13.1%
<b>Net fee and commission income</b>	<b>975.9</b>	<b>964.6</b>	<b>-11.2</b>	<b>-1.2%</b>
<b>Core income</b>	<b>4,472.3</b>	<b>4,967.4</b>	<b>495.1</b>	<b>11.1%</b>
Dividend income	3.6	4.2	0.7	18.6%
Net trading income	347.3	440.5	93.2	26.8%
Other income	21.3	185.5	164.2	770.8%
Other operating income	405.0	234.5	-170.5	-42.1%
Other operating expenses	-170.0	-307.7	-137.7	81.0%
<b>Total income</b>	<b>5,079.5</b>	<b>5,524.4</b>	<b>444.9</b>	<b>8.8%</b>
Net impairment losses and fair value change on loans and advances	-694.4	-793.8	-99.4	14.3%
Result on provisions for legal risk related to foreign currency loans	-20.3	-387.8	-367.4	1805.7%
Overhead costs and depreciation	-2,163.9	-2,329.2	-165.2	7.6%
Taxes on bank balance sheet items	-415.4	-458.7	-43.2	10.4%
Share in profits of entities under equity method	1.2	0.0	0.0	0.0%
<b>Profit before income tax</b>	<b>1,786.6</b>	<b>1,555.0</b>	<b>-231.6</b>	<b>-13.0%</b>
Income tax expense	-483.9	-544.8	-60.8	12.6%
<b>Net profit:</b>	<b>1,302.7</b>	<b>1,010.3</b>	<b>-292.5</b>	<b>-22.4%</b>
<b>- attributable to Owners of mBank S.A.</b>	<b>1 302.8</b>	<b>1 010.4</b>	<b>-292.4</b>	<b>-22.4%</b>
- Non-controlling interests	-0.1	-0.1	0.0	19.5%
ROA net	0.8%	0.7%		
ROE gross	11.6%	10.2%		
ROE net	8.3%	6.7%		
Cost / Income ratio	42.6%	42.2%		
Net interest margin	2.6%	2.7%		
Common Equity Tier 1 ratio	17.5%	16.5%		
Total capital ratio	20.7%	19.5%		
Leverage ratio	8.6%	8.3%		

**Core income** – calculated as the sum of net interest income and net fee and commission income.

**Other income** – calculated as gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading financial assets (including equity instruments and debt securities) mandatorily measured at fair value through profit or loss (except for loans and advances).

**Total income** – calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses.

**Overhead costs and depreciation** – calculated as the sum of total overhead costs and depreciation.

**Net impairment losses and fair value change on loans and advances** – calculated as the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.

**Net ROA** – calculated by dividing net profit attributable to the owners of mBank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to the owners of mBank is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

**Gross ROE** – calculated by dividing profit before income tax by the average equity (net of the year's results). The average equity is calculated on the basis of the balances as at the end of each month. Profit before income tax is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

**Net ROE** – calculated by dividing net profit attributable to the owners of mBank by the average equity (net of the year's results). The average equity is calculated on the basis of the balances as at the end of each month. Net profit attributable to the owners of mBank is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

**Cost/Income ratio** – calculated by dividing overhead costs and depreciation by total income (excluding tax on balance sheet items of the Group).

**Net interest margin** – calculated by dividing net interest income by average interest earning assets. Interest earning assets are the sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to clients (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

The main drivers of the financial results of mBank Group in 2019 included:

- **Increase in total income**, which stood at PLN 5,524.4 million. Net interest income remained its main growth driver. It reached PLN 4,002.8 million and was 14.5% higher than a year ago. This high dynamics was accompanied by further improvement of net interest margin, supported by the changing asset mix and a slight reduction of funding costs. The rise in core income achieved in 2019 twice surpassed the profit from the sale of an organised part of the enterprise of mFinanse recorded in 2018;
- **Increase in operating expenses** (including depreciation) to PLN 2,329.2 million. In particular, contributions and transfers to the Bank Guarantee Fund and staff-related expenses grew in 2019;
- **Improved efficiency** measured by the Cost/Income ratio, which stood at 42.2% in 2019 v. 44.5% in 2018 (net of the impact of one-off events);
- **Stable cost of risk** at 79 bps, compared with 78 bps in 2018;
- **Continued organic growth and business expansion** as demonstrated by:
  - **Increase in the number of corporate clients** to 26,476 (+2,770 clients compared with the end of December 2018);
  - **dynamic growth in the sales of housing loans** (PLN 8,176.4 million in 2019, i.e. +77% compared with 2018) and **growing sales of non-mortgage loans** (PLN 10,260.0 million in 2019, i.e. +14.9% compared with 2018).

At the same time, the number of retail clients dropped to 5,603,900, mainly due to the accounts of inactive Kompakt Finanse clients being closed in 2019.

Net loans and advances increased by PLN 10,581.7 million or 11.2% compared with the end of 2018 and reached PLN 105,347.5 million. At the same time, amounts due to clients grew by PLN 14,652.1 million, i.e. 14.4% year on year reaching PLN 116,661.1 million at the end of 2019. Consequently, the loan-to-deposit ratio decreased to 90.3% from 92.9% a year earlier.

The changes in the Group's results translated into the following profitability ratios:

- Gross ROE of 10.2% (12.9% in 2018);
- Net ROE of 6.6% (9.4% in 2018).

Capital ratios of mBank Group went down in 2019. At the end of 2019, the consolidated Total Capital Ratio stood at 19.5% compared with 20.7% in the previous year. The Common Equity Tier 1 capital ratio reached

16.5% v. 17.5% at the end of 2018. The leverage ratio stood at 8.3% at the end of December 2019, compared with 8.6% a year before.

### Income of mBank Group

Total income generated by mBank Group was PLN 5,524.4 million in 2019, compared with PLN 5,079.5 million in 2018, which represents an increase by PLN 444.9 million or 8.8%. Despite the profit from selling an organised part of enterprise of mFinanse in the amount of PLN 219.7 million, which was posted in 2018, the 2019 increase in income significantly exceeded this amount. The increase was mainly driven by improved net interest income, net trading income, and other income.

Similarly to 2018, **net interest income** remained mBank Group's largest income source in 2019 (72.5%). It reached PLN 4,002.8 million, compared with PLN 3,496.5 million in 2018 (+14.5%). High net interest income was mainly driven by an increase in interest income.

Net interest margin, calculated as a relation between net interest income and average interest earning assets, stood at 2.7% compared with 2.6% in 2018.

Interest income grew by PLN 553.5 million or 12.5% year on year to PLN 5,071.7 million. With a share of 78.0%, loans and advances were the main source of the Group's interest income. Interest income from loans and advances increased by PLN 565.0 million or 16.7% on the previous year to PLN 3,953.9 million. The growth resulted mainly from an expanding volume of loans and a change in the structure of the loans portfolio, i.e. rising share of higher-margin products with a simultaneous decrease in the share of mortgage loans in foreign currencies characterised by lower margin. In 2019, interest income from investment securities increased marginally (+PLN 12.9 million or +1.9%) and so did the value of the portfolio. Interest income from debt securities held for trading went down by PLN 23.8 million, i.e. 32.9%. This resulted from lower average value of the portfolio in 2019 compared with the previous year.

PLN M	2018	2019	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	3,388.9	3,953.9	565.0	16.7%
Investment securities	692.1	705.0	12.9	1.9%
Cash and short-term placements	55.7	56.2	0.5	0.9%
Trading debt securities	72.4	48.6	-23.8	-32.9%
Interest income on derivatives classified into banking book	180.4	181.8	1.4	0.8%
Interest income on derivatives concluded under the fair value hedge	84.4	75.1	-9.3	-11.0%
Interest income on derivatives concluded under the cash flow hedge	40.4	50.5	10.1	25.1%
Other	3.9	0.5	-3.4	-86.9%
<b>Total interest income</b>	<b>4,518.2</b>	<b>5,071.7</b>	<b>553.5</b>	<b>12.2%</b>

**Interest income from loans and advances** include interest income from loans and advances on the following items: assets held for trading, non-trading financial assets measured mandatorily at fair value through profit or loss and financial assets measured at amortised cost.

**Interest income from investment securities** include interest income on the following items: non-trading financial assets measured mandatorily at fair value through profit or loss, including debt securities, financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, including debt securities.

In the period under review, interest expenses rose by 4.6%, which was mainly attributable to higher deposit costs (up by PLN 84.9 million or 14.7%). In 2019, we continued to observe a substantial inflow of deposits, especially those of individual clients. Interest expenses related to loans received decreased by PLN 15.6 million or 53.4% mainly due to a drop in the balance of received loans and advances (repayment of mBank's loans granted by ICBC and EIB). Costs of issued debt securities went down by PLN 24.6 million or 7.7% due to a decrease in the value of liabilities from the issue of debt securities (redemption of an EMTN tranche in the amount of EUR 500 million in April 2019 and of two tranches of covered bonds).

**Net fee and commission income**, accounting for 17.5% of mBank Group's total income, dropped slightly year on year. In the period under review, it stood at PLN 964.6 million, which represents a decrease by PLN 11.2 million or 1.2%. The primary reason was an increase in costs.

PLN M	2018	2019	Change in PLN M	Change in %
Payment cards-related fees	390.0	435.9	45.9	11.8%
Credit-related fees and commissions	370.6	417.9	47.3	12.8%
Commissions for agency service regarding sale of insurance products of external financial entities	100.6	100.4	-0.2	-0.2%
Fees from brokerage activity and debt securities issue	104.5	87.0	-17.5	-16.7%
Commissions from bank accounts	207.9	210.9	3.0	1.4%
Commissions from money transfers	133.3	145.8	12.5	9.4%
Commissions due to guarantees granted and trade finance commissions	84.7	93.0	8.3	9.8%
Commissions for agency service regarding sale of products of external financial entities	103.2	82.2	-21.0	-20.4%
Commissions on trust and fiduciary activities	26.5	28.0	1.5	5.9%
Fees from portfolio management services and other management-related fees	11.6	14.2	2.6	22.1%
Fees from cash services	54.8	48.6	-6.2	-11.3%
Other	42.7	40.8	-1.9	-4.5%
<b>Total fee and commission income</b>	<b>1,630.3</b>	<b>1,704.6</b>	<b>74.3</b>	<b>4.6%</b>

Fee and commission income increased in 2019 (by PLN 74.3 million or 4.6% year on year). The largest growth was observed in the credit-related fees and commissions (up by PLN 47.3 million or +12.8%) due to a higher volume of loans sold. Payment card-related fees rose by PLN 45.9 million or 11.8% compared to the previous year. The growth was stimulated by a higher number of clients and issued payment cards as well as by the number and volume of transactions (value of non-cash transactions grew by 22.0% year on year and the number of transactions rose by 23.4%). The development of transactional banking translated into an increase in commissions from money transfers (+9.4%). A 20.4% decrease (by PLN 21.0 million) was reported in commissions for agency services regarding the sale of products of external financial entities due to a limited interest of customers in the investment fund market and regulatory changes in this respect. Fees from brokerage activity and debt securities issue decreased by PLN 17.5 million or 16.7%, which was connected with the unfavourable situation on the capital market and a substantial drop in turnover on the Warsaw Stock Exchange.

Commission expenses rose by PLN 85.5 million (13.1%) in the period under review. The highest growth was recorded in other fees and commissions paid to external entities for the sale of the bank's products (+PLN 49.1 million or 34.7%). Payment card-related expenses grew by PLN 17.6 million or 12.9% year on year.

**Dividend income** amounted to PLN 4.2 million in 2019, compared with PLN 3.6 million in 2018.

**Net trading income** stood at PLN 440.5 million in 2019 and was higher by PLN 93.2 million or 26.8% compared with 2018. The growth was driven mainly by a higher foreign exchange result (+PLN 58.1 million or 18.0%). Gains or losses on financial assets held for trading rose by PLN 20.2 million or 66.1% and gains or losses from hedge accounting went up by PLN 14.9 million.

**Other income**, including gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading equity instruments and debt securities mandatorily measured at fair value through profit or loss, grew by PLN 164.2 million in 2019. This resulted from the revaluation of shares of Visa Inc. and other companies (among others, Polski Standard Płatności Sp. z o.o., Biuro Informacji Kredytowej S.A.)

**Net other operating income** (net other operating income/expense) amounted to PLN -73.2 million in 2019 v. PLN 235.0 million in 2018. The negative figure was due to the creation of provisions for future commitments, including potential costs related to settlements with clients who made early repayments of consumer loans and the provision connected with early termination of lease agreements pertaining to two buildings in Warsaw in connection with the planned relocation. In 2018, we generated a profit from selling an organised part of enterprise of mFinanse in the amount of PLN 219.7 million.

## Result on provisions for legal risk related to foreign currency loans

In 2019, provisions for legal risk related to foreign currency loans grew by PLN 367.4 million compared to 2018. This was a consequence of the application of a new methodology of calculating provisions for legal risk related to individual court cases pertaining to indexation clauses in mortgage and housing loans in CHF. The methodology is described in detail in Note 4 to the Consolidated Financial Statements of mBank S.A. Group for 2019.

## Costs of mBank Group

In 2019, the total overhead costs (including depreciation) of mBank Group stood at PLN 2,329.9 million, which represents a 7.6% increase on the previous year. The increase was mainly due to higher contributions to the Bank Guarantee Fund and higher staff-related expenses.

PLN M	2018	2019	Change in PLN M	Change in %
Staff-related expenses	-952.3	-1,019.3	-67.0	7.0%
Material costs	-744.9	-639.1	105.8	-14.2%
Taxes and fees	-26.0	-31.2	-5.3	20.2%
Contributions and transfers to the Bank Guarantee Fund	-180.4	-255.7	-75.3	41.7%
Contributions to the Social Benefits Fund	-7.7	-8.3	-0.5	7.0%
Depreciation	-252.6	-375.5	-122.9	48.7%
<b>Total overhead costs and depreciation</b>	<b>-2,163.9</b>	<b>-2,329.2</b>	<b>-165.2</b>	<b>7.6%</b>
Cost / Income ratio	42.6%	42.2%	-	-
Employment (FTE)	6,524	6,771	247	3.8%

In 2019 staff-related expenses increased by PLN 67.0 million or 7.0%. They were pushed up by higher remuneration costs, especially the costs connected with selling of the bank's products and hiring new staff in mBank Group.

Material costs dropped by PLN 105.8 million or 14.2% in the period under review, in particular, as a result of implementation of IFRS 16, which replaced some real property administration and maintenance costs (rents) with depreciation and interest expenses. Depreciation rose by PLN 122.9 million compared to 2018.

Another important factor that impacted the cost base in 2019 was contribution and transfers to the Bank Guarantee Fund. In 2019 it was higher by PLN 75.3 million, i.e. 41.7% compared to the previous year. The contribution to the Resolution Fund amounted PLN 197.3 million in 2019, while in 2018 it stood at PLN 97.1 million.

Development of income and expenses resulted in an improvement of the Cost/Income ratio, which stood at 42.2% (42.6% in 2018). Taking into account recurrent income, the ratio improved even more significantly, as in 2018 it stood at 44.5%.

## Impairment on and change in the fair value of loans and advances

In 2019, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at -PLN 793.8 million. Compared to 2018, impairment on and change in the fair value of loans and advances increased by PLN 99.4 million or 14.3%. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost, while gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss is related to the credit risk of the portfolio of loans and advances measured with the use of that method.

As a result, the cost of risk in 2019 stood at 79 bps, compared with 78 bps in 2018.

**mBank S.A. Group**

Management Board Report on Performance of mBank S.A. Group in 2019

PLN M	2018	2019	Change in PLN M	Change in %
Retail Banking	-456.1	-510.3	-54.2	11.9%
Corporates and Financial Markets	-237.9	-281.3	-43.4	18.3%
Other	-0.4	-2.1	-1.7	398.4%
<b>Net impairment losses and fair value change on loans and advances</b>	<b>-694.4</b>	<b>-793.8</b>	<b>-99.4</b>	<b>14.3%</b>

Cost of risk in Retail Banking was pushed up by higher volume and changes in the structure of the retail credit portfolio with a growing value of non-mortgage loans (unsecured loans).

Cost of risk in Corporate Banking and Financial Markets increased due to higher provisions created on corporate exposures from various sectors.

**Contribution of business lines and segments to the financial results**

A summary of financial results of individual business lines of mBank Group is presented in the table below.

PLN M	2018	2019	Change in PLN M	Change in %	% share in gross profit
Retail Banking	1,183.3	804.2	-379.1	-32.0%	51.7%
Corporates and Investment Banking	545.7	629.1	83.4	15.3%	40.5%
Financial Markets	83.4	151.8	68.4	82.0%	9.8%
Other	-25.8	-30.1	-4.3	16.6%	-1.9%
<b>Profit before tax of mBank Group</b>	<b>1,786.6</b>	<b>1,555.0</b>	<b>-231.6</b>	<b>-13.0%</b>	<b>100.0%</b>

## 6.2. Changes in the consolidated statement of financial position of mBank Group

### Changes in the assets of mBank Group

The assets of mBank Group increased by PLN 12,940.0 million, i.e. 8.9% in 2019. Total assets stood at PLN 158,720.6 million as at December 31, 2019.

The table below presents changes in particular items of mBank Group assets.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Cash and balances with Central Bank	9,199.3	7,897.0	-1,302.3	-14.2%
Loans and advances to banks	2,546.3	4,341.8	1,795.4	70.5%
Financial assets held for trading and derivatives held for hedges	2,091.6	2,693.3	601.8	28.8%
Net loans and advances to customers	94,765.8	105,347.5	10,581.7	11.2%
Investment securities	33,469.7	34,305.2	835.5	2.5%
Intangible assets	776.2	955.4	179.3	23.1%
Tangible assets	785.0	1,262.4	477.4	60.8%
Other assets	2,146.7	1,918.0	-228.7	-10.7%
<b>Total assets of mBank Group</b>	<b>145,780.6</b>	<b>158,720.6</b>	<b>12,940.0</b>	<b>8.9%</b>

**Loans and advances to customers** – the sum of loans and advances to customers recognised in: financial assets measured at amortised cost, non-trading financial assets mandatorily measured at fair value through profit or loss and financial assets held for trading

**Investment securities** - the sum of debt securities included in financial assets measured at fair value through other comprehensive income, debt securities included in assets measured at amortised cost and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

Loans and advances to customers remained the largest asset category of mBank Group at the end of 2019. As at December 31, 2019, they accounted for 66.4% of the total balance sheet compared with 65.0% at the end of 2018. The net volume of loans and advances to customers increased by PLN 10,581.7 million, i.e. 11.2%, year on year.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Loans and advances to individuals	52,925.4	60,360.7	7,435.3	14.0%
Loans and advances to corporate entities	44,233.1	47,785.7	3,552.6	8.0%
Loans and advances to public sector	649.8	391.4	-258.4	-39.8%
<b>Total (gross) loans and advances to customers</b>	<b>97,808.3</b>	<b>108,537.8</b>	<b>10,729.5</b>	<b>11.0%</b>
Provisions for loans and advances to customers	-3,042.5	-3,190.3	-147.7	4.9%
<b>Total (net) loans and advances to customers</b>	<b>94,765.8</b>	<b>105,347.5</b>	<b>10,581.7</b>	<b>11.2%</b>

Gross loans and advances to retail customers increased by PLN 7,435.3 million, i.e. 14.0% annually. Net of the FX effect, loans and advances to individuals grew by 13.4% in 2019. The sales of mortgage loans grew by 77.0% (in 2019 it stood at PLN 8,176.4 million against PLN 4,618.3 million in the previous year). In addition, in 2019, mBank Group sold PLN 10,260.0 million worth of non-mortgage loans, which represents an upturn by 14.9% year on year.

The volume of gross loans and advances to corporate clients increased by PLN 3,552.6 million, i.e. 8.0%, compared with the end of 2018. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans and advances to corporate clients increased by 11.2% against the end of 2018.

The volume of gross loans and advances to the public sector decreased by PLN 258.4 million or 39.8% in 2019.

Investment securities constituted mBank Group's second largest asset category (21.6%). During 2019, their value grew by PLN 835.5 million, i.e. by 2.5%. The portfolio of treasury and municipal bonds shrank

by PLN 1,480.2 million or 5.1%, while the portfolio of debt securities issued by the central bank increased by PLN 2,629.7 million, i.e. more than four times.

The balance of financial assets held for trading and derivatives held for hedges grew in 2019 by PLN 601.8 million, i.e. 28.8% driven mainly by the increased portfolio of treasury and municipal bonds.

### Changes in liabilities and equity of mBank Group

The table below presents changes in the equity and liabilities of the Group in 2019:

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Amounts due to other banks	3,108.8	1,166.9	-1,942.0	-62.5%
Financial liabilities held for trading and derivatives held for hedges	981.1	948.8	-32.4	-3.3%
Amounts due to customers	102,009.1	116,661.1	14,652.1	14.4%
Debt securities in issue	18,049.6	17,435.1	-614.4	-3.4%
Subordinated liabilities	2,474.2	2,500.2	26.1	1.1%
Other liabilities	3,986.6	3,855.1	-131.5	-3.3%
<b>Total Liabilities</b>	<b>130,609.4</b>	<b>142,567.3</b>	<b>11,957.9</b>	<b>9.2%</b>
<b>Total Equity</b>	<b>15,171.2</b>	<b>16,153.3</b>	<b>982.1</b>	<b>6.5%</b>
<b>Total Liabilities and Equity of mBank Group</b>	<b>145,780.6</b>	<b>158,720.6</b>	<b>12,940.0</b>	<b>8.9%</b>

Amounts due to customers are the main source of funding of mBank Group. Their share in the Group's funding structure has been increasing systematically. They accounted for 73.5% of the Group's equity and liabilities at the end of 2019, compared with 70.0% at the end of 2018.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Individual customers	65,923.6	77,664.4	11,740.8	17.8%
Corporate customers	35,346.3	38,137.9	2,791.6	7.9%
Public sector customers	739.2	858.9	119.7	16.2%
<b>Total amounts due to customers</b>	<b>102,009.1</b>	<b>116,661.1</b>	<b>14,652.1</b>	<b>14.4%</b>

Amounts due to customers were growing rapidly in 2019 to reach PLN 116,661.1 million at the end of the year, compared with PLN 102,009.1 million at the end of 2018 (+14.4%). From the perspective of funding cost, in 2019 we observed a continuation of a positive trend reflected in higher dynamics of inflows to current accounts than to term deposits.

Amounts due to retail customers rose by PLN 11,740.8 million, i.e. 17.8% compared with the end of 2018. Current and saving accounts increased by 20.3%, while term deposits went up by 8.6%.

Amounts due to corporate clients increased by PLN 2,791.6 million or 7.9% in 2019, driven mainly by higher volumes on current accounts (+14.9%). Term deposits of corporate clients increased by 1.1% in 2019. The total growth of corporate deposits was partly offset by a drop in the value of repo transactions (-75.4%) and in the amount of loans and advances received (-13.8%), triggered largely by a partial repayment of loans from the European Investment Bank. Excluding repo transactions, amounts due to corporate clients rose by 9.6% compared with the end of 2018.

Amounts due to other banks slid by PLN 1,942.0 million, i.e. by 62.5% compared with the end of 2018 and at the end of 2019 reached 1,166.9 million. The strongest decline was recorded in repo / sell buy back transactions, whose value decreased by 87.5% compared to the end of 2018. A decrease was also reported in loans and advances received (by 74.6%) and funds from other banks placed on accounts with mBank.

The share of debt securities in issue in mBank Group's funding structure decreased from 12.4% at the end of 2018 to 11.0% at the end of 2019. This change is attributable mainly to the issuances and redemption of bonds under the EMTN programme and covered bonds of mBank Hipoteczny.

In 2019, subordinated liabilities grew by 1.1% year on year, which was caused by the impact of the PLN depreciation (vis-a-vis the Swiss franc) on the PLN equivalent of the subordinated loan with a nominal value of CHF 250 million.

Total equity went up by PLN 982.1 million (+6.5%) in 2019 as a consequence of an increase in retained earnings, while its share in total equity and liabilities of mBank Group amounted to 10.2% at the end of 2019 (compared with 10.4% as at the end of 2018).

**Changes in off-balance sheet items, changes in guarantees granted to mBank Group subsidiaries and other agreements**

More information on significant off-balance sheet items of mBank Group can be found in Note 33 of the mBank S.A. Group IFRS Consolidated Financial Statements for 2019.

The funds raised by mFinance France S.A. (mFF) from the eurobond issues under the EMTN programme have been deposited with mBank as a result of the guarantees granted by the bank related to the guarantee payment of all amounts to be settled in respect of debt securities issued under the EMTN Programme. In 2019, the value of the guarantee dropped as a result of redemption of the tranche in the nominal value of CHF 500 million redeemed on April 1, 2019.

As at December 31, 2019 mBank S.A. did not have any agreements referred to in Article 141t.1 of the Banking Law Act.

### 6.3. Financial position of mBank in 2019

#### Profit and loss account of mBank

mBank closed 2019 with a profit before tax of PLN 1,484.5 million compared with PLN 1,693.3 million a year before (down by PLN 208.8 million or 12.3%). Net profit amounted to PLN 981.0 million against PLN 1,303.8 million in 2018 (down by PLN 322.8 million or 24.8%). Income tax paid by mBank amounted to PLN 503.5 million in 2019 v. PLN 389.5 million a year before (up by 29.3%).

A summary of the financial results of mBank is presented in the table below.

PLN M	2018	2019	Change in PLN M	Change in %
Interest income	3,961.6	4,454.9	493.3	12.5%
Interest expense	-874.1	-910.2	-36.1	4.1%
<b>Net interest income</b>	<b>3,087.5</b>	<b>3,544.7</b>	<b>457.2</b>	<b>14.8%</b>
Fee and commission income	1,467.0	1,553.9	86.9	5.9%
Fee and commission expense	-575.8	-642.3	-66.5	11.5%
<b>Net fee and commission income</b>	<b>891.2</b>	<b>911.7</b>	<b>20.5</b>	<b>2.3%</b>
<b>Core income</b>	<b>3,978.7</b>	<b>4,456.4</b>	<b>477.6</b>	<b>12.0%</b>
Dividend income	126.4	320.3	193.9	153.4%
Net trading income	352.3	442.8	90.5	25.7%
Other income	20.2	169.1	148.9	736.8%
Other operating income	56.5	52.0	-4.5	-7.9%
Other operating expenses	-131.1	-174.2	-43.1	32.9%
<b>Total income</b>	<b>4,403.0</b>	<b>5,266.3</b>	<b>863.4</b>	<b>19.6%</b>
Net impairment losses and fair value change on loans and advances	-631.2	-711.7	-80.5	12.8%
Result on provisions for legal risk related to foreign currency loans	-20.3	-387.8	0.0	0.0%
Overhead costs and depreciation	-1,927.2	-2,076.9	-149.7	7.8%
Taxes on bank balance sheet items	-387.9	-426.4	-38.6	9.9%
Share in profits of entities under equity method	256.9	-179.0	-436.0	-169.7%
<b>Profit before income tax</b>	<b>1,693.3</b>	<b>1,484.5</b>	<b>-208.8</b>	<b>-12.3%</b>
Income tax expense	-389.5	-503.5	-114.0	29.3%
<b>Net profit</b>	<b>1,303.8</b>	<b>981.0</b>	<b>-322.8</b>	<b>-24.8%</b>
ROA net	1.0%	0.7%		
ROE gross	12.3%	9.8%		
ROE net	9.5%	6.5%		
Cost / Income ratio	43.8%	39.4%		
Net interest margin	2.4%	2.5%		
Common Equity Tier 1 ratio	20.5%	19.4%		
Total capital ratio	24.2%	22.8%		
Leverage ratio	9.0%	8.6%		

The main drivers of the financial results of mBank in 2019 included:

- **Increase in total income** by PLN 863.4 million. The increase was predominantly driven by net interest income and dividend income;
- **Growth in overhead costs** (including depreciation) by PLN 149.7 million related to an increase in staff-related expenses and contributions to the Bank Guarantee Fund;
- **Improved efficiency** measured by the cost/income ratio, which stood at 39.4% in 2019 v. 43.8% in 2018;
- **Rise in net impairment losses and fair value change on loans and advances** by 12.8% reported in the corporate and retail banking segments;
- **Increase in the banking tax** to PLN 426.4 million from PLN 387.9 million in 2018.

The changes in the results of the bank translated into the following profitability ratios:

- Gross ROE of 9.8% (12.3% in 2018);
- Net ROE of 6.5% (9.5% in 2018).

mBank's capital ratios remained high. The Total Capital Ratio stood at 22.8% at the end of December 2019, compared with 24.2% in 2018. The Common Equity Tier 1 capital ratio reached 19.4% v. 20.5% at the end of 2018. The leverage ratio stood at 8.6% at the end of December 2019, compared with 9.0% a year before.

### **Income of mBank**

In 2019, mBank earned a total income of PLN 5,266.3 million compared with PLN 4,403.0 million a year earlier, which represents an increase by PLN 863.4 million or 19.6%. The increase was predominantly driven by better core income including net interest income and net fee and commission income.

Similarly to 2018, **net interest income** remained mBank's largest income source in 2019 (accounting for 67.3% of total income). It stood at PLN 3,544.7 million, compared with PLN 3,087.5 million in 2018 (+14.8%), and was driven by a considerable increase in interest income.

Net interest margin, calculated as the relation between net interest income and average interest-earning assets, stood at 2.5% compared with 2.4% in 2018.

The average interest rates on deposits and loans with mBank are presented in the table below.

Average interest rate (mBank)										
		Retail Banking (Poland and foreign branches)			Corporate and Investment Banking			mBank total		
		2017	2018	2019	2017	2018	2019	2017	2018	2019
		Deposits		Total loans		Mortgage loans				
Deposits	PLN	0.67%	0.57%	0.55%	0.81%	0.88%	0.85%	0.72%	0.69%	0.66%
	FX	0.18%	0.20%	0.22%	0.07%	0.16%	0.11%	0.14%	0.18%	0.19%
Total loans	PLN	6.70%	6.64%	6.40%	3.26%	3.27%	3.37%	5.07%	5.10%	5.07%
	FX	1.41%	1.47%	1.47%	2.40%	2.36%	2.42%	1.60%	1.67%	1.70%
Mortgage loans	PLN	3.52%	3.56%	3.90%						
	FX	1.23%	1.19%	1.20%						

With a share of 76.0%, loans and advances were the main source of interest income in 2019. Interest income in this category rose by PLN 507.8 million (17.6%) year on year as a result of the growing volume and changes in the structure of the credit portfolio, in which products earning higher margins have an ever bigger share. Interest income from debt securities held for trading went down by PLN 23.6 million, i.e. 32.3%. This resulted from lower average value of the portfolio in 2019 compared with the previous year. Compared with 2018, no major fluctuations were reported with respect to other interest income items.

PLN M	2018	2019	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	2,877.8	3,385.7	507.8	17.6%
Investment securities	682.4	688.4	6.0	0.9%
Cash and short-term placements	54.3	55.1	0.8	1.4%
Trading debt securities	73.1	49.5	-23.6	-32.3%
Interest income on derivatives classified into banking book	168.5	173.9	5.4	3.2%
Interest income on derivatives concluded under the fair value hedge	57.9	45.7	-12.2	-21.0%
Interest income on derivatives concluded under the cash flow hedge	40.4	54.5	14.2	35.1%
Other	7.2	2.0	-5.2	-72.0%
<b>Total interest income</b>	<b>3,961.6</b>	<b>4,454.9</b>	<b>493.3</b>	<b>12.5%</b>

**Loans and advances** – the sum of interest income from loans and advances to customers recognised in: financial assets measured at amortised cost, non-trading financial assets mandatorily measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

**Investment securities** – the sum of interest income from debt securities included in financial assets measured at fair value through other comprehensive income, debt securities included in assets measured at amortised cost and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

The increase in interest expenses in 2019 (by PLN 36.1 million or 4.1%) was mainly driven by higher deposit costs (up by PLN 83.3 million or 14.3%) due to the strong deposit inflow observed in 2019, especially in the segment of individual deposits. Interest expenses on issued debt securities rose by PLN 22.2 million as a result of issuing the tranche of bonds under the EMTN Programme (CHF 125 million in April 2019). Interest expenses related to loans received decreased further (-PLN 15.9 million) due to a drop in the balance of received loans and advances (repayment of loans granted by ICBC and EIB).

**Net fee and commission income**, accounting for 17.3% of mBank's total income, increased year on year. It reached PLN 911.7 million in the analysed period, up by PLN 20.5 million, i.e. 2.3%, on the previous year.

PLN M	2018	2019	Change in PLN M	Change in %
Payment cards-related fees	390.0	435.9	45.9	11.8%
Credit-related fees and commissions	313.6	350.0	36.5	11.6%
Commissions for agency service regarding sale of insurance products of external financial entities	17.1	49.9	32.8	191.5%
Fees from brokerage activity and debt securities issue	105.5	89.9	-15.6	-14.8%
Commissions from bank accounts	207.9	210.9	3.0	1.4%
Commissions from money transfers	132.9	145.4	12.5	9.4%
Commissions due to guarantees granted and trade finance commissions	77.8	84.5	6.7	8.6%
Commissions for agency service regarding sale of products of external financial entities	86.1	54.0	-32.1	-37.2%
Commissions on trust and fiduciary activities	26.5	28.0	1.5	5.9%
Fees from portfolio management services and other management-related fees	11.6	14.2	2.6	22.1%
Fees from cash services	54.8	48.6	-6.2	-11.3%
Other	43.4	42.7	-0.7	-1.6%
<b>Total fee and commission income</b>	<b>1,467.0</b>	<b>1,553.9</b>	<b>86.9</b>	<b>5.9%</b>

Fee and commission income went up by PLN 86.9 million or 5.9% year on year. Payment card-related fees rose by PLN 45.9 million or 11.8% compared to the previous year. The growth was stimulated by a higher number of clients and issued payment cards as well as by the number and volume of transactions (value of non-cash transactions grew by 22.0% year on year and the number of transactions rose by 23.4%). Credit-related fees and commissions increased by PLN 36.5 million, i.e. 11.6%, driven by a substantial upturn in retail and corporate loan sales. As a result of clients displaying a growing interest in insurance products, commissions for agency service regarding sale of insurance products of external financial entities rose by PLN 32.8 million. Alongside a growing customer base, commissions for bank accounts went up by PLN 21.3 million or 11.4%. Development of transactional banking and a higher number of transactions translated into an increase in commissions for money transfers (up by 9.4%). Fees from brokerage activity and securities issues decreased by PLN 15.6 million or 14.8% due to an unfavourable situation on the capital market, a drop in turnover on the Warsaw Stock Exchange and a lower number of primary market transactions in 2019. Commissions for agency service regarding sale of products of external financial entities went down by PLN 32.1 million or 37.2% as a result of regulatory changes and customers showing smaller interest in the investment fund market.

**Dividend income** amounted to PLN 320.3 million in 2019, compared with PLN 126.4 million in 2018. It was driven by dividends paid to the bank by mBank Group subsidiaries, including in particular the dividends paid by mFinanse.

**Net trading income** amounted to PLN 442.8 million in 2019 and was higher by PLN 90.5 million, i.e. 25.7%, compared with the previous year. The growth was driven mainly by a higher foreign exchange result (+PLN 77.0 million or 25.3%).

**Other income**, including gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading equity instruments and debt securities mandatorily measured at fair value through profit or loss, grew by PLN 148.9 million year on year. The increase resulted from, among other factors, a 2019 change in the valuation of shares of Visa Inc., Polski Standard Płatności Sp. z o.o., and Biuro Informacji Kredytowej S.A.

**Net other operating income** (other operating income net of other operating expenses) was negative at -PLN 122.2 million, compared with -PLN 74.6 million in 2018. Mainly other operating expenses increased (+PLN 43.1 million), among others, as a result of higher provisions for future commitments.

## Result on provisions for legal risk related to foreign currency loans

In 2019, provisions for legal risk related to foreign currency loans grew by PLN 367.4 million compared to the end of 2018. This was a consequence of the application of a new methodology of calculating provisions for legal risk related to individual court cases pertaining to indexation clauses in mortgage and housing loans in CHF. The methodology is described in detail in Note 4 to the Consolidated Financial Statements of mBank S.A. Group for 2019.

## Costs of mBank

The total overhead costs of mBank (including depreciation) stood at PLN 2,076.1 million, up by 7.8% on the previous year.

PLN M	2018	2019	Change in PLN M	Change in %
Staff-related expenses	-836.3	-905.7	-69.4	8.3%
Material costs	-658.2	-563.8	94.5	-14.4%
Taxes and fees	-22.9	-27.9	-5.0	21.9%
Contributions and transfers to the Bank Guarantee Fund	-175.2	-242.4	-67.2	38.4%
Contributions to the Social Benefits Fund	-6.9	-7.6	-0.7	10.8%
Depreciation	-227.7	-329.5	-101.8	44.7%
<b>Total overhead costs and depreciation</b>	<b>-1,927.2</b>	<b>-2,076.9</b>	<b>-149.7</b>	<b>7.8%</b>
Cost / Income ratio	43.8%	39.4%	-	-
Employment (FTE)	5,839	6,072	233	4.0%

In 2019 staff-related expenses increased by PLN 69.4 million or 8.3%. The change was driven by higher remuneration costs as a consequence of, among other things, an increased headcount of mBank. The number of FTEs increased by 233 in 2019, mainly as a result of transferring part of employees of mBank Hipoteczny to the bank and branch network development.

Material costs dropped by PLN 94.5 million or 14.4% in the period under review in particular as a result of implementation of IFRS 16. Some real property administration and maintenance costs (rents) were replaced with depreciation and interest expenses. Depreciation rose by 44.7% in 2019.

Contributions and transfers to the Bank Guarantee Fund had an impact on the increase of costs in 2019. Compared with 2018, it rose by PLN 67.2 million, mainly due to a higher contribution to the Resolution Fund.

Changes in the income and costs of mBank drove the decrease of the cost to income ratio. At the end of 2019 it declined to 39.4% v. 43.8% in the previous year.

## Impairment on and change in the fair value of loans and advances

In 2019, impairment on and change in the fair value of loans and advances of mBank (being the sum of: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) amounted to -PLN 711.7 million, up by PLN 80.5 million or 12.8% v. the prior year. Growth was reported in both Retail Banking and Corporate Banking & Financial Markets, driven mainly by a higher volume and share of unsecured loans in the retail loans portfolio and higher provisions created for corporate exposures from various sectors.

## 6.4. Changes in the statement of financial position of mBank

### Changes in assets

In 2019, mBank's assets increased by PLN 11,548.7 million or 8.4%. They stood at PLN 149,228.3 million as at December 31, 2019.

The table below presents year-on-year changes in mBank's assets.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Cash and balances with Central Bank	9,183.0	7,861.8	-1,321.2	-14.4%
Loans and advances to banks	5,909.3	7,337.7	1,428.4	24.2%
Financial assets held for trading and derivatives held for hedges	2,113.4	2,749.1	635.7	30.1%
Net loans and advances to customers	83,320.4	93,145.9	9,825.5	11.8%
Investment securities	32,665.7	33,333.2	667.5	2.0%
Intangible assets	693.2	823.1	129.9	18.7%
Tangible fixed assets	537.0	945.6	408.6	76.1%
Other assets	3,257.6	3,031.9	-225.7	-6.9%
<b>Total assets of mBank</b>	<b>137,679.6</b>	<b>149,228.3</b>	<b>11,548.7</b>	<b>8.4%</b>

**Loans and advances to customers** - the sum of loans and advances to customers recognised in: financial assets measured at amortised cost, non-trading financial assets mandatorily measured at fair value through profit or loss, financial assets held for trading and in financial assets measured at fair value through other comprehensive income.

**Investment securities** - the sum of debt securities included in financial assets measured at fair value through other comprehensive income, debt securities included in assets measured at amortised cost and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

At the end of 2019, loans and advances to customers remained the largest asset category of mBank. Their share in total assets stood at 62.4% as at December 31, 2019 compared with 60.5% a year before.

The net volume of loans and advances to customers increased by PLN 9,825.5 million or 11.8% year on year.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Loans and advances to individuals	46,998.3	53,212.4	6,214.2	13.2%
Loans and advances to corporate entities	38,458.8	42,384.0	3,925.2	10.2%
Loans and advances to public sector	538.4	292.9	-245.5	-45.6%
<b>Total (gross) loans and advances to customers</b>	<b>85,995.4</b>	<b>95,889.3</b>	<b>9,894.0</b>	<b>11.5%</b>
Provisions for loans and advances to customers	-2,675.0	-2,743.4	-68.5	2.6%
<b>Total (net) loans and advances to customers</b>	<b>83,320.4</b>	<b>93,145.9</b>	<b>9,825.5</b>	<b>11.8%</b>

Gross loans and advances to individual customers increased by PLN 6,214.2 million or 13.2% year on year. In 2019, the bank sold PLN 8,176.4 million worth of mortgage loans, up by PLN 77.0% v. 2018. In 2019, the bank granted PLN 10,260.0 million worth of non-mortgage loans to individual customers, which represents a 14.9% hike as compared with 2018.

Gross loans and advances to corporate customers went up by PLN 3,925.2 million (10.2%) over the same period. Gross loans and advances to the public sector decreased by PLN 245.5 million or 45.6%.

Investment securities constituted mBank's second largest asset category (22.3%). During 2019, their value grew by PLN 667.5 million (2.0%). The portfolio of debt securities issued by the central bank increased by PLN 2,499.7 million, whereas the portfolio of treasury bonds and bonds of local authorities decreased by PLN 1,484.0 million.

Other assets made up 15.2% of the bank's balance sheet total.

## Changes in equity and liabilities

The table below presents changes in mBank's equity and liabilities in 2019.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Amounts due to other banks	3,167.2	1,180.8	-1,986.4	-62.7%
Derivative financial instruments and other trading liabilities	1,016.2	987.9	-28.3	-2.8%
Amounts due to customers	109,873.4	121,937.0	12,063.6	11.0%
Debt securities in issue	2,857.7	3,362.0	504.3	17.6%
Subordinated liabilities	2,474.2	2,500.2	26.1	1.1%
Other liabilities	3,160.7	3,145.4	-15.4	-0.5%
<b>Total Liabilities</b>	<b>122,549.4</b>	<b>133,113.3</b>	10,563.8	8.6%
<b>Total Equity</b>	<b>15,130.2</b>	<b>16,115.0</b>	984.8	6.5%
<b>Total Liabilities and Equity of mBank</b>	<b>137,679.6</b>	<b>149,228.3</b>	<b>11,548.7</b>	<b>8.4%</b>

Amounts due to customers remained the dominant funding source of mBank. Their share in equity and liabilities increased year on year, standing at 81.7% (compared to 79.8% in 2018).

Amounts due to customers rose by PLN 12,063.6 million or 11.0% to PLN 121,937.0 million at the end of 2019. The most dynamic growth was observed in amounts due to individual customers (17.8%). Amounts due to corporate customers increased by 0.5%, whereas amounts due to the public sector grew by 16.2%.

PLN M	31.12.2018	31.12.2019	Change in PLN M	Change in %
Individual customers	65,923.4	77,664.2	11,740.8	17.8%
Corporate customers	43,210.8	43,413.9	203.1	0.5%
Public sector customers	739.2	858.8	119.7	16.2%
<b>Total amounts due to customers</b>	<b>109,873.4</b>	<b>121,937.0</b>	<b>12,063.6</b>	<b>11.0%</b>

Amounts due to other banks decreased by PLN 1,986.4 million or 62.7% year on year to PLN 1,180.8 million.

In 2019, mBank carried out the EMTN issue of debt securities with nominal values of CHF 125 million.

In 2019, subordinated liabilities rose by 1.1%, reflecting the impact of exchange rate changes on a subordinated loan with a nominal value of CHF 250 million.

In 2019, equity grew by PLN 984.8 million or 6.5% thanks to an increase in retained profits. Its share in equity and liabilities of mBank accounted for 10.8% at the end of 2019 (11.0% in 2018).

## 7. Retail Banking

mBank's Retail Banking segment serves 5,604 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a wide network of branches. The bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises. In 2013, the bank launched a modern, user-friendly online platform (New mBank) designed from scratch, which provides more than 200 new functionalities and solutions. Similar to our mobile application, the transactional platform is constantly improved and enjoys great popularity among our clients.



Key financial data (at the end of 2019):

<b>Share in pre-tax profit</b>	<b>Pre-tax profit</b>	<b>Total income</b>
<b>51.7%</b> ↓	<b>PLN 804.2 M</b> ↓	<b>PLN 3,380.9 M</b> ↑

Key business data:

	2015	2016	2017	2018	2019
Number of customers (thousand) <sup>1</sup>	4,663	5,052	5,342	5,685	5,604
Distribution network (pcs.) <sup>2</sup>	302	316	333	358	390
Loans to retail clients (PLN M)	46,259	48,950	48,143	52,925	60,361
Deposits of retail clients (PLN M)	46,117	53,495	55,694	65,924	77,664

<sup>1</sup> The number of retail clients in 2017 (and in 2015-2016) has been adjusted due to obligatory closing of inactive accounts and excluding micro-company representatives, without individual products.

<sup>2</sup> Including 353 outlets in Poland and 37 in the Czech Republic and Slovakia.

### Key highlights

- Increase of core income by 11.7% year on year.
- Sales of PLN 10.3 billion worth of non-mortgage loans, up by 14.9% year on year.
- Sales of PLN 8.2 billion worth of mortgage loans, up by 77.0% year on year.
- Increase in the number of active users of mobile application by 27.6%, up to 1,894.7 thousand.
- Increase of retail deposits by 17.8% in 2019, mainly driven by growing current accounts and savings (+20.3% year on year).
- Increase of the value of transactions carried out with mBank's payment cards by 22.0%; increase in the number of card transactions by 23.4% year on year.
- Optimization of digital processes under the "digital first" approach.
- Implementation of factoring for sole proprietors.

## 7.1. Financial results

In 2019, the Retail Banking segment generated a profit before tax of PLN 804.2 million, which represents a decrease by PLN 379.1 million, i.e. 32.0% year on year. The foreign branches in the Czech Republic and Slovakia in 2019 generated a gross profit of PLN 78.0 million compared to PLN 39.8 million in 2018, which represents an increase by 96.0%.

PLN M	2018	2019	Change in PLN M	Change in %
Net interest income	2,310.5	2,696.8	386.3	16.7%
Net fee and commission income	538.8	486.7	-52.1	-9.7%
Net trading income	127.3	141.3	14.0	11.0%
Other income	0.0	102.8	102.8	-
Net other operating income/expense	208.7	-46.7	-255.5	-122.4%
<b>Total income</b>	<b>3,185.3</b>	<b>3,380.9</b>	<b>195.6</b>	<b>6.1%</b>
Net impairment losses and fair value change on loans and advances	-456.1	-510.3	-54.2	11.9%
Result on provisions for legal risk related to foreign currency loans	-20.3	-387.8	-367.4	1,805.7%
Overhead costs and depreciation	-1,319.7	-1,438.2	-118.6	9.0%
Taxes on Group's balance sheet items	-205.9	-240.3	-34.4	16.7%
<b>Profit before tax of Retail Banking</b>	<b>1,183.3</b>	<b>804.2</b>	<b>-379.1</b>	<b>-32.0%</b>

The profit before tax of Retail Banking in 2019 was driven by the following factors:

- **Increase in total income** by PLN 195.6 million or 6.1% year on year, to PLN 3,380.9 million despite the high comparative base of the previous year, which included one-off income from the sale of an organized part of enterprise of mFinanse in the amount of PLN 219.7 million:
  - net interest income expanded by PLN 386.3 million, i.e. 16.7%, due to rising volumes and a shift in the credit portfolio structure toward higher-margin products;
  - net fee and commission income decreased by PLN 52.1 million, i.e. 9.7%, mainly due to lower commissions for agency service regarding sale of insurance products of external financial entities in connection with the sale in 2018 of an organized part of the enterprise of mFinanse, lower commissions from brokerage activities and the distribution of investment funds in connection with external conditions, as well as higher transaction costs carried out by the Group with the participation of external entities;
- **Increase in operating expenses (including depreciation)** by PLN 118.6 million, i.e. 9.0% year on year, driven mainly by the growth in staff-related expenses;
- **Higher net impairment losses and fair value change on loans and advances** by PLN 54.2 million or 11.9% due to growing retail credit portfolio and changes in its structure;
- **Increase in provisions for legal risk** related to foreign currency loans from -20.3 million PLN in 2018 to PLN -387.8 million in 2019 triggered by a change in the methodology for calculating provisions for legal risk regarding individual court cases regarding indexation clauses in CHF mortgage and housing loans, as a result of the observed increase in the total number of individual court cases, as well as changing jurisdiction approach in such court cases.
- **Tax on the Group's balance sheet items** at PLN 240.3 million, higher by PLN 34.4 million, i.e. 16.7% than in the previous year.

## 7.2. Activity of Retail Banking segment in numbers

Refers to mBank and mBank Hipoteczny

thousand	31.12.2017	31.12.2018	31.12.2019	Annual change
<b>Number of retail clients, including:</b>	<b>5,342.3</b>	<b>5,685.0</b>	<b>5,603.9</b>	<b>-1.4%</b>
Poland	4,437.0	4,760.6	4,645.3	-2.4%
Foreign branches	905.3	924.3	958.6	3.7%
The Czech Republic	633.6	642.2	667.0	3.9%
Slovakia	271.8	282.1	291.5	3.3%
<b>PLN M</b>				
<b>Loans to retail clients, including:</b>	<b>48,122.1</b>	<b>52,510.7</b>	<b>60,018.8</b>	<b>14.3%</b>
Poland	43,703.1	47,801.8	54,934.9	14.9%
mortgage loans	31,294.8	33,245.5	37,480.6	12.7%
non-mortgage loans	12,408.3	14,556.3	17,454.3	19.9%
Foreign branches	4,419.0	4,708.9	5,083.8	8.0%
The Czech Republic	3,585.3	3,768.8	3,913.5	3.8%
Slovakia	833.7	940.2	1,170.3	24.5%
<b>Deposits of retail clients, including:</b>	<b>55,749.8</b>	<b>65,852.8</b>	<b>77,487.7</b>	<b>17.7%</b>
Poland	46,876.5	55,733.9	66,837.9	19.9%
Foreign branches	8,873.3	10,119.0	10,649.8	5.2%
The Czech Republic	6,346.0	7,163.2	7,346.4	2.6%
Slovakia	2,527.3	2,955.7	3,303.5	11.8%
<b>Investment funds (Poland)</b>	<b>17,855.0</b>	<b>13,119.6</b>	<b>15,137.1</b>	<b>15.4%</b>
<b>thousand</b>				
<b>Credit cards, including</b>	<b>362.8</b>	<b>381.9</b>	<b>396.5</b>	<b>3.8%</b>
Poland	325.9	341.2	355.4	4.2%
Foreign branches	36.8	40.7	41.1	0.8%
<b>Debit cards, including:</b>	<b>3,713.0</b>	<b>3,909.0</b>	<b>3,848.7</b>	<b>-1.5%</b>
Poland	3,138.1	3,319.9	3,231.5	-2.7%
Foreign branches	575.0	589.1	617.2	4.8%
<b>Distribution network</b>				
Advisory Centres	10	12	14	
Light branches	24	34	40	
mBank (f. Multibank)	102	95	89	
mKiosks (incl. Partner Kiosks)	123	143	166	
mFinanse (f. Aspiro) Financial Centres	41	41	44	
Czech Republic & Slovakia	33	33	37	

### **7.3. Retail Banking of mBank in Poland**

#### **Retail banking offer for individuals**

As a leader in online and mobile banking, mBank focuses on technological innovations which make its processes even more efficient. We develop our offer to cater for the expectations of our clients, especially the young ones, which is reflected by our client acquisition structure. Thanks to our activities, mBank has become the first-choice bank for clients aged 16-20 according to the IQS Tracking survey. In addition, the *Miesięcznik Finansowy Bank* monthly awarded mBank the main prize in the *Bank for the Young* and *Innovation* categories.

mBank is among the banks with the largest number of mobile clients. In its *Most Mobile Banks in Poland* report published on 27 March 2019, cashless.pl listed Polish banks with the highest ability to migrate traditional customer service channels to the modern ones. The results were based on the client mobility ratio. mBank topped the podium with the ratio of 53.5%, which means that more than half of our clients regularly log in to their accounts using smartphones. At the end of 2019, as many as 1,894,700 clients actively used mBank's mobile app, which represents an increase by 27.6% year on year (1,484,500 in 2018). Currently, 72.1% of all logins to mBank's systems are from the mobile app.

#### Loans

In 2019, we continued to optimise our digital processes under the slogan "digital first" to make our products more attractive and to increase the availability of unsecured loans to individuals. This translated into a substantial increase in sales in direct channels (mobile app and online banking). Cash loan sales in the mobile app grew more than 2.5 times. The focus on direct channels can also be observed in our branches and in the contact centre. Our client advisors and consultants teach clients how to apply for banking products using the mobile app and online banking, and how to best utilise the opportunities offered by these channels. Currently, one-fourth of all unsecured loans granted in our branches are applied for by clients who file applications on their own with the help of advisors. New sales of non-mortgage loans to individuals in Poland amounted to PLN 6.8 billion in 2019 compared with PLN 6.0 billion in 2018, which represents an increase by 13.7% year on year.

At the beginning of 2019, we introduced the possibility of applying for a cash loan with a discount code. Currently, more than 50% of cash loans sold outside of special offers are purchased with the discount code.

In August, we made a new application form for cash loans available. It guides clients filing applications in the mobile app or in online banking in an easy and friendly manner. Thanks to the new application form clients can calculate their creditworthiness even more accurately and adjust the instalments to their capabilities.

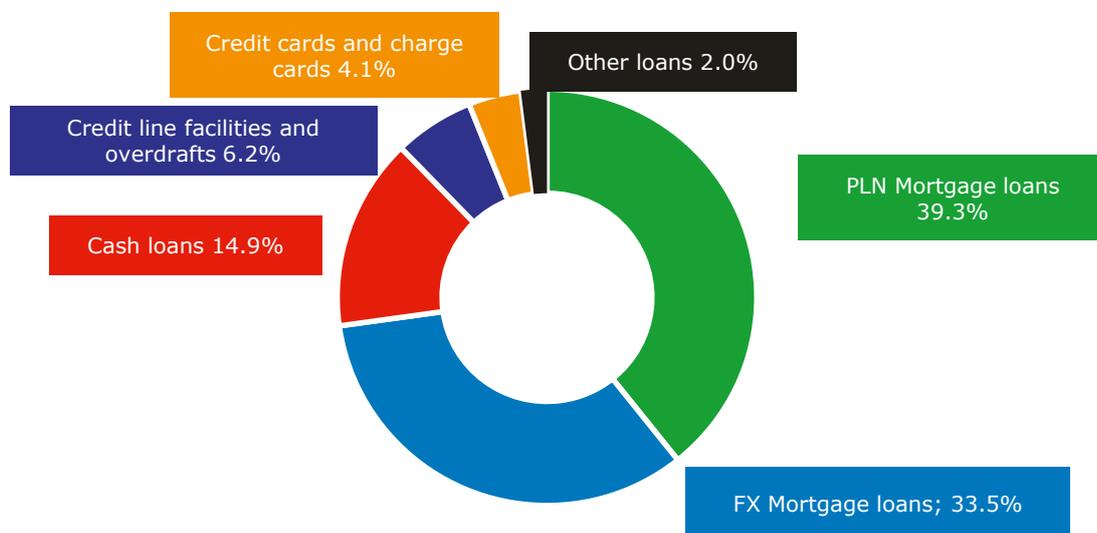
In 2019 we achieved a significant increase in mortgage loan sales while maintaining excellent pricing parameters. The sales of mortgage loans to individuals in Poland amounted to PLN 6.8 billion in 2019 compared with PLN 3.5 billion in 2018, which represents an increase by 94.0% year on year. It is worth mentioning that in 2019, in line with the adopted strategy, the vast majority of originated mortgage loans again qualified for a transfer to mBank Hipoteczny under the pooling procedure, which allows for funding the assets with a better-matched maturity structure. The ongoing work on enhancing the process of granting mortgage loans to clients is expected to significantly shorten the time necessary to issue a credit decision and improve the scalability of the process.

Last year we launched a special offer on mortgage loans for our internal clients. We selected two client groups with the highest activity level. As a result, almost 500,000 clients can now check the special price for a mortgage loan for which they are eligible. The initiative is meant to promote the image of the bank as an institution with an attractive mortgage loan offering, especially for the clients for whom we are the first-choice bank.

The NPL ratio of the mortgage loan portfolio for individuals in Poland dropped year on year and stood at 2.0% at the end of 2019, compared with 2.6% a year before.

The graph below presents the structure of the Retail Banking loan portfolio in Poland (including mBank Hipoteczny) at the end of 2019:

**Retail loan portfolio in Poland (Household loans, mBank in Poland only)**



Savings products

As at the end of 2019 the total amount of Retail Banking deposits in Poland stood at PLN 66,837.9 million compared to PLN 55,733.9 million a year ago, up by 19.9% year on year. At the same time, the balance of current accounts and savings accounts rose by 20.5% and 26.0%, respectively. The strong sales results in the area of savings products were possible thanks to a number of initiatives carried out in 2019, including the following:

- we implemented a new functionality in the savings account entitling to obtain a bonus for depositing new funds;
- we ran two promotional campaigns for the eKonto savings and settlement account offering higher interest on new money;
- we launched the savings product "My Goals" for clients aged 13-17, which allows them to regularly save a fixed amount of money and to save money by rounding up purchases;
- we ran four promotional campaigns concerning "My Goals" with a preferential interest rate;
- we continued the term deposit retention process aimed at rolling-over maturing term deposits.

Growth in retail deposits was accompanied by a decrease in investment products. In 2019 we launched a number of initiatives to adapt our activities in the area of distribution of investment funds units to the new legal environment. Among others, we worked on a new distribution fee settlement model. Additionally, we undertook numerous initiatives supporting the development of investment fund participation units sales. For example, we introduced a simplified MiFID survey, which helps clients determine whether given investment products are suitable for their investment profile.

In November, we started offering free-of-charge individual pension accounts (IKE eMakler) and individual retirement security accounts (IKZE eMakler). The accounts allow independent investors to save for retirement by investing in WSE-traded shares and bonds, as well as in shares traded on four leading foreign stock markets and ETFs from London and Frankfurt. This way, they can earn on changes in stock prices of companies such as Apple, Google, Facebook, or BP. mBank clients can thus take advantage of increases in stock prices on leading stock markets worldwide, which often take place even when the WSE stagnates. By investing in ETFs (Exchange Traded Funds), which track the performance of given indexes, investors can

further diversify their investment risk. Apart from lower price volatility, ETFs also offer lower transaction costs than traditional investment funds.

### Cards and accounts

In H1 2019, we launched a simplified offering of accounts for individuals comprising the new personal eKonto account and an account for young clients, eKonto możliwości. Both accounts are free of charge and offer free money withdrawals at all ATMs in Poland and abroad.

We offer the most favourable conditions on the market, which pushes us to the top of many industry league tables. eKonto możliwości ranks first in the league table of accounts for young clients compiled by *kontomlodziowe.com*, and it is the most frequently selected account by this client group according to *kontostudenta.pl*. The IQS Tracking survey at mBank's request showed that we are the first-choice bank for young clients.

Thanks to the cooperation with Przelewy 24, we made the quick transfer service available to our clients. It allows clients to transfer money to their mBank accounts from accounts held with another bank. The transferred funds are credited to the client's account within 15 minutes.

In February 2019, we were the first bank in Poland to offer an online emergency service. The Cyber Rescue service provides assistance to users experiencing online security problems. Specialists are available around the clock and they can be accessed conveniently and quickly via Messenger, telephone or text message. Users can request assistance in the case of a hacking attack, problems with viruses, loss of passwords to social media etc. The service is unconditionally free-of-charge for mBank clients.

In 2019, we focused on client acquisition in medium-sized towns. The initiative consisting in opening mBank's ice rinks proved a huge success. In early December, free ice rinks were launched in 10 Polish towns, including Włocławek, Suwałki, and Przemyśl. The inhabitants were also offered the possibility of renting skates and getting an instructor. Within one month from the launch of the ice rinks, client acquisition in the towns covered by the programme grew remarkably.

In April 2019, we added the MasterCard card to the multi-currency service. Now, not only VISA card holders can use the service free of charge. It is available for eleven currencies (JPY, NOK, SEK, CZK, DKK, HUF, HRK, EUR, USD, CHF, GBP). Similarly to FX accounts, we do not charge any fees for using the service. Thanks to the multi-currency service, a debit card can be linked not only to a client's main PLN account, but also to FX accounts.

In June 2019, we introduced a MasterCard card in the limited Poland/Rock edition, designed by Jurek Owsiak. In December, we launched a limited MasterCard card to mark the 28th Grand Finale of the Great Orchestra of Christmas Charity (WOŚP), featuring a special design by Jurek Owsiak.

Since September 2, 2019, clients may order debit cards in a portrait format. The new Visa and MasterCard cards are simple and minimalist. They no longer feature client data on the front side. All information, including the name and surname, card number and expiry date are displayed on the reverse of the card.



In 2019, the value of payment card transactions made by mBank's retail clients in Poland amounted to PLN 46.6 billion, which represents a rise by 22.0% year on year. The number of transactions made by mBank clients grew by 23.4% year on year. mBank's credit cards are also characterised by a very high average number of transactions per client. At the end of September 2019, the market share of transactions by mBank's cards (by number of transactions) stood at 13.0%.

### Products and services for affluent clients

In 2019, we continued the acquisition of affluent clients, who are the target group of our mKonto Intensive account. The account holders enjoy free cash withdrawals from ATMs all over the world, can make three instant transfers per month free of charge and have access to priority service in the call centre. In addition, mKonto Intensive is the only account that comes with a Visa Świat Intensive multi-currency card and a World MasterCard Intensive credit card. Both cards allow commission-free conversion of transactions,

thanks to which clients do not incur any additional costs when making payments abroad or shopping online in a foreign currency.

Apart from offering attractive products and services to new clients, we also launch temporary special offers concerning selected products for our existing clients. In 2019, we ran a special mortgage loan offer with a reduced commission and margin for affluent clients being mKonto Intensive holders. We also introduced a promotional savings offer with a preferential interest rate to cater for the special needs of this client group.

#### Brokerage operations and asset management

The Brokerage Bureau of mBank (BM) provides a comprehensive range of brokerage services to the largest Polish institutional investors (pension funds, investment funds, asset management companies), foreign funds, and individual and private banking clients. The Brokerage Bureau enables clients to trade in regulated markets in Poland and abroad as well as in the OTC (CFD) market. As part of wealth management services, clients may use investment advisory and asset portfolio management services. The Bureau is an active player in the capital market, preparing and conducting public and private offerings (IPO/SPO/ABB).

In 2019 we observed a visible decrease in investor activity on the WSE compared with 2018 (-8.0% year on year in the stock market) accompanied by a weakening position of domestic investors and growing domination of global investment banks operating as remote members of the WSE. The turnover of BM on the WSE stock market amounted to PLN 13.4 billion (-23.5% year on year), which made mBank the thirteenth player on the market in terms of total turnover (3.4% market share) and eighth player from the perspective of turnover on the client's account (5.7% market share). Our clients express systematically growing interest in investing in foreign markets. At the end of the year, the number of brokerage accounts of BM clients amounted to 311,200.

The conditions on global financial markets in 2019 fostered growth of assets under management. Wealth Management benefited from the changes introduced in the investment structure in the previous years, moving toward global, diversified solutions. The value of assets under management in discretionary portfolios (i.e. assets managed by BM without clients' active involvement) increased by a third. Aside from the above-mentioned portfolios, we continued to develop white label solutions. Four mBank FIO sub-funds (including one equity, one multi-asset, and two bond sub-funds) joined the existing mFundusz Konserwatywny SFIO, thereby increasing assets accumulated in these solutions by over PLN 230 million in 2019.

In 2019 mBank's Wealth Management pioneered a fully diversified strategy of socially responsible investing for its clients in Poland, in line with the ESG principles. ESG strategy assets accounted for 19% of assets in investment strategies with a comparable investment risk level. Another important issue was the conclusion of an agreement with CFA Society Poland on the implementation and promotion of the Statement of Investor Rights. It stresses mBank's adherence to ethical aspects of financing. We are the first institution in Poland to enter into this type of cooperation with one of the world's leading professional certification organisations. Finally, in 2019 Wealth Management offered funds of the global asset management company AllianceBernstein to clients, which confirms our desire to promote diversified, global, and transparent investment solutions.

The stock market in 2019 was marked by very low transactional activity, especially in the scope of capital transactions like IPO, SPO and ABB. Despite this, BM concluded four such transactions in 2019, including ABB of Famur shares (PLN 275.9 million) and ABB of Trakcja PRKiI shares (PLN 59.6 million). Furthermore, BM remained an active player and successfully performed ten share buybacks and calls for shares of WSE-listed companies, including ES-SYSTEM (PLN 147.3 million), Ergis (PLN 66.9 million), Neuca (two buybacks worth PLN 80.4 million in total) and Elemental Holding (two buybacks worth PLN 36.5 million in total).

#### Cooperation with AXA Group

In 2019, mBank continued to cooperate with its strategic insurance partner AXA in the area of bancassurance. The partnership covers selling insurance products to mBank clients and focuses particularly on the standalone product segment, including motor, travel, home, and life insurance as well as the segment of products linked to banking products, e.g. loans.

The bank continued the transformation of its insurance product portfolio to meet the needs of digital clients who intensively take advantage of direct channels to fulfil their needs and contact the bank. As a result,

we refreshed our standalone product mix. All standalone products (i.e. motor, home, travel, and life & health insurance) can be purchased in the bank's mobile app. Over 40% of travel insurance policies are now sold via the mobile app.

### **Products and services for small and medium-sized enterprises**

The company account with 24 months' no fee guarantee was the main product driving client acquisition in 2019. The product was offered on a standalone basis and as part of the "mBank Business Starter" (*Firmootwieracz*), which enables potential clients to set up a company and open a bank account via mBank. The main assumptions of our acquisition offer (no fees for a bank account, debit card, transfers, withdrawals from selected ATMs, and deposits made at CDMs) remained consistent throughout the year.

In 2019, we had to adjust our systems and procedures to new regulations. We expanded the split payment mechanism and implemented the new type of transfer to the Tax Office following the introduction of Individual Tax Accounts. We adjust to new regulations bearing in mind their impact on businesses. Therefore, we prepared a comprehensive information campaign concerning all legal changes introduced in 2019. It included direct communication via online banking and the mobile app, articles published on mBank's blog, and webinars.

We accompany businesses and listen to their needs on a day-to-day basis. Aside from our monthly meetings with businesspeople, we organised an inspirational meeting (*OkO w OkO*) and photography workshops during the ALIBI women's fair in Łódź. We made use of our personal hobbies and interests to promote mBank among businesspeople. The event met with a warm reception with participants appreciating mBank for "really helping and giving directions to people who consider setting up their own business".

2019 was marked by a 19.1% year-on-year increase in unsecured loan sales. Mortgage sales rose by 50.2% compared to the previous year.

In April 2019, we launched factoring services for sole traders. A limit of up to PLN 50,000 can be applied for online. The decision comes within 5 minutes. The same amount of time is needed to get an invoice financing decision. The service is tied to the current account and enables clients to make repayments manually or automatically. It only takes one click to prolong the repayment deadline by 30 days from the invoice due date.

In H1 2019, we launched EUR and USD Visa Business currency cards for business clients with free-of-charge ATM withdrawals and no currency conversion when paying for company expenses abroad.

In August 2019, we enhanced the mKsięgowość (mAccounting) service with new features, including the option to upload document images (e.g. invoices) using the CashDirector mobile app. We also added a financial liquidity analysis tool, which shows clients if their financial liquidity could be at risk within the next four weeks.

## **7.4. Retail Banking in the Czech Republic and Slovakia**

In 2019, our branches in the Czech Republic and Slovakia put the greatest emphasis on deposit products, acquisition of active clients, lending growth, and process optimisation. The branches completed several projects aimed to increase sales capacities and sales process excellence. The product mix was expanded with new scenarios, which strengthened and increased the range of available solutions.

mBank continued to reinforce its leading position in mobile banking. The year was marked by further development of mobile banking. The branches added new solutions and enhanced the existing ones. We improved communication in the app and increased its security with the new mobile authorisation tool mKlíč (mKey). The tool offers a higher level of security and more comfortable authorisation of transactions. The application tells the client why their transaction has been rejected and how they can avoid this in the future. The Slovak branch launched express payments. The service allows faster money transfers to beneficiaries in other banks.

In February, our Czech branch launched the innovative Visa World (mKarta Svět) card. The card is very popular with clients who travel and pay abroad. The card has become the new standard debit card for the mKonto account. The card combines the best exchange rates on the market (compared with debit cards offered by other banks) and commission-free payments with comfort offered by a local bank. In addition,

the Czech and Slovak branches launched mSaver (My Goals), an automatic savings product developed on the basis of customer behaviour analysis. In H1 2019, we were the first on the market to launch new solutions which had been expected by many clients. We introduced modern payment methods, including Apple Pay, Garmin Pay, and Fitbit Pay, on both markets in 2019.

Both branches acquired 34,200 clients in 2019. The total number of clients served on both markets went up to 958,600 at the end of 2019 (291,500 in Slovakia and 667,000 in the Czech Republic). As part of the strategic partnership with Broker Consulting, a Czech independent financial service broker, our products and services were available in 45 co-branded advisory centres (OK Points) specialising in banking services. The OK Points were equipped with mBank's cash deposit machines.

mBank's business in the Czech Republic and Slovakia won several major awards in 2019. We again took top spots in the *Zlatá koruna (Golden Crown)* contest, winning a total of four awards, including the main awards in the two most important categories – *Retail Clients' Choice* and *Entrepreneurs' Choice*. Our mobile app ranked third in the league table of online and mobile banking channels. mBank's mortgage and mKonto won the golden and silver awards in the *Finparáda – The Financial Product of the Year* contest, respectively. The contest is based on an evaluation of annual market data conducted by Scott & Ross analysts to determine the best products from the point of view of benefits offered to clients in the previous year. mBank's business in the Czech Republic received the *Superbrands* award for the fourth consecutive time, while the Slovak branch won this distinction for the third time. The awards confirm mBank's position among the strongest brands in both countries.

### **Loans and deposits**

The growth rate of mBank's loan portfolio in the Czech Republic and Slovakia demonstrates the positive development trend. As at the end of 2019, the loan portfolio was worth PLN 5,083.8 million, up by PLN 374.9 million or 8.0% compared to the end of 2018. The growth was again driven primarily by non-mortgage loans.

New non-mortgage loan sales initiatives accompanied by product and origination process enhancements allowed the foreign branches to increase non-mortgage loans' sales by 11.3% year on year to PLN 788.4 million. Sales of non-mortgage loans in the Czech Republic amounted to PLN 585.0 million, up by 12.2% year on year. Sales of non-mortgage loans in Slovakia increased by 9.1% year on year and stood at PLN 203.4 million. Increases were reported in all sales channels. The increase in the share of cash loans sold via the mobile app from 5% to 10% in the whole of 2019 is particularly worth mentioning.

Our mortgage loan sales efforts in 2019 were focused on reviving lending in our Slovak branch, which was impacted by the introduction of the Polish banking tax, and maintaining previous sales levels in the Czech Republic. Total new sales of mortgages in the foreign branches amounted to PLN 844.8 million in 2019, up by 12.0% year on year. We successfully increased mortgage sales in Slovakia to PLN 311.8 million, up by 88.9% against the previous year.

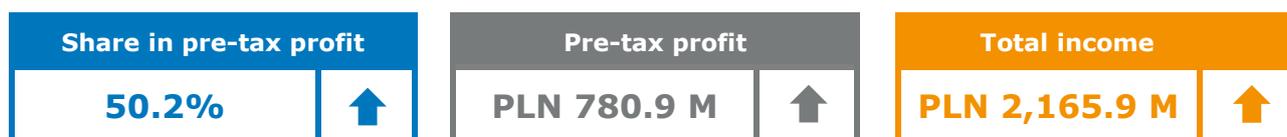
The volume of deposits in the foreign branches continued to grow in 2019 to reach PLN 10,649.8 million at the end of the year, which represents an increase of 5.2% year on year. Most of the deposits were current account deposits, which was primarily attributable to an increase in clients' transactional activity.

## 8. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 26,476 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion), mid-sized enterprises (K2 - annual sales of PLN 50 million – PLN 1 billion) and small enterprises (K3 - annual sales below PLN 50 million, full accounting) through a network of dedicated 46 branches. mBank Group’s offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.



Key financial data of Corporates and Financial Markets (at the end of 2019):



Key business data:

	2015	2016	2017	2018	2019
Clients (thousand)	19.6	20.9	22.0	23.7	26.5
Branches (pcs)	51	45	46	46	46
Loans to corporate clients (PLN M)	33,447	34,174	37,942	44,233	47,786
Deposits of corporate clients (PLN M)	34,424	37,383	34,590	35,346	38,138

### Key highlights

- Increase of core income by 14.6% in comparison with 2018.
- Increase in corporate loans by 8.0% year on year.
- Record acquisition of 2.8 thousand of new corporate clients.
- Keeping Net Promoter Score (NPS) for corporate customers who indicated mBank as their main bank, at the high level of 41, close to the previous year’s performance (market average at 17)<sup>1</sup>.
- Increase in mBank’s market shares in loans to enterprises from 6.6% in 2018 to 7.5% at the end of 2019.
- Increase in mBank’s market shares in deposits of enterprises from 9.0% in 2018 to 9.9% at the end of 2019.
- The Administrator’s Centre in the electronic banking system mBank CompanyNet enabling clients to easily manage users and rights.
- Launching of new packaged deals for SMEs and creating a team of remote advisors.

<sup>1</sup> Source: Kantar Polska, August 2019.

## 8.1. Corporate and Investment Banking

### Financial results

The Corporate and Investment Banking segment generated a profit before tax of PLN 629.1 million in 2019, which represents an increase by PLN 83.4 million, i.e. 15.3% year on year.

PLN M	2018	2019	Change in PLN M	Change in %
Net interest income	922.8	1,066.6	143.8	15.6%
Net fee and commission income	456.7	513.9	57.1	12.5%
Net trading income	252.8	275.9	23.2	9.2%
Other income	0.2	1.3	1.2	644.8%
Net other operating income/expense	34.0	19.0	-15.0	-44.1%
<b>Total income</b>	<b>1,666.5</b>	<b>1,876.7</b>	<b>210.3</b>	<b>12.6%</b>
Net impairment losses and fair value change on loans and advances	-238.0	-282.1	-44.1	18.5%
Overhead costs and depreciation	-728.8	-791.0	-62.2	8.5%
Taxes on Group's balance sheet items	-153.9	-174.5	-20.6	13.4%
<b>Profit before tax of Corporates and Investment Banking</b>	<b>545.7</b>	<b>629.1</b>	<b>83.4</b>	<b>15.3%</b>

The profit before tax of Corporate and Investment Banking in 2019 was driven by the following factors:

- **Higher total income** compared with the previous year (+PLN 210.3 million, i.e. 12.6%):
  - net interest income grew by PLN 143.8 million, i.e. +15.6%, mainly due to higher credit margins and increased credit volumes,
  - net fee and commission income increased by PLN 57.1 million, i.e. 12.5% mainly thanks to higher credit-related commissions resulting from a substantial increase of loans origination, higher commissions from bank accounts and money transfers and increased commissions from guarantees granted and trade finance commissions;
- **Increase in operating expenses (including depreciation)** by PLN 62.2 million, i.e. 8.5%, to a significant extent resulting from higher contribution to the Bank Guarantee Fund;
- **Increase in net impairment losses and fair value change on loans and advances** by PLN 44.1 million, i.e. 18.5% compared with 2018;
- **Tax on the Group's balance sheet items** at PLN 174.5 million, +PLN 20.6 million or 13.4% year on year.

**Activity of Corporate and Investment Banking segment in numbers (mBank only)**

	31.12.2017	31.12.2018	31.12.2019	Annual change in %
<b>Number of corporate clients</b>	<b>22,048</b>	<b>23,706</b>	<b>26,476</b>	<b>11.7%</b>
K1 <sup>1</sup>	2,093	2,193	2,319	5.7%
K2 <sup>1</sup>	7,088	7,520	8,211	9.2%
K3 <sup>1</sup>	12,867	13 993	15,946	14.0%
<b>PLN M</b>				
<b>Loans to corporate clients, including</b>	<b>23,010.6</b>	<b>25,635.6</b>	<b>28,962.4</b>	<b>13.0%</b>
K1	5,316.9	7,052.8	7,307.1	3.6%
K2	14,529.7	15,745.6	18,685.1	18.7%
K3	2,973.0	2,519.1	2,840.9	12.8%
Reverse repo/buy sell back transactions	57.1	200.3	13.4	-93.3%
Other	133.8	117.9	115.9	-1.8%
<b>Deposits of corporate clients, including</b>	<b>31,068.5</b>	<b>32,987.4</b>	<b>35,216.0</b>	<b>6.8%</b>
K1	11,999.2	12,765.2	12,434.0	-2.6%
K2	13,483.3	13,048.9	14,934.4	14.4%
K3	5,079.0	5,993.2	7,079.4	18.1%
Repo transactions	82.6	713.1	175.4	-75.4%
Other	424.4	467.1	592.9	26.9%

<sup>1</sup> Due to the customer re-segmentation in 2019, corporate customer, loans and deposits data is incomparable year on year.

The year 2019 saw an increase in corporate loans and deposits. The corporate loans market grew by 2.6% year on year, whereas the corporate deposits market expanded by 9.7%. mBank outperformed the market with its loan and deposit volumes up by 17.0% and 20.9%, respectively. At the end of 2019 mBank's shares in the market for corporate loans and deposits reached 7.5% and 9.9%, respectively.

In 2019 the bank further intensified its efforts to attract new corporate clients, which resulted in high acquisition of new companies: the corporate client base (K1, K2 and K3) grew by 2,770 companies year on year to 26,476. Consequently, client acquisition grew by 11.7% year on year. Successful client acquisition pushed current account deposits held with mBank up to PLN 24.8 billion at the end of 2019, which represents an increase by 14.9% year on year. The high volume of current deposits is a springboard for continued development of transactional banking, which is of special relevance to the bank due to its growth potential and further tightening of cooperation with clients. Interestingly, the number of factoring clients grew by 37.5% compared with 2018.

In 2019 the bank conducted another Corporate Client Satisfaction Survey. It is a relationship exercise designed to comprehensively assess clients' cooperation with the bank. We believe that feedback from clients is a highly valuable indicator of measures that should be taken in order to enhance our image as a bank offering the very best solutions for demanding corporate clients. When measuring customer satisfaction, our key focus is always on the Net Promoter Score (NPS). The NPS for corporate clients who indicated mBank as their main bank stood at 41, which is similar to the previous year's figure. mBank fared much better than the market average of 17 (source: Kantar Polska, August 2019). The most important element of the NPS programme is the closed-loop feedback process: mBank advisers talk to representatives of the surveyed corporate clients immediately after the survey to collect more detailed feedback and uncover the reasons for detractors' reluctance to recommend the bank and for promoters' willingness to suggest mBank to their business partners.

The sound level of NPS in the Corporate and Investment Banking segment is a result of active measures taken as part of the mSatisfaction project ("mSatysfakcja"). The main goal of this initiative is to increase

the level of genuine satisfaction with mBank's offer and services among corporate clients, listen to clients, and improve their relationship with the bank in the context of promoting one of the most significant values fostered by mBank – empathy towards clients.

The mSatysfakcja project involves, among others, transactional surveys. We ask clients how satisfied they are with individual products and processes offered by mBank and how likely they are to recommend them.

2019 saw further growth and development in the small and medium-sized enterprises segment (SME - K3), as evidenced by a 37% year-on-year upturn in the number of new clients. Advanced corporate banking services coupled with state-of-the-art tools, including the modern electronic banking system mBank CompanyNet, were highly popular with clients. Digitalisation processes enable greater self-service for current account holders. The state-of-the-art electronic banking system features, in particular the Administrator's Centre enabling clients to easily manage users and rights. This solution has already been used by as many as 60% of SME clients. In addition, the Virtual Branch allows clients to apply for products and services.

mBank's initiatives and actions introduced so far in the K3 segment have been well received by clients, which is reflected by customer satisfaction survey results (NPS of 37 for entrepreneurs that indicated mBank as their main bank). In addition, the proportion of corporate clients satisfied or very satisfied with mBank's services stood at 75%, which is similar to last year's figure (source: *Corporate Client Satisfaction Survey - K3 Segment*, September 2019).

In order to respond to challenging market conditions, mBank has been continuously enhancing its SME customer service processes and adjusting its product portfolio to client needs and the legal environment. For example, we launched new packaged deals for SMEs. Clients can choose from three deals offering key banking products and services (Growth ("Rozwój"), Balance ("Równowaga") or World ("Świat")), depending on which suits their business best. More than 60% of clients have already chosen to take this offer. We introduced a new customer service model dedicated to business clients who have so far not been actively using banking products or seeking support from advisors. The new service is provided by a team of virtual advisors entitled to render the services of traditional advisors. Thanks to this new solution every SME client, regardless of the scale of business, can receive help from advisors and gets in touch with the bank more readily. 2019 was the second year when Corporate Banking launched an offer dedicated to the Great Orchestra of Christmas Charity (WOŚP). As part of the campaign entitled You Don't Grow Out of Good Things ("Z dobrych rzeczy się nie wyrasta") 228 corporate clients decided to open an account with mBank and donate all bank account and transfer fees due for the period from January to June 2019 to WOŚP.

mBank's Corporate Banking was awarded by the Global Finance international magazine and took top spot in two categories: the World's Best Treasury and Cash Management Banks and Providers 2019 and the Best Corporate Digital Bank 2019. Furthermore, the bank was also named the best digital bank for corporates in Central and Eastern Europe in the World's Best Corporate/Institutional Digital Banks 2019 contest.

The Cashless Poland Foundation (Fundacja Polska Bezgotówkowa) once again recognised mBank for its efforts to promote cashless payments in Poland. The bank was awarded in the category of entities with the highest sales of contracts under the Cashless Poland Programme in 2019.

In October 2019 the Euromoney magazine announced the results of its annual survey in which clients assessed the quality of services offered by their banks. Once again mBank was among the leaders of the Euromoney Cash Management Survey and ranked second in Poland in the Best Services category. The financial services offered by banks were assessed by finance managers - CFOs, treasurers and accountants. mBank has been at the top of this league table for several years, which shows clients' appreciation for the quality of services, innovative solutions, and personalized approach offered by the bank.

In H1 2019 mBank was also a laureate of the Financing Bank of the Year award of the Polish Private Equity and Venture Capital Association (Polskie Stowarzyszenie Inwestorów Kapitałowych, PSIK) for its achievements on the Polish private equity/venture capital market. In the Financing Bank of the Year category mBank was also awarded the Investment Diamonds prize for the most professional bank supporting investment.

The key objective of Corporate and Investment Banking is to continue the dynamic growth in the K3 segment and maintain a strong position in the K2 segment. Moreover, we put an even greater focus on streamlining processes, simplifying documentation, and introducing improvements to enhance our clients' everyday comfort. The solution enabling clients to cross-check accounts against the white list of VAT payers developed in 2019 can serve as an example. Starting from 2020, a new law provides for sanctions for corporate clients transferring more than PLN 15,000 to an account not included on the white list. On January 7, 2020, mBank enabled its clients to cross-check the accounts of their beneficiaries against the white list in mBank CompanyNet. The service is free of charge regardless of the transfer amount. This way mBank responds to the needs of its clients and makes doing business in the ever-changing legal environment easier for them. Digital Client Onboarding („Cyfrowy onboarding Klienta – COBRA”) is another innovative project launched at mBank to digitalise the client onboarding process. The project will deliver an electronic sales platform offering the majority of transactional banking products, in particular bank accounts, payment cards or cash service, and facilitating innovative interactions with clients. The primary goal of the project is to add real value to clients by reducing the time needed to open a corporate account with the bank and by digitalising the process, i.e. getting rid of paper applications, agreements, and signature specimen cards. The project is expected to boost efficiency by creating an acquisition process that reduces the workload for advisors and by migrating all the processes operated by advisors to one single system.

### Products and services on offer

#### Corporate loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) stood at PLN 28,949.0 million at the end of 2019, representing an increase of 13.8% year on year.

PLN M	31.12.2017	31.12.2018	31.12.2019	Annual change
Loans to corporate clients <sup>1</sup>	22,954	25,435	28,949	13.8%
Loans to enterprises <sup>2</sup>	21,969	24,616	28,797	17.0%
Loans granted to local governments	550	360	200	-44.3%
Market of loans to enterprises <sup>3</sup>	344,882	374,356	383,965	2.6%
mBank's share in the market of loans to enterprises	6.4%	6.6%	7.5%	

<sup>1</sup> The bank, excluding reverse repo transactions.

<sup>2</sup> NBP category which ensures comparability of results of the banking sector.

<sup>3</sup> Position was changed compared to the Management Board Report on Performance of mBank S.A. Group in 2018 resulting from an update of data by NBP.

#### Corporate deposits

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 35,040.6 million at the end of 2019, representing an increase of 8.6% year on year.

PLN M	31.12.2017	31.12.2018	31.12.2019	Annual change
Corporate deposits <sup>1</sup>	30,986	32,274	35,041	8.6%
Deposits of enterprises <sup>2</sup>	27,909	27,099	32,770	20.9%
Deposits of local governments	506	267	164	-38.5%
Market of deposits of enterprises <sup>3</sup>	291,941	301,012	330,081	9.7%
mBank's share in the total deposits of enterprises	9.6%	9.0%	9.9%	

<sup>1</sup> The bank, excluding repo transactions.

<sup>2</sup> NBP category which ensures comparability of results of the banking sector.

<sup>3</sup> Position was changed compared to the Management Board Report on Performance of mBank S.A. Group in 2018 resulting from an update of data by NBP.

Structured finance, project finance, syndicated loans

mBank's Corporate and Investment Banking offers structured and mezzanine financing, in particular, for mergers and acquisitions and investment projects, including renewable energy projects (wind farms and photovoltaic). In 2019, mBank co-financed around 75 projects as part of bilateral and syndicated agreements (including 12 renewable energy projects), providing clients with approx. 135 credit risk products. The bank's new exposure under syndicated and bilateral products stood at PLN 7,091.4 million (including approx. PLN 660 million in the renewable energy industry).

De minimis guarantees

The bank continued to execute in the Portfolio Guarantee Line De Minimis (PLD) Agreement as part of the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" programme. As at December 31, 2019, the limit utilisation level reached PLN 2,492.2 million.

On June 25, 2018, mBank signed another Portfolio Guarantee Line De Minimis Agreement (PLD-KFG), being a continuation of the previous agreement (PLD), with an allocated limit for guarantees at PLN 2,700 million. As at December 31, 2019, the limit utilisation level reached PLN 1,054.3 million.

COSME

mBank continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme (a European Union programme for the competitiveness of enterprises running from 2014 to 2020). The BGK guarantee limit for mBank stands at PLN 780 million. As at December 31, 2019, the limit utilisation level reached PLN 648.4 million.

European Union financing

On July 10, 2019, the bank signed a new agreement with the European Investment Bank (EIB) on opening a EUR 125 million credit line (SMEs and MID-CAPs and Climate Actions) dedicated to financing projects and liabilities related to the production cycle of SMEs (entities with fewer than 250 employees) and MID-CAPs (entities with a headcount ranging from over 250 to fewer than 3,000 employees). One-third of the credit line will be allocated to climate action projects.

Issue of debt securities for corporate clients

The share of mBank in the non-treasury debt market as the end of November 2019 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
<b>mBank (PLN M)</b>	<b>1,225.0</b>	<b>7,934.0</b>	<b>14,433.1</b>
Market (PLN M)	13,339.8	65,714.3	60,688.4
Market share	<b>9.2%</b>	<b>12.1%</b>	<b>23.8%</b>
Market position	#3	#3	#1

The largest transactions in 2019 included the placement of Bank Gospodarstwa Krajowego worth a total of PLN 1,925 million. We placed also covered bonds of mBank Hipoteczny worth PLN 100 million and its bonds worth a total of PLN 65 million.

In the corporate bonds market, the bank carried out a series of new significant issues, i.e.: Dino Polska S.A. (PLN 170 million), EFL S.A. (total of PLN 164 million), Kruk S.A. (PLN 115 million), Echo Investment S.A. (PLN 100 million), Robyng S.A. (PLN 100 million), Archicom SA (PLN 60 million).

Transactional banking

Cash management is an area of Corporate Banking offering state-of-the-art solutions to facilitate planning, monitoring, and management of highly liquid assets, cash processing, as well as electronic banking. The solutions streamline daily financial operations, enhance effective cash flow management, and help to optimise interest costs and income.

mBank's vast and ever-expanding range of cash management products and services supports long-term relationships with clients. It is reflected by the following data:

Number of outgoing foreign transfers	+9.6%
Number of incoming foreign transfers	+11.3%
Number of corporate cards	+12.3%
Number of active mCompanyNet users	+8.0%

#### mBank CompanyNet

In 2019 mBank added new functions for electronic banking users. Now, everyone who visits our Virtual Branch can apply online for a new payment card, for changing their company's details (name, address of the registered office, correspondence address), for an auditor's opinion, for reimbursement of a mistaken payment, for changing the fees account, for opening a sub-account, for a bank reference, etc. Another improvement is the electronic mismatch report for closed cash deposits featured in mBank CompanyNet.

#### New partner in integration of the online banking system with companies' software

mBank has a wide range of user-friendly and secure solutions integrating the online banking system with companies' software. On July 1, 2019 mBank CompanyNet was integrated with the systems of Comarch – ERP Optima and ERP XL. Clients who use the systems of Comarch and mBank CompanyNet can directly exchange data with the bank. They can also check their account balance, authorise transfers, and import their transfer history (the transfers are then booked accordingly by Comarch's system).

#### New features in the SWIFTNET Korpo service

Thanks to the SWIFTNET Korpo service, corporate clients of mBank registered in the SWIFT network can access their mBank accounts via this network. In 2019 mBank introduced the mass payment feature to SWIFTNET Korpo, whereby the procedure for executing orders is based on the rules of executing mass orders applicable in mBank CompanyNet.

#### Transactional and cash service of the grand finale of the Great Orchestra of Christmas Charity (WOŚP)

In 2019 mBank was the provider of transactional and cash service at the 27th grand finale of the Great Orchestra of Christmas Charity. The bank's support included, among others: processing of cash payments made by WOŚP collection centres, settlement of transactions made using POS terminals used by WOŚP volunteers, identification of incoming transfers and mBank Connect integration services providing the foundation with effective access to donated funds. In addition, mBank accepted and handled other valuables (e.g. jewelry) put by donors in the collection boxes. The collection centres were also equipped with coin and banknote counters. When providing the services, the bank complied with the highest security standards. Transactional and cash service of the 27th grand finale of the Great Orchestra of Christmas Charity was a major undertaking. mBank's transactional banking supported 1,700 collection centres and over 120,000 volunteers participating in the event across Poland with:

- 20 big cash sorters,
- over 400 coin counters,
- over 350 secure transports of cash,
- payment terminals for over 430 volunteers and over 300 terminals in mBank's branches.

mBank used the experience gained last year to provide transactional and cash service at the 28th grand finale of the Great Orchestra of Christmas Charity in 2020.

#### PSD2 – launch of mBank API

In line with the requirements of PSD2, mBank enabled all registered Third Party Providers (TPP) to use an open API. Detailed information on the services for corporate clients introduced at mBank in relation with PSD2 is available at [www.mbank.pl/psd2/msp-korporacje](http://www.mbank.pl/psd2/msp-korporacje).

Cash deposit machines for businesses

To address the needs of businesses and the market, mBank develops a service called the smart cash deposit machine. When integrated with a company’s internal system and mBank’s online banking, the solution allows for depositing cash and booking payments in real time without leaving the company’s premises. The service has been increasingly popular with our clients: 186 deposit machines were set up in 2018 compared with 262 machines in 2019 (up by 41% year on year). Each product is tailored to the needs and nature of a given business. Furthermore, to address the unique demands of its clients, mBank also offers a more complex machine consisting of a cash recycler which dispenses particular banknotes, and a cash deposit machine which allows clients to deposit their revenue. The service is also available in the standard version featuring basic functionalities, dedicated to less demanding clients.

**8.2. Financial Markets**

**Financial results**

In 2019 the Financial Markets segment generated a profit before tax of PLN 151.8 million compared with PLN 83.4 million posted in 2018, marking an increase by PLN 68.4 million, i.e. 82.0%, year on year.

PLN M	2018	2019	Change in PLN M	Change in %
Net interest income	253.5	235.5	-18.0	-7.1%
Net fee and commission income	-10.1	-16.3	-6.3	62.7%
Net trading income	-32.1	34.8	66.9	-/+
Other income	18.2	36.1	17.9	98.4%
Net other operating income/expense	-0.5	-0.9	-0.3	59.4%
<b>Total income</b>	<b>229.0</b>	<b>289.2</b>	<b>60.2</b>	<b>26.3%</b>
Net impairment losses and fair value change on loans and advances	0.2	0.8	0.7	417.4%
Overhead costs and depreciation	-109.3	-101.4	7.9	-7.2%
Taxes on Group's balance sheet items	-36.5	-36.8	-0.3	0.8%
<b>Profit before tax of Financial Markets</b>	<b>83.4</b>	<b>151.8</b>	<b>68.4</b>	<b>82.0%</b>

The profit before tax of Financial Markets in 2019 was driven by the following factors:

- **Increase of total income** by PLN 60.2 million, i.e. 26.3% year on year driven by an improvement of net trading income by PLN 66.9 million mainly due to a higher foreign exchange result supported by higher volume of transactions conducted with clients. At the same time, the core income decreased year on year: net interest income by PLN 18.0 million (-7.1%) mainly due to lower yields on treasury bonds and net fee and commission income by PLN 6.3 million (-62.7%) due to an increase in commission costs;
- **Drop in operating expenses (including depreciation)** by 7.2% year on year to PLN 101.4 million as a result of lower material and personnel costs;
- **Tax on the Group’s balance sheet items** at PLN 36.8 million, i.e. similar to the level from 2018 (+0.8% year on year)

**Activity of the Financial Markets segment in 2019**

In 2019, the activities of the financial market products sales area were focused on the preparation and running of projects aiming at improving customer service and increasing the number of clients using digital channels. The work resulted in the desk for managing clients who independently conclude transactions on the currency platform (mPlatforma Walutowa). We also provided new margin policy for the clients of Corporate Banking.

Additionally, the Financial Markets Sales Department undertook activities that affected the volume of transactions and income generated from the bank's cooperation with clients:

- Low volatility made it necessary for sales teams to step up their efforts in acquiring new clients over the phone, which eventually pushed the margin on telephone transactions with corporate clients up by 14.8% year on year;
- The margin on transactions of corporate clients concluded via the currency platform grew by 15.9% year on year;
- Intensive acquisition measures in Retail Banking resulted in margins going up by 24.9% in this segment. Almost 26,000 corporate clients (an increase by 12.6% year on year) and more than 116,000 individual clients (an increase by 131.4% year on year) used the currency platform. The number of new private banking clients using the DSM offer totalled 250;
- 99.1% of FX transactions in Retail Banking were concluded via digital channels (online banking – 42.0% and mobile banking – 57.1%);
- For the first time ever, the Commodity Transactions Sales Division exceeded the PLN 10 million threshold margin on commodity price hedging transactions concluded by corporate clients (PLN 10.5 million), which accounted for a 35.1% increase year on year. Organising the Polish day of the London Metal Exchange (LME) in Warsaw (in cooperation with the LME) and participating as a speaker in the event held in London helped mBank reach an even greater number of clients in Poland and make a name for itself abroad. Owing to the almost finished project of automating transaction recording and confirmation, the commodity business will reach a higher level and continue to grow dynamically in 2020;
- The sales projects team processed over 100 structured finance and CRE projects jointly with specialised entities from the corporate banking area and mLeasing, thus increasing income from commodity price hedging transactions by more than 20.0% year on year. In mid-2019, new rules for cross-selling of derivatives were developed to bring the sales of such instruments into compliance with requirements of MIFID II.

mBank's market shares in specific financial instrument markets as of November 30, 2019, are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	11.3%	15.1%

### Financial Institutions

The Financial Markets area covers relations with financial institutions, focusing mainly on raising capital from other banks and placing excess funds with them.

As at December 31, 2019, mBank had 9 active received loans in the amount of PLN 4,044 million, of which the utilized value stood at PLN 3,579 million. In 2019 four loans in EUR were repaid at the total value of PLN 1,703 million. Additionally, we received a new loan in EUR in the amount of PLN 532 million. Concerning all transactions described above, net debt of mBank resulting from loans received from financial institutions was reduced by PLN 1,573 million compared to the end of 2018. At the exchange rates from the end of 2018, the decrease would amount to PLN 62.5 thousand.

At the end of December 2019, mBank's exposure of loans granted to other banks reached the equivalent of PLN 145.7 million (an increase compared to PLN 124.2 million at the end of 2018). mBank's portfolio comprised short- and medium-term active loans granted to financial institutions from Poland and abroad.

The greatest accomplishments of the Financial Institutions Department in 2019 included:

- EUR 150 million from the European Investment Bank (EIB);

- acquiring several new loro accounts and maintaining a position as one of the leading Polish banks in handling settlements in the Polish zloty;
- opening new nostro accounts in USD, TRY and ZAR.

Moreover, in 2019 the Financial Institutions Department continued to actively support trade transactions concluded by Polish exporters by offering short-term financing to financial institutions. At the same time, the bank was still serving banks from the Commonwealth of Independent States (CIS) and offering them medium-term loans secured with KUKE (Export Credit Insurance Corporation) insurance policies.

**Custody services**

mBank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring the valuation of their assets, and processing corporate actions. mBank's custody clients are mainly financial institutions, in particular investment and pension funds, local and foreign financial institutions, banks offering custodian and investment services, insurance companies, asset management institutions and non-financial institutions.

In 2019, the number of served investment funds increased by 11% year on year.

## 9. Activities of subsidiaries of mBank Group

### 9.1. Summary of financial results of mBank Group subsidiaries

In 2019, the profit before tax generated by mBank Group subsidiaries amounted to PLN 210.8 million, compared with PLN 522.7 million in the previous year.

The year-on-year decrease was attributable to, among others, changes in the Group's structure. Key driver was sale of an organised part of mFinanse enterprise in 2018. Higher results were recorded by mLeasing, mBank Hipoteczny and mFaktoring. Decline of the result of "Other" position was mainly related to the sale of real estate previously owned by Garbary subsidiary in 2018.

The table below presents the profit before tax posted by individual subsidiaries in 2019 compared with 2018.

PLN M	2018	2019	Change in PLN M	Change in %
mFinanse	364.4 <sup>1</sup>	33.3	-331.1	-90.9%
mLeasing <sup>2</sup>	65.1	96.1	30.9	47.4%
mBank Hipoteczny	60.7	61.3	0.6	1.0%
mFaktoring	21.0	25.3	4.2	20.1%
Other <sup>3</sup>	11.5	-5.1	-16.6	+/-
<b>Total gross profit of mBank's subsidiaries</b>	<b>522.7</b>	<b>210.8</b>	<b>-311.9</b>	<b>-59.7%</b>

<sup>1</sup> Reflects result on the sale transactions of organised parts of enterprise of mFinanse.

<sup>2</sup> Includes result of Asekum Sp. z o.o. and LeaseLink Sp. z o.o.

<sup>3</sup> Other subsidiaries include mFinanse France, mCO, BDH Development, Garbary, Tele-Tech Investments and Future Tech.

### 9.2. Business activity of selected subsidiaries



In 2019, the activities of an open platform of financial products distribution mFinanse were focused on the key business of loans sale intermediation. mFinanse recorded in 2019 an increase in mortgage loan sales by 61.0% (PLN 3,055.7 million in 2019 compared with PLN 1,897.4 million in 2018). In the period under review, mFinanse reported also an increase in cash loan sales by 3.6% (PLN 632.2 million against PLN 610.3 million a year before). The profit from selling car loans dedicated to car dealers rose year on year by 42.3% (PLN 451.1 million compared with PLN 324.4 million in 2018). In 2019 the subsidiary's sales results in the area of car leasing increased by 5.0% (PLN 133.9 million against PLN 127.6 million 2018).

In 2019, mFinanse continued its sales network development project aimed at placing new outlets (mKiosks). It is oriented on improving the scope of physical presence of mBank and mFinanse in the regions where we were absent before. During the period under review, number of mKiosks managed by mFinanse increased by 23, up to 166 outlets at the end of 2019.

The subsidiary's profit before tax in 2019 amounted to PLN 33.3 million compared with PLN 364.4 million a year before. The profit before tax generated in 2019 originated mainly from the core activity of the subsidiary in scope of financial intermediation. Significantly higher result recorded in 2018 was, to a large extent, influenced by sale transactions of organised parts of insurance business.



The value of contracts executed by mLeasing in 2019 amounted to PLN 5.3 million compared with PLN 6.1 billion in 2018, which represents a decrease by 13.1% year on year. Sales deterioration in 2019 originated mainly from decline in the vehicles sector, observed on the whole leasing market. Its primary reason was the high reference base, meaning bigger value of transactions in 2018. It was partially justified by changing legal provisions in scope of leasing which took place in 2018. The value of contracts regarding movables

concluded in 2019 amounted to PLN 5.0 billion compared with PLN 6.0 billion a year before (i.e. -16.1% year on year), while the value of contracts concerning real estate stood at PLN 0.3 billion compared with PLN 0.1 billion in 2018 (i.e. +127.1% year on year).

The profit before tax of mLeasing in 2019 amounted to PLN 96.1 million and was higher by 47.7% compared to the result generated in 2018, of PLN 65.1 million. In 2019 we observed continuation of increasing cost of funding expressed in higher margin on loans received by mLeasing.

On March 8, 2019, mLeasing concluded an acquisition of 100% shares in LeaseLink. The subsidiary operates in the fintech sector and specialises in funding of business owners' purchases online and in stationary shops. Transaction enhances mLeasing's position in funding of small and medium enterprises. It also opens the subsidiary up to new possibilities of funding smaller-value assets. mLeasing is the only owner of LeaseLink. In 2019, profit before tax of LeaseLink amounted to PLN 2.6 million.

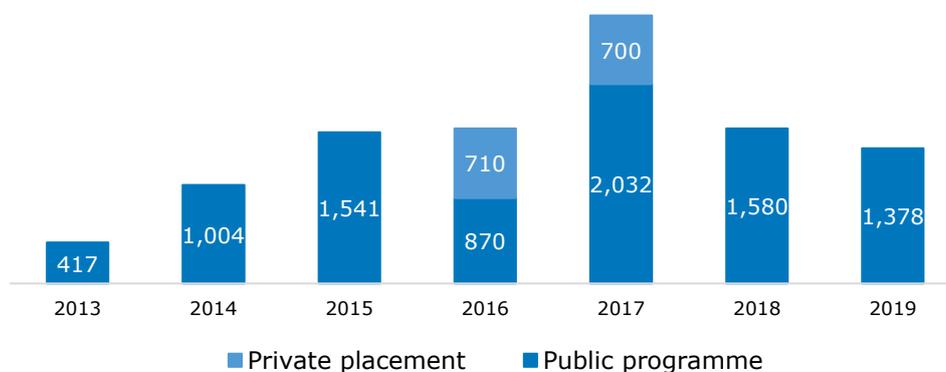
2019 was our best year concerning new business of CFM (Car Fleet Management). New agreements worth PLN 1 billion were concluded. According to the CEPIK, central register of vehicles and drivers, mLeasing is the second market player in scope of the number of new cars acquired for CFM in 2019.

The "Leasing in Retail" project continued in 2019. The initiative is dedicated to mBank's business clients and enables them to conclude a leasing agreement using special leasing processes. Thanks to the combined efforts of Retail Banking and mLeasing, in 2019 mLeasing financed fixed assets obtained in cooperation with Retail Banking worth PLN 395.6 million according to their purchase price.

## **Bank Hipoteczny**

In 2019, mBank Hipoteczny (mBH) placed 2 issues of mortgage covered bonds in the total nominal amount of PLN 1.4 billion. Details concerning covered bonds issue are described in chapter 5.2. mBank Group funding.

**Covered bonds issues in 2013-2019**



The gross loan portfolio of mBank Hipoteczny totalled PLN 11.9 billion at the end of 2019 (i.e. +6.0% compared to 2018). That change was driven mainly by a systematic rise in the retail portfolio, which expanded over the year by 21.1%. The growth results from conclusion of eight pooling transactions, totalling PLN 1.9 billion in 2019.

In 2019, stand-alone profit before tax of the subsidiary remained at the level close to the previous year. Gross profit of 2019 amounted to PLN 61.3 million compared to PLN 60.7 million a year before.

The highest impact on the generated result was driven by the stronger trading result and growth of net interest income (+5.7%). It is linked, among others, to the higher prepayments in the corporate portfolio by 8% than year ago. Moreover, due to the lower value of corporate loans, mBank Hipoteczny recorded a decline of loan loss provisions by 2.4%.

## Faktoring

In 2019, the company was growing dynamically, breaking new business records. Turnover (the value of purchased invoices) increased by 16.3% compared to 2018. It reached historically high level of PLN 22.3 billion. The company was growing at similar pace that the domestic factoring market. Thanks to this the company ranked fifth on the factoring market in Poland, ascending by 1 position compared with 2018. Our market share was 7.9%, according to the Polish Factors Association.

In 2019 mFaktoring acquired nearly 200 new clients and currently serves over 750 customers. All corporate branches actively participated in development of factoring portfolio, adding PLN 1,057 million of new factoring limits. Structure of clients distributed by corporate segments was as follows: K1 – PLN 384 million (9 clients), K2 – PLN 506 million (76 clients), K3 – PLN 168 million (138 clients).

Dynamic business development positively contributed to an improvement of subsidiary's financial results. The profit before tax of mFaktoring amounted to PLN 25.3 million compared to PLN 21.0 million in the previous year.

## **10. Investments**

### **10.1. Investment spending in 2019**

The investment projects run by mBank in 2019 were aimed primarily to support technological development and, in consequence, further organic growth of the bank. We put the greatest emphasis on solutions enhancing customer satisfaction and experience. With PLN 424.1 million spent in 2019 (vs. PLN 363.5 million in 2018) the Group's investment spending was lower than in the past years.

As in the previous years, the biggest portion of mBank's investment spending was allocated to IT (PLN 339.9 million). We further enhanced our mobile banking app by launching new features such as the finance navigator for private banking clients and factoring financing for small and medium-sized enterprises. Other important investments which began in 2019 and will be continued in 2020 include the development of mInvest, an investment app, and mDM Mobile, a brokerage services app that will replace the current one. Our digitalisation efforts focused on, among others, automation of the mortgage process for individuals, improvement of customer interaction in the chat platform, direct invoicing in online banking, and client onboarding via video chat.

We continued to invest in cost optimisation and process efficiency improvement projects. We streamlined our lending processes for businesses and implemented a new centralised onboarding and after-sales service model in Corporate Banking. We increased our operational advantage through internal process automation and procurement platform development.

Furthermore, we carried out a number of projects adjusting the bank's processes and systems to new regulations, such as MiFID (Markets in Financial Instruments Directive), PSD2 (Payment Services Directive), EU General Data Protection Regulation (GDPR), the new definition of default (changes affecting default triggers and parameters), and changes in Polish tax regulations (clearing house ICT system (STIR) and split payment).

With PLN 41.2 million, the real property area ranked second in terms of investment spending. In 2019 we continued the One Network project adding two light branches to the existing network (in Warsaw and Katowice).

### **10.2. Investment plans for 2020**

Investments scheduled for 2020 will focus on further digital transformation. We will be optimising and automating customer service and internal processes to strengthen our competitive advantage. The projects will support our digital first approach and omnichannel customer service.

We will further enhance our mobile app in 2020 by offering clients new features and improving the existing ones. Our investment efforts will be aimed at the development of transactional elements, such as the BLIK service, regular payment management, payment assistant, and personal finance manager. We also plan to integrate the app with additional services, such as parking, public transport, and motorway payments.

We will continue to invest in the development of our online banking platform. We plan to launch new transaction navigation, simplify money transfers sent to beneficiaries in Poland and the EU, and adjust the main scenarios to the needs of blind clients.

The new Warsaw headquarters of mBank and mBank Group subsidiaries located in the Mennica Legacy Tower will be one of our most important investments in 2020. The project is planned to be completed in 2021.

We will also continue to optimise our branch network. Two additional branches and four initially scheduled for 2019 will be opened in 2020.

We will also focus on ensuring full compliance of our business with the applicable legal requirements.

## 11. HR development

### 11.1. Changes in employment

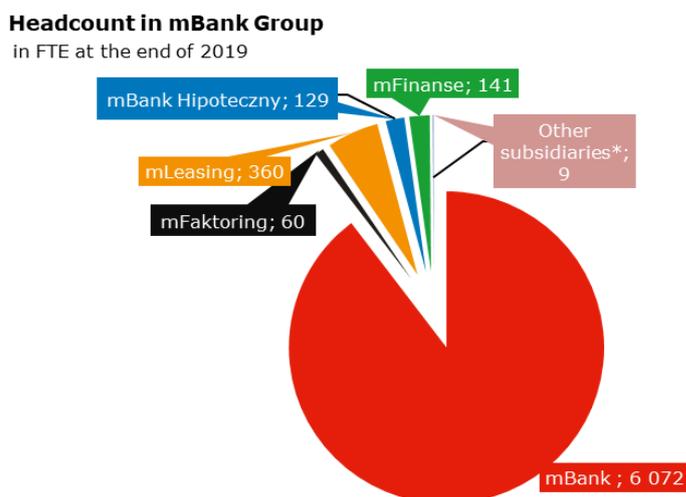
At the end of 2019, the total employment in mBank Group was 6,771 FTEs compared with 6,524 FTEs a year before (+3.8% or +247 FTEs).

At the end of 2019, employment at mBank amounted to 6,072 FTEs and rose by 233 FTEs, i.e. 4.0% compared with 2018. The visible annual growth resulted mainly from the development of the retail branch network. Moreover, we focused on the improvement of the sales process of mortgage loans which was also connected with the increase of headcount in the Retail Banking Segment. Due to the transformation of the mBank Hipoteczny's operations model, a part of its competences was transferred to mBank.

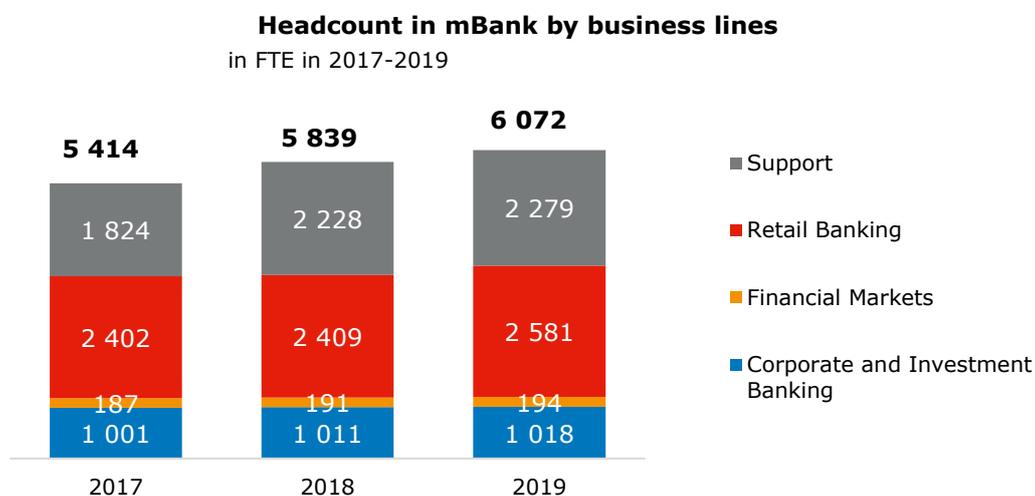
At the end of 2019, employment in mBank Group subsidiaries amounted to 699 FTEs and increased by 14 FTEs or 2.0% v. 2018. Higher headcount in the subsidiaries is attributable to the development of the mFinance branch network.

mBank's employees are relatively young: 42% are below the age of 35. They are also well-educated: 82% are graduates of higher education institutions. Many employees undertake post-graduate and MBA studies, thus acquiring new professional qualifications.

The charts below illustrate the employment structure in mBank Group, by subsidiaries, and in mBank, by areas of operation:



<sup>1</sup> Other subsidiaries include: Tele-Tech Investment, mFinance France, BDH Development and Garbary.



## 11.2. Training and development activities

### Development activities

mBank Group's operations are guided by specific objectives, vision and business strategy, which arise from the organisational values defined by the employees. Both the business objectives and values constitute the foundation for planning development activities. We are currently pursuing development activities under the name "Log in to Development", which reflects and promotes the touch of mobility we add to our activities in this field.

Zaloguj się  
do rozwoju



The aim of development activities is to constantly improve the level of knowledge and skills and create optimum development possibilities for our employees, who are the most valuable resource of mBank Group. We firmly believe that an employee's development depends mostly on their own initiative and engagement in the career planning process. The role of a manager is to support, inspire and offer new opportunities. Knowing the development needs and plans of employees, a manager can skillfully stimulate the employees' development, help them create an individual development plan, offer encouragement and create favourable conditions for self-investment.

The key role of the Employee and Organisation Culture Development Department is to provide appropriate tools and support and to professionally implement development and training processes. We constantly upgrade existing and design new activities to respond to the development needs of our organisation. Our new development programme "**Manager's Role in the New Strategy**" is a good example. The programme is addressed to all managers in mBank Group and focuses on empathy and effectiveness. The Empathy module comprises exercises in empathic communication, conflict-solving and in understanding other people's needs and opinions. The Effectiveness module aims at improving management skills and is based on Lean Management philosophy, a concept under which team work, ongoing problem-solving and continuous drive for excellence become part and parcel of a strategy pursued by the organisation.

The diagnosis programme for line managers is an individual development programme run by HR Experts. The programme consists of 3 stages:

- identification of natural strengths of managers (diagnosis of potential)
- assessment of a manager's competence on the basis of the mBank Group manager competence model
- individual development plan for 24 months aimed at improving the strengths of managers, their priorities, fields of interest, and results of the potential analysis and competence assessment.

The aim of the programme is to build managers' self-awareness, develop their strengths and help them tackle development challenges. Managers are cyclically invited to join the programme depending on the current needs of the organisation, according to a schedule determined jointly by HR and Top100 managers. Another example is the programme "**Host, Designer, Coach New**", which helps build managerial skills and attitudes. The programme was designed with young managers in mind, who have just begun picking up skills and gaining experience in the field of employee management. It consists of a series of training sessions and activities to be incorporated into daily work with the trainees' teams and supervisors. Development activities allow participants to reveal key managerial abilities and provide them with tried-and-tested, useful, practical tools. The activities are brimming with various experiments, examples, case studies and exercises. Managers are taught to focus on the mechanisms of success of their own "managerial interventions". The programme teaches young managers how to delegate, motivate, plan and develop the skills of their employees. A significant component of the training is conveying knowledge of and developing skills in lean management.

mBank brings a multitude of development tools to its employees, giving them unlimited access to mobile training. The benefits of mobile training are highly valued in the bank, while the broad range of topics covered allows the employees to gain loads of new knowledge. The tools include, in particular:

- **LinkedIn Learning** – access to over 10,000 courses in various forms: videos, lectures, audio tutorials, presentations, animations and tests. The courses are broken down into numerous categories ranging from soft skills to technical knowledge, as well as extended development paths based on recommendations from business practitioners. We chose LinkedIn, because at mBank we

prioritise innovation and set new trends. LinkedIn is a great source of knowledge and inspiration. At the same time it helps to build a personal network and to become an ambassador of the mBank brand;

- **Legimi and Nasbi digital libraries** – platforms allowing our employees to freely use a vast resource of e-books and audiobooks;
- **Harvard Business Review Poland** – unlimited access to the digital library of *Harvard Business Review Polska* magazine, the electronic version of the magazine and to a training module “The Art of Business Writing” by ICAN Business Advisor;
- **E-tutor platform for learning English** – offering more than 800 lessons at all levels ranging from A1 to C2 and 150 lessons in business English. The platform is available to all interested employees who made learning English one of their development goals. It features a set of interesting multimedia materials and interactive quizzes, level tests and the Diki dictionary. Additionally, the e-tutor platform offers 630 German lessons ranging from A1 to C1.
- **“English Word of the Day” sent via text on mobile** – employees can choose to receive a daily text message containing an English word of the day, its definition and example of usage.

At mBank we also created a number of platforms dedicated to development, such as **Employees or Log in to Development**, and update them on an ongoing basis by adding new information, inspiring users to start development activities, presenting the development tools available in mBank and posting interesting articles. Using the intranet and direct mailing, we encourage the employees to participate in selected development programmes that cater for their needs.

Other development campaigns run in 2019 include:

- **Our people make the difference. Help us find the exceptional ones** – the purpose of the programme is to select the employees of mBank Group who demonstrate above-average commitment beyond their standard duties, share knowledge and adopt an attitude compatible with the values cherished by the bank. “Our people make the difference” is not a catchy marketing slogan, but an initiative designed to support the strategy of the bank and award forward-looking employees who inspire others, constantly learn new things and expand their horizons. The programme was launched in order to appreciate employees who made a remarkable debut in our organisation and show the support teams and people behind the unique products and transactions, outstanding managers, innovators and all those whose attitudes and behaviour may be held up as an excellent example of effective cooperation;
- **Development Fridays** – a cyclical event held every first Friday of the month offering the chance to participate in interesting workshops, meetings, presentations, lectures and consultations. The participants have the chance to discover the development opportunities offered by our organisation and are encouraged to get inspired by and experiment with various forms of development activities. During this event we also present development tools powered by new technologies.
- The Development Team has also created a new programme – **Development Comes to You**. The programme has been developed for employees from our branches, who do not participate in actions held in our headquarters in Warsaw and Łódź. We respond to every invitation to organise a development day together with HR. Together we determine the range of activities in order to spend a truly inspiring day with tutors, coaches and experts. The programme was launched in the middle of 2019. So far we have organised multiple meetings in our branches, addressing various development needs of our employees. We have visited, among other, Kielce, Zielona Góra, Wrocław, Szczecin and Kraków. We have also been invited to the foreign branches in Prague and Bratislava.
- Another noteworthy development initiative are **Academies** (Business Academy, Risk Academy, Operations Academy, Scrum Masters Academy). Organised in various departments and areas of our organisation, the Academies are designed to allow the bank’s employees to gain knowledge and skills. The participants share their experience, best practices from the business area, and knowledge. The primary means are internship programmes, on-site and mobile onboarding training, webinars, intranet websites providing practical knowledge and banking and business news.

- At mBank we are **building the feedback culture**. We plan development activities based on the findings from engagement surveys, relating to the need for dialogue and exchange of feedback between employees and supervisors. They are connected with the **Manager Model** and implementation of management by objectives on a quarterly basis, i.e. **OKR & ongoing feedback**. The programme is addressed both to managers and the bank's employees. It has been designed to present a modern approach to employee engagement, improve openness to feedback and focus on talents and strengths according to the Gallup and M. Buckingham theory.
- We carry out **mentoring and coaching processes for managers**. As of now, mentor/mentee relationships have been formed in the IT/Operations, Retail and Risk Lines.
- Additionally, HR enables employees to take part in **development consultations** with internal experts. During the consultations we focus on planning self-development, development goals and activities. Additionally, the consultations involve advisory on development tools and internal mobility.

#### The Young Talents Development Programme

The Young Talents Development Programme is mBank's response to current and future needs of the organisation and expectations of candidates – students and graduates. It is a part of mBank Group's strategy of creating its image as an employer. It helps the organisation to acquire talented individuals entering the labour market and prepare them to take up independent tasks at the bank. Consequently, it facilitates access to candidates for entry-level positions, thus optimising recruitment processes and increasing the importance of internal recruitment.

Composed of traineeships and internships, the Young Talent Development Programme is addressed to students and graduates who intend to work in the banking industry in the future. The programme participants acquire practical skills and knowledge and receive ongoing support from their supervisor. Moreover, interns and trainees work under an employment contract and have access to employee benefits.

The Young Talents Development Programme consists of the following two sub-programmes:

- **Traineeship programme** consisting of traineeships with flexible working hours offered throughout the calendar year. It means that a trainee can combine work and studies or other obligations. The trainees become familiar with one area of the bank's operations. The traineeship lasts 3 to 12 months on a half-time basis. In 2019 we admitted 76 trainees, out of whom 37 trainees were employed in the Group after the programme and another 36 trainees continue their traineeship in 2020.
- **Internship programme** addressed to people who are open, committed and full of enthusiasm, who have already gained experience as trainees or as members of student science associations and student organisations. Internship contracts are signed for a term of 6 to 12 months. Interns work full time. The internships in Łódź and Warsaw are conducted on a rotational basis which enables interns to familiarise with several areas of the bank. Candidates applying for an internship choose one profile determining the leading competence. In 2019, we hired 18 interns, out of whom 15 were employed after the programme.

### **11.3. mBank Group's incentive program**

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. career development opportunities). The incentive system plays a key role in developing corporate culture and builds the competitive advantage by helping the bank acquire and retain competent employees.

The aim of the Remuneration Policy is to support sound and effective risk management, ensure that decisions made do not expose the bank to excessive risk, i.e. risk exceeding the bank's risk appetite accepted by the Supervisory Board, support the implementation of the strategy and limit conflicts of interest.

The remuneration policy at the bank covers the base salary (fixed component) and the variable part depending on the objectives achieved by the whole organisation and by individual employees. The variable remuneration is composed of a bonus granted to a Member of the Management Board or other employees, including those having a material impact on the risk profile of the bank for a given financial year. The

maximum level of the variable remuneration components of the persons who are subject to the Remuneration Policy cannot exceed 100% of the basic remuneration.

In 2019, incentive programmes for both the Management Board Members and key staff were implemented in mBank Group.

### **Incentive programmes for the Management Board Members and key staff of mBank Group – mBank risk takers**

On June 7, 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee and the AGM decision of May 9, 2018, adopted the mBank S.A. Incentive Programme Rules. The Programme replaced the existing programmes, i.e. the employee programme introduced by the EGM resolution of October 27, 2008, as amended, and the programme for the Management Board Members, introduced by the AGM resolution of March 14, 2008, as amended. The rights to deferred tranches arising from the bonus granted for 2016 and 2017 to be settled under the programmes replaced in 2018 will be exercised under the rules of those programmes. The amounts of deferred tranches not yet paid to the Members of the Management Board or eligible employees may be withheld in whole or reduced by the decision of the Remuneration Committee of the Supervisory Board with respect to the Members of the Management Board, or by the Management Board of the bank or the supervisory board of a subsidiary where the programme is implemented with respect to other eligible persons. Such a decision may be taken if the situation referred to in Article 142 (2) of the Banking Law Act occurs, i.e. a balance sheet loss is sustained or there is a threat of such a loss, a threat of insolvency or liquidity loss.

The Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the deferred tranche depending on an assessment of the performance of a Member of the Management Board in a time horizon longer than one financial/calendar year, i.e., for a period of at least 3 years, taking into account the bank's business cycle as well as the risk inherent in the business of the bank if the acts or omissions of the Member of the Management Board have had a direct and negative impact on the financial results and the market position of the bank in the period of the assessment, or if at least one of the elements covered by the MbO scorecard has not been achieved.

The amount of a deferred tranche not yet paid to a Member of the Management Board or an eligible person may be withheld in whole or reduced upon termination or expiry of the management agreement or fulfilment of prerequisites stipulated in the agreements concluded with the programme participants, under which work or other services are provided to the bank and the subsidiaries.

The last settlements of deferred tranches within the scope of the programme are scheduled for 2021.

The new programme will be implemented from January 1, 2018 to December 31, 2028. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, referred to as Risk Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., which applies a separate incentive programme.

Risk Taker I is defined as a Member of the Management Board of mBank. Risk Taker II is defined as a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a management board member in mBank Group subsidiary. On the terms and conditions stipulated in the Incentive Programme Rules and the Risk Takers Remuneration Policy, the employees identified as Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares.

### **Bonus for Risk Takers I**

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MbO achievement with respect to the period of at least 3 years, with the proviso that the bonus amount depends on the bonus pool.

The bonus pool for a given calendar year is calculated on the basis of the total of base amounts calculated for each Risk Taker I. The base amount for a given Risk Taker I does not affect the bonus amount granted to this Risk Taker I. The base amount for each Risk Taker I is determined in line with the following formula:

$$\text{multiplier} = \begin{cases} 0 & \text{EP} < 0 \\ 2\% \cdot \text{EP} + 2 & \text{EP} \geq 0 \\ 12 & \text{EP} > 500 \end{cases}$$

where: "EP" means Economic Profit calculated for the period of three years as the total of:

$$\text{EP} = (1/2) \text{EP} (N) + (1/3) \text{EP} (N-1) + (1/6) \text{EP} (N-2)$$

MbO for a given year is determined by a given Management Board Member and the Remuneration Committee of the Supervisory Board in accordance with the rules of determining the MbO business and development objectives, approved, among others, by the Remuneration Committee of the Supervisory Board for the Management Board of mBank:

- 1/ quantitative team objectives (at the level of mBank Group) account for 25-65% of the objectives (the cost to income ratio, capacity to pay out dividends, net interest income, gross profit),
- 2/ quantitative individual objectives account for up to 50% of the objectives (objectives are determined depending on the scope of responsibilities of a given Management Board Member),
- 3/ qualitative individual objectives account for up to 40% of the objectives.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus). Both the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is awarded. The other half of the non-deferred part is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the AGM date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

### **Bonus for Risk Takers II**

The bonus amount for a given calendar year is determined on the basis of assessment of MbO achievement for the period of the last three years, the Economic Profit of mBank Group and the result of a business line/subsidiary/organisational unit. The decision on the bonus amount is made at the sole discretion of the Management Board of the bank for a Risk Taker II (a bank employee) or a subsidiary's supervisory board for a Risk Taker II (a member of the management board of an mBank Group subsidiary). The decision makers, based on their independent assessment, confirm the accomplishment of MbO, taking into account the situation in financial markets in the last/previous financial periods. The bonus amount for a given year can reach the amount of the annual fixed remuneration of an employee in the year for which the bonus is awarded.

MbO is determined either by the Management Board /Supervisory Board of the bank (in accordance with the rules of determining the MbO business and development objectives for mBank, approved, among others, by the Remuneration Committee of the Supervisory Board):

- 1/ quantitative team objectives (at the level of mBank Group) account for 10-20% of the objectives (depending on the area, they include: the cost to income ratio, economic profit, net profit of the business line, net interest income; weights depend on the individual managers' influence on particular objectives),
- 2/ quantitative and qualitative individual objectives account for 65-90% of the objectives. Objectives are determined depending on the scope of responsibilities in a given position, including objectives related to management efficiency with a weight of up to 10%.

The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

Both the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants. The non-deferred part in cash is paid in the year when the bonus is awarded. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after the lapse of 12 months from the AGM date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than after the lapse of 12 months from the date on which the consolidated financial statements are approved.

In the case when the bonus amount determined for a Risk Taker II (a bank employee) for a given calendar year does not exceed PLN 200,000, the total amount of the bonus may be paid in cash in a non-deferred form, based on a relevant decision of the bank's Management Board.

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank (with respect to a Risk Taker I), the Management Board of mBank (with respect to a Risk Taker II – a bank employee) or the supervisory board of an mBank Group subsidiary (with respect to a Risk Taker II – a member of the subsidiary's management board) may decide to withhold the full amount or to reduce the amount of a deferred tranche. They can make such decision if it concludes that in a time horizon longer than one financial/calendar year, i.e., a period of at least 3 years, a given Risk Taker has had a direct and negative impact on the financial result or the market position of the bank/subsidiary/Group, has violated the rules and standards adopted in mBank Group or has directly contributed to significant financial losses, where at least one of the scorecard components has not been met or if any of the premises stipulated in Article 142 (2) of the Banking Law Act has occurred.

If the circumstances referred to above occur at the stage of determining the Risk Taker's bonus amount, the Supervisory Board of mBank / the supervisory board of the subsidiary / the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or a Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank / the supervisory board of the subsidiary / the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if they have violated rules and standards adopted in mBank Group, have materially violated the generally applicable law or have directly contributed to significant financial losses being the consequence of their deliberate adverse actions to the detriment of mBank Group / the subsidiary or has contributed to financial sanctions being imposed on the bank/subsidiary by supervisory bodies under a final and non-appealable decision.

The decision on whether the said event occurred may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus awarded for the year in which the event occurred is paid.

In the case of an AGM resolution on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the bonus portion paid in subscription warrants.

The bonus paid under the said programme was first granted to Risk Takers I and Risk Takers II in 2019 for 2018.

### **Employee programmes in mBank Group subsidiaries**

The rules of granting the bonus in mBank Hipoteczny have been specified in the Risk Takers Remuneration Policy of mBank Hipoteczny. The bonus is based on phantom shares of mBank Hipoteczny and treated as an incentive programme under IAS 19.

Detailed information on the incentive programmes is presented in note 41 to the mBank S.A. Group IFRS Consolidated Financial Statements 2019.

Detailed information on the remuneration and shares held by Management Board and Supervisory Board members are presented in chapter 14.7. Composition, powers and procedures of the Management Board and the Supervisory Board.

#### **11.4. MbO (Management by Objectives) – planning and appraisal system**

Since 2011 mBank has been operating the Management by Objectives system (MbO), which is to be gradually replaced with Ongoing Feedback and the Objectives and Key Results (OKR) approach, applied on a quarterly basis.

In an attempt to keep pace with the changing environment (in terms of, among others, technology, culture, and business), we have been working on a solution supporting management. Upon carrying out the pilot programme (2018-2019) and reaching positive results, we decided to gradually implement this new approach starting from 2020.

Objectives and Key Results are a simple way to set goals in order to facilitate communication and focus on priorities. The approach focuses on transparency of objectives and increased flexibility, thanks to which objectives are accordingly adjusted to current challenges and dynamic environment.

##### **Key features of OKR and Ongoing Feedback:**

- transparency of tasks performed by individual employees;
- the possibility of reacting quickly to changing needs (ongoing management of objectives instead of one-off annual appraisal);
- direct influence on the level of cooperation with other employees thanks to reciprocal feedback;
- integration of HR processes related to employee appraisal.

The new system is also meant to increase the engagement and efficiency of all the bank employees.

## 12. mBank and corporate social responsibility

### 12.1. mBank Foundation

In 2019, we spent nearly **PLN 3 million** on supporting mathematics education in Poland (the cost of performing the foundation's statutory tasks)

mBank Foundation implements programmes supporting mathematics education. The M for Maths strategy sets the foundation's goals until 2020 and addresses the ever growing gap in science education. We want to support the development of mathematics education in Poland. We strongly believe that mathematics provides the foundation for logical thinking and is vital to understanding the world around us. Mastering it helps us take informed financial decisions or follow the academic path in scientific subjects, and thus contributes to economic growth and professional success.

In 2019, we pursued our mission through:

- subsidising development projects in the area of mathematics education, such as the mPower grant programme, the competition for the best maths thesis called Step into the Future and the Masters of Mathematics scholarships;
- competition for secondary schools called *Great Known and Unknown Polish Mathematicians* organised to mark the Year of Mathematics;
- book entitled Child's Play Maths;
- partnering with and financially supporting external initiatives promoting maths education: **Mathematics Counts** and **Festival of Mathematics**, organised together with the Gazeta Wyborcza daily.

#### "mPower" grant programme, the sixth edition

mPower is a grant programme aimed at popularising mathematics among young people by showing them that mathematics is very useful in everyday life. We also want to encourage teachers, parents and maths enthusiasts to break the routine and go off the beaten track.

In 2019, 112 projects from all around Poland received grants for creative maths education. In total, mFoundation earmarked almost PLN 665,000 for the grants.

Since the launch of the programme in 2014, over 1 million Polish students have taken advantage of the grant-funded projects. Most grants are awarded to schools in small towns located across the country. This way, we contribute to creating equal opportunities for schoolchildren from small towns.

For more information on the programme go to <http://www.mpotega.pl>.

#### Competition marking the Jubilee Year of Mathematics

As part of the Great Known and Unknown Polish Mathematicians competition, mFoundation awarded grants worth a total of PLN 85,000 to 18 schools and NGOs.

The Polish Senate designated 2019 as the Year of Mathematics to mark the 100th anniversary of the establishment of the Polish Mathematical Society. To celebrate the jubilee, mFoundation announced a competition entitled Great Known and Unknown Polish Mathematicians. Its goal was to popularise the achievements of Polish scientists among teenagers.

The competition encouraged secondary school students to cooperate with maths and history teachers. The task was to prepare a work, in any technique, about the life and scientific accomplishments of mathematicians from Poland's five largest scientific centres. The participants could draw inspiration from articles published in the Gazeta Wyborcza daily and Ale Historia! weekly.

146 entries were submitted, from which the jury selected 18 best works. Their authors received grants ranging from PLN 3,000 to PLN 6,000. 9th Klementyna Hoffmanowa High School in Warsaw won the Grand Prix and PLN 10,000.

For more information on the competition go to <https://www.mbank.pl/mfundacja/wielcy-polscy-matematycy/>.

### **Child's Play Maths – mFoundation's new book**

At the end of 2019, we published a new book: Child's Play Maths, written by Monika Jaworska, a psychologist, Monika Jędrzejewska, a methodologist, and Katarzyna Nawrocka-Skolimowska, a teacher.

The book is dedicated to parents of children aged 0-6. It is neither a guide or a methodological textbook. Rather, it is a collection of inspiring games that parents can play with their children to familiarise them with maths from an early age. The activities are divided by age groups and adjusted to subsequent child development stages.

The book premiered at the 6th Mathematics Festival in November 2019. The participants had a unique chance to obtain a book (we handed out a total of 500 copies) and talk to the authors.

In Q1 2020, we will make the book available in 312 mBank retail branches and mKiosks. Those interested in the book will be able to order it with delivery to a selected mBank branch.

### **12.2. Other social-oriented activities**

#### **mBank is Eco-Friendly**

mBank is a socially responsible organisation that takes into account its own impact on the environment in its activities. One of the three pillars of our new CSR strategy is "mBank cares about the environment and climate". We want to reduce our negative impact on the environment and climate, which is why we have initiated the "mBank Is Eco" project.

#mBankJestEko (eng.#mBankIsEco) is a special section on the mBank intranet. It is a place where we collect employees' ideas for more rational management of resources. It is also the place where we educate our employees through the publication of thematic posts and the blog "Ekonewsletter". We present initiatives, activities and solutions in the field of ecology, corporate social responsibility and sustainable development.

In order to increase employees' awareness of their impact on the environment, we also organize employee actions. Thanks to them, employees learn how they can change their habits and consumer behaviour to reduce their negative, individual impact.

#### We say 'goodbye' to plastic

In H1 2019, we reduced the use of plastic in our organisation. We gave up plastic bottles, plates, cutlery and straws. We implemented several important changes, among others:

- we have withdrawn the bottle distributors in the bank's headquarters;
- we stopped buying water in plastic bottles;
- we installed under-counter filters in order to drink tap water;
- the kitchens are equipped now with glass jugs. Thanks to them, the employees can easily take a supply of water for the whole day;
- disposable plastic cutlery, cups, straws and plates have also disappeared from workers' canteens. If necessary, biodegradable disposable dishes are available.

#### Big clothes drive at mBank

In autumn we conducted an educational campaign and a clothes drive. We chose the UbraniadoOddania.pl project because it transparently combines ecology with helping and, like mBank, is online. As part of the campaign, we implemented an educational part in the form of an entry on the blog "Ekonewsletter", which was devoted entirely to the clothing industry. We wrote about the destructive impact of the clothing industry on the environment and the difference between "fast fashion" and sustainable fashion.

In addition, we organized a lecture (as part of "Fridays with Development") on the environmental impact of mass fashion. We discussed how we can change our shopping habits to become a sustainable consumer. mBank employees also organized a clothes drive in which each kilogram of collected clothes meant PLN 1 per employees' chosen initiative. The income from the action was allocated to the School 3.0 project of the

Sarigato Foundation. Together we collected nearly 2.5 tons of unnecessary clothes and 300 employees from all over Poland were involved in the campaign. This means that we collected almost PLN 2.5 thousand, which we donated to programming and robotics workshops for children's homes. An element of the collection was gameplay, in which teams of employees competed with each other.

### **Disabled-oriented activities**

In line with the model of serving clients with disabilities implemented in 2018 and maintained since then, clients who have accepted the processing of data concerning their disability are automatically redirected by the call centre to a qualified consultant. Clients with hearing disabilities may chose the option of video calls in the Polish Sign Language, and are redirected to the bank's employee that communicates in this language (without external translator). When designing new versions of the transactional system, we rely on knowledge and experience of our employees with disabilities.

We continue our co-operation with the Polish Association of the Deaf, which provides sign language interpreting for clients and consultants at branches. In cooperation with the Integration Foundation (Fundacja Integracja), we continue to organise cyclic workshops entitled "Sensitivity to disabilities" ("Wrażliwość na niepełnosprawność"). In 2019, the Foundation has trained our staff in services for clients with disabilities (total of 20 employees) and in website accessibility standards (approximately 40 employees).

We helped Special Education Centre No. 1 in Łódź organise the 22nd Polish sign language contest. We also run educational campaigns addressed to employees. We write a blog dedicated to disabilities, addressed to all mBank's employees. Making employees aware about digital accessibility and sensitive to persons with special needs has been integrated into our daily duties. We are visible to the public. By participating in the Polish sign language contest we managed to present mBank as an institution ready to serve deaf clients.

### **#bericher – take up the challenge with mBank**

In the "Be Richer In" campaign, we encourage everybody to take up challenges and enrich their everyday lives together with mBank. The overarching aim of the campaign is to reinforce mBank's image as a trustworthy bank for a long-term relationship and a universal partner offering intelligent savings and credit products. In the campaign, we want to show our clients that by putting minimum effort and being systematic, using their knowledge and experience and strengthening interpersonal relationships, they can achieve their goals with our help, and that money is one of the tools supporting the process. The two most popular TV ads within the campaign were "Be richer in good heart", promoting our cooperation with the Great Orchestra of Christmas Charity (WOŚP), and "Be richer in good decisions". We also promote development and culture. We participated in the "Łódź of Four Cultures" and "New Horizons" festivals. The idea behind those two festivals supports mBank's mission by promoting development, culture and being richer, not only in financial terms, but also (and most importantly) in terms of emotions. Our slogan during one of the festivals was: "Be richer in New Horizons". Another of mBank initiatives is called "Medium-Sized Towns". Within this project we encourage local communities to visit our ice rinks. We run the project to foster mBank's image of a friendly bank, eager to help their clients take their first – and subsequent steps in the world of banking.

### **"Get more as an entrepreneur" – channels that make running business easier**

In an attempt to make running business as easy as possible for our clients, we post videos in the mBankTV channel in which we explain, step by step, the rules and benefits of using our services. We also share our knowledge on business conditions in Poland and methods to improve them. Short videos available to all internet users help them make the most of mBank's products and services, without the need to contact an advisor. The videos deal with topics such as e.g. instant invoice issuing in the mAccounting service or setting up a business via mBank's platform.

## 13. Non-financial data

### 13.1. Information about the statement

This statement concerning non-financial data of mBank Group for 2019 includes a concise description of the business model, policies and due diligence processes implemented, outcomes of those policies, principal risks and their management, and non-financial key performance indicators. The policies described in the report cover among others social, employee, environmental, human rights, and anti-corruption aspects.

The statement covers mBank S.A. and its branches in the Czech Republic and Slovakia, as well as selected subsidiaries of mBank Group: mLeasing, mFaktoring, mBank Hipoteczny and mFinanse.

The statement was prepared on the basis of the international reporting standards of the Global Reporting Initiative (GRI) in the "Core" option and the principles of the UN Global Compact, of which we are a member.

More information about sustainable development in mBank Group will be available in the integrated report of mBank Group for 2019, which will be published on mBank's website.

### 13.2. Business model

mBank has for many years been an icon of innovative banking. We were the first fully online bank in Poland. Today we set the direction of development in mobile banking. We are one of the strongest and fastest developing financial brands in Poland. We aspire to offer state-of-the-art mobile banking, helping clients take control of their finance whenever and wherever they want. The starting point of all internal processes, product development, and client tools is our digital DNA and the current strategy. We are a universal bank, serving all groups of clients and growing organically.

We are recognised for professional top-quality customer service and a customised flexible offer. It includes products and services tailored to different user needs: lending, savings, investments, insurance, and corporate banking products. The comprehensive offer addresses specific requirements of different clients while a coherent business model in each of those areas allows clients to move freely between segments, which makes mBank perfect to support them in every step of their personal and professional development.

mBank Group strives to be a partner for corporate clients based on close relations and comprehensive advisory. We support entrepreneurs from the beginning of their professional development, helping to start a business with mBank, online or at a branch, and offering a starter service pack including financing, accounting, terminals, and currency exchange. Large companies and international corporations successfully use an integrated range of commercial banking solutions including an advanced transactional banking platform. The comprehensive offer extends to investment banking services on the capital market.

mBank's distribution concept consolidates the most advanced technological solutions which address the market challenges and set the trend in the Polish banking sector. Online and mobile tools, as well as an expanding network of distribution outlets and a call centre, provide a comprehensive platform for customers to interact with mBank. With its IT platform architecture, the bank develops and markets new products, services, and sales channels efficiently at a low operational risk. Thanks to the flexible infrastructure, mBank successfully pursues its business expansion strategy.

The activity of mBank Group relies on a model of values centred on benefits for clients, shareholders, employees, and other stakeholders. We identify their genuine needs and implement adequate solutions addressing current and future requirements.

<b>Client empathy</b>	<b>Forward-looking</b>	<b>Simplifying</b>	<b>Engagement</b>	<b>Professionalism</b>
Co-operation and understanding of customers' needs	Embracing change and innovation	Simple solutions, clear communication	Motivation and orientation on results	Knowledge, competence and skills

mBank Group's business model is described in detail in Chapter 1. About mBank Group of the Management Board Report on the Performance of mBank Group in 2019.

### 13.3. Policies, due diligence process and outcomes

#### mBank’s personal data security policy

Efficient protection of consumers’ data and privacy is a fundamental precondition of credibility of financial service providers. We know how important it is for our clients. Personal data of European Union nationals, including Poles, are strictly protected. mBank respects all rights of its clients according to mBank’s personal data security policy.

The policy is based on the General Data Protection Regulation (GDPR) and incorporates the GDPR provisions and the rights of data subjects. mBank has appointed a Data Protection Office who is available at [inspektordanychosobowych@mbank.pl](mailto:inspektordanychosobowych@mbank.pl). For details of data protection and enforcement at mBank, visit our website: <https://www.mbank.pl/rodo/strona-glowna/>.

#### Outcomes:

GRI 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data:

In 2019, 8 complaints were lodged by third parties and confirmed by the organisation (all concerning mFinanse); 1 complaint was lodged by regulatory bodies (concerning mFinanse).

In 2018, two complaints concerning mFinanse were recorded, referring to unauthorized telephone marketing contact resulting from employees’ neglect (the company was not processing personal data of the clients who filed a complaint in scope of marketing and employees had access to the binding procedures with this respect). Actions were taken in order to minimize the risk of such incidents in the future.

#### Anti-Money Laundering and Counter-terrorism Financing Policy at mBank

mBank follows the law and standards set for financial institutions. We focus in particular on anti-money laundering and counter-terrorism financing. In this regard, we pursue Anti-Money Laundering and Counter-terrorism Financing Policy at mBank.

mBank follows an anti-money laundering and counter-terrorism financing programme which is consistent with national and EU regulations. To prevent money laundering and financing of terrorism, mBank is required by the programme:

- to identify and verify the identity of our clients,
- to identify and verify the identity of beneficial owners of our clients,
- to identify and verify our clients and their beneficial owners according to the criteria of politically exposed persons (PEP),
- to identify the risk of money laundering and financing of terrorism,
- we refuse to work with clients where we identify risks of money laundering and/or financing of terrorism,
- we monitor clients’ transactions to protect mBank from money laundering and financing of terrorism,
- we regularly train our employees. Training is organised and monitored by the Compliance Department.

All mBank employees are responsible for the implementation of the programme. In particular, account managers and client advisors are responsible for regular identification of clients’ identity. The President of the Management Board is responsible, under a resolution of the Management Board, for the implementation of the obligations under the AML Act according to the AML programme. The Chief AML Officer at the Compliance Department is responsible for compliance of the bank, its employees and associates with the anti-money laundering and counter-terrorism financing regulations. Regional AML Officers, AML Officers, and Deputy AML Officers report to the Chief AML Officer.

#### Outcomes:

	2019	2018
Percentage of employees who received training	98%	88%

**mBank’s conflict of interest management policy**

The policy defines the standards and procedures for the avoidance, identification, and management of conflicts of interest. mBank’s procedures ensure that conflicts of interest are resolved according to the principle of equal treatment of clients and that mBank, its employees and associates do not obtain benefits or avoid losses at the expense of clients.

Reliable conflict of interest management is a part of the corporate culture and a responsibility of mBank employees across all levels of the organisation. In particular, members of the bank’s Management Board and directors of mBank’s units must participate in the identification of conflicts of interest, implementation of measures necessary to prevent conflicts of interest, and management of actual conflicts of interest.

Members of mBank’s supervisory board and Management Board have special responsibilities. They are required to report an actual or potential conflict of interests and to refrain from participating in discussions and voting on matters which could cause a conflict of interest in relations with mBank clients or with mBank.

According to the policy, the Management Board has made the Compliance Department responsible for management of conflicts of interest in the bank. In particular, it is responsible for monitoring internal regulations and IT solutions, consulting services for the organisation, controls, training, and recommendations. The Compliance Department is responsible for reviewing any reported conflict of interest, issuing recommendations concerning the course of action, and monitoring the implementation of recommendations. The Compliance Department reviews the policy to ensure its adequacy and effectiveness at least on an annual basis.

We use information barriers in order to restrict the flow of confidential information, client information and client transactions.

Outcomes:

	2019	2018
Percentage of employees who received training	95%	86%

**Compliance policy at mBank**

The compliance policy defines the general framework for compliance of mBank with laws, internal regulations, and market standards. All employees of the bank are responsible for implementation of the compliance policy depending on their responsibilities and powers. mBank employees are responsible for the identification, assessment, estimation, controlling, and monitoring of the risk of non-compliance with laws, internal regulations and market standards, and for quarterly risk reporting to the Compliance Department. The internal control system includes three lines of defence. On the first line of defence, compliance is ensured by operations employees. As a second line of defence, compliance risk is monitored by compliance officers and the Compliance Department. The third line of defence is the Internal Audit Department. The Supervisory Board exercises oversight over the effectiveness of the internal control system. The Management Board of the bank is responsible for effective management of compliance risk and for the evaluation of compliance risk on the basis of annual reports presented by the Director of the Compliance Department.

In addition to the responsibilities of the Management Board and the Compliance Department, the directors of organisational units are also responsible for the implementation of the compliance policy. They are responsible for organising their employees in such a way as to ensure compliance with laws, internal regulations, market standards accepted by mBank, guidelines and recommendations of the Polish Financial Supervision Authority (PFSA) and other authorities competent in the area of the given unit.

Outcomes:

GRI 419-1      Non-compliance with laws and regulations in the social and economic area

We identified no non-compliances with laws or internal regulations in 2019. In 2018, five complaints were filed by means of dispute settlement mechanism (Financial Ombudsman, Municipal Financial Ombudsman, pursuit of a conciliatory trial before a court and Banking Ethics Commission).

**mBank’s remuneration policy**

The remuneration rules for mBank employees are defined in mBank’s remuneration policy. The policy is designed to support strong employee engagement by providing market-based remuneration packages adequate to employees’ contribution; to retain the best employees; and to attract talent to the organisation in traineeship and secondment programmes. The policy defines the rules ensuring protection of rights and interests of clients and preventing conflicts of interest. The Management Board of the bank is responsible for the development and implementation of the policy. The Management Board reviews the implementation of the policy on an annual basis and resents proposed amendments for review and approval to the Remuneration Committee of the Bank’s Supervisory Board. The policy is reviewed at least on annual basis by the Internal Audit Department, which presents its findings to the Supervisory Board of the bank. The Supervisory Board approves the remuneration policy and consults the Remuneration Committee if necessary. Employees in management positions who are the bank’s risk takers are additionally covered by mBank’s risk taker remuneration policy.

In addition to the remuneration policy, mBank also follows mBank’s Employee Remuneration Rules and mBank’s Employee Bonus Rules.

Outcomes:

GRI 405-2      Ratio of basic salary and remuneration of women to men in mBank by employee category

Ratio of the basic salary of women to men (mBank)	2019	2018
Senior managers	77%	86%
Middle managers	82%	82%
Other employees	75%	74%

Ratio of the remuneration of women to men (mBank)	2019	2018
Senior managers	74%	86%
Middle managers	79%	78%
Other employees	74%	72%

Remuneration structure pictured above is strongly impacted by the higher number of women employed on the operational positions, whereas managerial positions are dominated by men. There are initiatives pursued at mBank aiming at equalizing remuneration on the comparable positions. At the same time we strive to facilitate career promotions among women. In long term horizon we expect these measures to diminish average remuneration differences between men and women. Since several years we observe visible increase of number of women on the managerial positions at mBank. Inequalities at the top management level are also being reduced.

**mBank’s work rules**

mBank’s work rules define the responsibilities of the employer and employees. In line with labour law, mBank’s work rules govern the organisation of work at the bank and the conclusion of employment agreements. mBank’s work rules define matters relating to full or part-time employment and working hours, work attendance, holidays, remuneration, awards and bonuses, liability for breach of employee’s obligations, occupational health and safety, fire protection, protection of women and minors at work.

The President of the Management Board or a Management Board Member or Managing Director authorised by the President oversees the implementation of the rules at the bank with the support of employees of the Employee Development and Organisational Culture Department and directors of the bank’s units who monitor compliance with the rules in their units on an on-going basis. The work rules apply to all employees of the bank working under employment agreements irrespective of position, full or part-time employment, and term of the agreement. They are required to comply with the rules and need to sign a declaration to that effect no later than the first day of work. mBank’s work rules were implemented and are updated in form of an Order of the President of the Management Board.

### **mBank's Workers' Council rules**

mBank employees are represented by the Workers' Council established under the Act of April 7, 2006, on employee information and consultation. The Workers' Council is comprised of 7 members elected by all employees for a term of four years. Its responsibilities include consulting the employer on the status quo, structure and expected changes of employment and matters which could cause significant changes to the organisation or the basis of employment. The Workers' Council operates under an agreement with the bank.

### **Anti-mobbing policy**

As an employer, mBank strives to create a work environment free of mobbing and other forms of violence caused by superiors and colleagues.

The key focus of the policy is as follows:

- mBank does not tolerate mobbing or any other forms of violence.
- Employees must refrain from any action or behaviour which meets the criteria of mobbing or other forms of violence.
- Anyone who creates conditions that encourage mobbing or resorts to mobbing is in violation of the fundamental employee obligations. In that case, as an employer, mBank may impose sanctions under the labour law and mBank's work rules.

The policy defines the criteria of mobbing and the reporting process (anonymous or not, at the choice of the reporting employee) for employees who claim that they have been mobbed. Complaints are reviewed by the Anti-mobbing Committee comprised of directors or their substitutes from the Employee Development and Organisational Culture Department, the Compliance Department, the Legal Department, the Marketing Communication Department, and mBank's Ethics Officer, excluding anyone whose legal or factual relationship with the complainant could affect the objectivity and impartiality of the Committee.

#### Outcomes:

Number of reported, reviewed, and confirmed cases of mobbing: The Committee received 5 reports in 2019 (including one lodged in late December 2018), confirmed one case of mobbing and took the necessary steps.

Number of persons who received training in anti-mobbing rules: We trained 280 managers in 2018 and 2019, including 180 in 2018 and 100 in 2019. We will offer e-learning for all employees and workshops for the remaining managers in 2020.

### **Policy for the assessment of qualifications (suitability) of members of the supervisory body, management body and key function holders at mBank S.A.**

The suitability policy defines transparent and precise procedures for the selection, assessment of suitability, and succession of mBank's key function holders. It specifies the qualifications required in each position, good repute, and no conflict of interest during employment. The policy sets requirements for succession in key positions and defines the procedure of handling vacancies. The suitability criteria for the Management Board and the Supervisory Board include a comprehensive and diverse membership among others in terms of gender, age, and professional experience. One of the sections in the policy is dedicated to diversity. Regarding gender diversity, the policy sets a joint target of at least 30% women on the Management Board and the Supervisory Board by 2028. It recommends that at least one member of the Management Board should be a woman.

We signed the Diversity Charter in January 2018, joining an international initiative for social cohesion and equality supported in Poland by the Responsible Business Forum. As a member of the initiative, we support diversity and prevent discrimination at work.

Outcomes:

	2019	2018
Number of women in the Management Board	1	1
Percentage of women in the Management Board	14.3%	14.3%
Number of women in the Supervisory Board	2	2
Percentage of women in the Supervisory Board	20.0%	16.7%

*Data as at end of year*

**mBank’s anti-corruption policy**

The policy provides guidelines for the identification and mitigation of corruption risks, the key principles of the code of ethics, and related responsibilities. No Management Board member, manager, employee or associate may justify corruption or bribery by invoking mBank’s interest.

mBank follows a policy of zero tolerance for all forms of corruption, including accepting, offering, requesting, granting and giving consent for additional benefits, objects or payments in order to:

- unlawfully influence a decision,
- obtain or secure an illegal business advantage,
- gain personal benefits.

mBank’s Management Board and employees are required to avoid conflicts of personal and professional interest. They are prohibited from offering any undue benefits, in particular to central or local government officials, civil servants, and politicians.

mBank prevents corruption in a system of three lines of defence. The first line of defence is comprised of the bank’s organisational units. The second line of defence is the Compliance Department which is responsible for setting and monitoring standards of compliance with anti-corruption laws and regulations. The third line of defence is the Internal Audit Department, which evaluates the adequacy and effectiveness of the bank’s anti-corruption system.

The Management Board and employees report actual or suspected incidents of corruption to the direct superior or the Compliance Department. Reports may be lodged anonymously in the mSygnał system, which is also available online to third parties. We review all reports with due diligence and in confidence. Units involved in a case of non-compliance take steps to clarify all circumstances and to secure evidence. In case of a suspected crime, the director of the relevant unit provides the file to the Compliance Department, which reports to the law enforcement services if the suspicion is confirmed. The Compliance Department maintains records of corruption procedures. Anyone attempting to engage or engaged in corruption is subject to the procedure defined in labour law and mBank’s work rules. The Director of the Compliance Department immediately reports a corruption case to the member of the Management Board responsible for the given area. In case of high reputational risk or where the incident involves a Management Board Member, the Director of the Compliance Department additionally notifies the Chairman of the Supervisory Board. Moreover, the Compliance Department may take independent steps, irrespective of any reports filed by units of the bank, to detect cases of corruption.

The bank expects its business partners (vendors, contractors, service providers who work with mBank and with its clients on behalf of the bank) to comply with the policy. Anti-corruption provisions are included in each contract between the bank and a business partner.

Outcomes:

GRI 205-2      Percentage of employees that have received training on anti-corruption

In 2019, 69% members of the managing bodies and 100% of employees have been informed and received training on anti-corruption.

In 2018, 35% members of the managing bodies have been informed and received training on anti-corruption. 86% of employees was informed about the policy and anti-corruption procedures. 85% of employees received training on counteracting corruption.

GRI 205-3 Confirmed incidents of corruption and actions taken

We identified no corruption incidents in 2019 and 2018.

**Fraud Prevention Policy at mBank and whistleblowing**

The policy defines who, and how, is responsible for fraud prevention. The bank follows a policy of zero tolerance for all fraud and attempted fraud by the bank’s employees, clients, contractors, and third parties. mBank requires fair and lawful behaviour of all its employees, clients, and business partners.

mBank’s fraud risk management cycle covers four stages:

- fraud prevention – risk assessment, early identification, and clear rules and mechanisms mitigating risk;
- fraud detection – implementation of fraud controls, monitoring systems and reporting channels;
- fraud management – every case of suspected crime to the detriment of mBank or its client is investigated and necessary steps are taken, including legal measures;
- response – clear rules for mitigating loss or damage, corrective mechanisms, lessons learned.

mBank has implemented an electronic whistleblowing system, which ensures anonymity of whistle-blowers. It is accessible on all internet-enabled devices:

<https://client.bkms-system.net/bkwebanon/report/clientInfo?cin=2brebank11&language=pol.>

Whistleblowing rules and the procedures for reviewing reports are defined in internal regulations as follows:

- the identity of the whistle-blower and the person concerned is strictly confidential: their data must not be disclosed to third parties unless required by law;
- the whistle-blower may set up an anonymous inbox to receive updates on actions taken in reaction to the report and/or to provide additional details;
- every whistleblowing report is reviewed by authorised staff to ensure an objective, fair and impartial investigation;
- mBank employees who report suspected fraud in good faith are protected from any form of repression.

Reports are initially reviewed by staff of the Compliance Department. Filed in the system or otherwise, reports are investigated by authorised officers, as the case may be: employees of the Employee Development and Organisational Culture Department, employees of the Foreign Branches, the Ethics Officer, and employees of the Compliance Department. If a report is confirmed, the case is escalated according to the law and the bank’s internal regulations.

The rules for reporting fraud to the Management Board and the Supervisory Board are also clearly defined. They cover regular and ad-hoc reports.

Outcomes:

Number of reported and confirmed cases of fraud and actions taken	2019	2018
Cases reported to the Banking Crime Section	947	660
Cases reported to the Fraud Management Section	63	38

Each report was investigated, and necessary measures were taken, including reporting to the authorities, freezing accounts.

**mBank’s gift policy**

mBank’s policy concerning presentation and acceptance of gifts (gift policy) sets clear and coherent standards for the presentation and acceptance of gifts by mBank employees.

Gifts, including entertainment, are a lawful customary business practice. However, gifts could also be used to obtain illegal gains. mBank follows a policy of zero tolerance for all forms of corruption. Employees may present and accept gifts only in accordance with the gift policy.

According to the policy, mBank employees are allowed:

- to accept and present small corporate gifts customary in business relations up to predefined limits;
- to participate in conferences organised by business partners. Event topics must be consistent with the participating employee's professional responsibilities. mBank covers the cost of transport and accommodation at such events.

According to the policy, mBank employees are not allowed:

- to accept and present gifts in the form of cash or cash equivalents;
- to present or accept any gifts to/from other mBank employees if such gifts could be considered a form of influence over their due execution of relevant processes;
- to accept gifts from mBank's business partners;
- to present gifts to central and local government officials in connection with their functions.

The Compliance Department maintains records of accepted and presented gifts. The Compliance Department regularly monitors compliance with the gift policy and reports on the implementation of the policy to the bank's Management Board and Supervisory Board as a part of its compliance risk management reporting.

Outcomes:

	2019	2018
Percentage of employees who received training	95%	86%

**Global sanction policy**

mBank identifies its clients and monitors persons and entities participating in transactions in accordance with sanction lists of the European Union, the United States, and the United Nations in order to ensure compliance with the applicable laws imposing special restrictions. The Compliance Department provides guidelines and instructions, informs other departments and subsidiaries about business policy restrictions imposed by sanctions, provides advice, and monitors compliance. We comply with sanction regulations by identifying clients and beneficial owners, and by identifying and refusing to execute transactions violating sanctions. We inform clients about sanction regulations and train the bank's employees accordingly. Every employee of the bank is required to read and strictly comply with the policy.

mBank closely monitors existing business relations in sanction countries and takes necessary measures, up to termination of relations.

Outcomes:

	2019	2018
Percentage of employees who received training	96%	87%

**mBank's disclosure obligations**

mBank has implemented the requirements imposed among others under the Act on Trading in Financial Instruments, MAR, and the Act on Public Offering.

We comply with the disclosure requirements because:

- we are a public company, that is, an issuer of securities admitted to trading on the regulated market;
- we carry out brokerage activities;
- we carry out custodial activities;
- we carry out activities referred to in Article 70(2) of the Act on Trading in Financial Instruments.

According to the law, information concerning certain events relating to mBank's activity is classified as inside information. In such cases, we file a mandatory current report with the Polish Financial Supervision Authority (PFSA), the Warsaw Stock Exchange (GPW), and the Polish Press Agency (PAP). The same concerns certain other events which are not classified as inside information. We are required to file reports with PFSA concerning events relating to brokerage activities, custodial activities, and investment activities. Each unit of mBank concerned by or aware of such event is required to report it to the Compliance Department.

Failure to report, late reporting, and undue reporting generate the risk of financial penalties for mBank. In that case, the risk of financial penalties also affects:

- the persons providing information for a report;
- the members of the Management Board responsible for the given area.

mBank keeps records of persons discharging managerial responsibilities within the meaning of MAR.

#### Outcomes:

Number and amount of financial penalties imposed for failure to report, late reporting, and undue reporting: There were no penalties either in 2018 nor in 2019.

#### **Principles for suppliers**

mBank's vendors and suppliers are required to comply with the law, labour law, human rights law, to protect the environment, to avoid discrimination, and to comply with anti-corruption law.

mBank pursues its business according to ethical and responsibility standards defined among others in the Universal Declaration of Human Rights, the International Labour Organisation standards, and the OECD guidelines (in particular, anti-corruption guidelines).

Every supplier participating in procurement or performing a contract with mBank is required to comply with the guidelines and ensure compliance by its subcontractors.

The guidelines in particular include:

- 1) the Universal Declaration of Human Rights;
- 2) the International Labour Organisation standards;
- 3) the OECD guidelines (in particular, anti-corruption guidelines);
- 4) the Rio Declaration on the Environment and Development – Agenda 21;
- 5) the United Nations Convention against Corruption;
- 6) international trade sanctions and embargoes, including sanctions which may apply under resolutions of the UN Security Council according to Chapter VII of the UN Charter, or any sanctions imposed by the European Union;
- 7) acts of national law implementing the above, as well as rules and regulations, in particular conflict of management rules and regulations.

#### Outcomes:

Percentage of vendors who have read and accepted the Vendor Policy: 100%.

#### **Policy for services and financing of entities which carry out activities in sensitive areas related to mBank's reputation risk**

The policy imposes restrictions on the provision of services to companies in socially controversial sectors which are in breach of the Ten Principles of the UN Global Compact.

Such restrictions concern opening of accounts as well as lending in the case of companies, including existing clients of mBank, whose activities:

- involve child labour or forced labour or result in other manifest violations of human rights;
- focus on economic exploitation of valuable natural areas;
- pose a risk to the global cultural heritage.

We do not establish business relations with any entities operating in countries, on which UN imposed sanctions.

**Rules of lending to the defense industry**

In its relations with operators in the defence industry, mBank takes into consideration political, social, ethical, and environmental factors which could affect its reputation. In the defence industry, mBank in general accepts transactions with public entities: government agencies, state-owned companies, etc.

**13.4. Key risks and risk management**

Non-financial risks have become increasingly important in financial institutions over the past years. As an organisation, we continuously monitor the external and internal environment to manage all non-financial risks at the bank, including risks posed by third parties. In particular, we attach special importance to cybersecurity, data security, and privacy. We continuously monitor related processes and implement new technologies. Furthermore, faced with challenges of climate change, we are aligning our operations to finance investments with a sustainable environmental impact.

Non-financial risk management is overseen by the mBank Group Business and Risk Forum established by the Management Board, which includes the Retail Banking Risk Committee, the Corporate and Investment Banking Risk Committee, and the Financial Markets Risk Committee.

**Operational risk**

We understand operational risk as the risk of a loss caused by internal factors, such as incompatible or defective internal processes, people and systems, or external factors, including legal risk. Operational risk includes the subcategories defined below; it does not include reputational risk, which is a separate risk category, or strategic risk, which is part of business risk.

According to mBank's Risk Catalogue, operational risk includes the following permanently significant and significant subcategories:

- legal risk
- IT risk
- cyber risk
- compliance risk
- conduct risk
- external fraud risk
- outsourcing risk

The rules for mBank's operational risk management are defined in the mBank Group Operational Risk Management Strategy. The Strategy is updated on an annual basis and approved by the Bank's Management Board.

The operational risk management system includes the identification and assessment of operational risk, monitoring of losses, mitigation of factors causing operational events, reduction of the probability of future loss, and mitigation of the impact of materialised losses. Details concerning operational risk management tools, measures, and strategies are described in Chapter 4.2 Main risks of mBank Group's business.

**Legal risk**

Legal risk is understood as the risk of loss caused by legal defects in internal regulations, contracts with clients and third parties, or declarations of the Bank, and the risk of loss caused by legal amendments. Details concerning proceedings pending before courts, arbitration bodies, and public administration bodies are presented in Note 32 of the Consolidated Financial Statements of the mBank S.A. Group under the International Financial Reporting Standards for 2019.

**IT risk**

Technological progress increasingly determines the way clients communicate with financial institutions. Electronic banking is commonplace and clients increasingly use mobile banking on smartphones and tablets. The risk of cybercrime is mounting. This is why we take steps to ensure secure access to bank accounts

and to protect client data in the IT resources of mBank and its subsidiaries. Reliable IT systems are our priority. The success of our approach can be measured by the fact that IT caused no material operational loss due to substantiation of IT risks in 2019.

mBank follows the mBank S.A. IT Policy to ensure optimised functioning of our IT Area. The IT Policy and the related standards were approved by the IT Architecture Committee headed by the Vice-President of the Management Board, Head of Operations and IT. According to the IT Policy, we work to ensure a coherent and transparent management model of IT services, IT environment components, and related activities. We want to make sure that the Bank's clients and employees can efficiently and securely use internal and external resources. The IT Policy defines three core areas of the Bank's IT Area: IT Services Operation and Development Management Area, IT Services Planning Area and IT Organisation Management Area. Each of those areas is defined by a set of IT Standards which provide IT management processes. The list of the Bank's IT Standards is attached to the IT Policy. The IT Standards are clarified in rules of application laid down in Methodologies; typically, one Methodology per IT Standard. The mBank S.A. IT Policy incorporates the applicable regulatory requirements and industry standards. It complies with Recommendation D of the Polish Financial Supervision Authority concerning information technology and ICT environment security management in banks. The IT Policy defines processes which address legal amendments.

### **Cyber risk**

To protect client data, cyber risk management is increasingly important to banking and financial institutions. IT incidents may generate huge losses and expose banks to reputational risk. Cyber risks may cause a contagion effect, hurting many financial service providers at the same time. This is why mBank places a very strong emphasis on security of IT systems and data based on adequate organisational and technical solutions. We promote cybersecurity among our employees. E-learning and in-class training raises employees' awareness and knowledge of cybersecurity. We run educational campaigns for clients (online security: <https://www.mbank.pl/uwazniwsieci/strona-glowna/>) and offer emergency support services provided by our company Cyber Rescue.

We work to mitigate cyber risks. As a leader of digital banking solutions, we use adequate, state-of-the-art security monitoring systems from renowned vendors. We counteract new types of cyberattacks. Advanced technology works hand in hand with competent people. For instance, the mBank Security Department includes a Security Operations Center (SOC). Employees and clients may report all cybersecurity matters to the SOC, including identified incidents, attempted attacks, infections, and suspicious transactions. SOC operates 24/7/365. Clients can contact the SOC by email at [alert@mbank.pl](mailto:alert@mbank.pl). We have also set up a dedicated team mBank CERT, co-operating with other teams of this type all over the world as a member of an organisation Trusted Introducer. mBank CERT holds the Accredited status.

We have developed the mBank Cybersecurity Policy to ensure high resilience to cyber risks. It is a part of the mBank S.A. Information Security Policy. The Cybersecurity Policy has been approved by the Security Committee, established by the Management Board in 2009 and comprised of representatives of all areas of the bank, and by the bank's Management Board and Supervisory Board. The Cybersecurity Policy defines a vision of security, continuity and stability of our activities, and ways of mitigating risks arising from currently identified threats. Cybersecurity is an integral part of mBank's activity. It is essential to the achievement of business goals and generates added value as we build clients' trust. It reduces the probability of attacks and, if they occur, it is designed to ensure prompt identification and mitigation of impact. According to the Policy, a secure information exchange system should ensure protection of company secret, bank secret, reputation, and other fundamental values. According to the Policy:

- We align the required cybersecurity levels with our innovative business;
- We secure resources necessary for security processes and implement new cybersecurity measures;
- We identify legal requirements concerning security;
- We raise the cybersecurity awareness of employees and clients;
- We manage events through early detection, reaction, lessons learned, and risk assessment;
- We manage suppliers and work with business partners;
- We regularly develop and improve our expertise.

All employees of mBank work towards those objectives.

Alongside the Cybersecurity Policy, we pursue the following policies:

mBank's Information Security Policy defines the objectives and measures necessary to protect confidentiality, integrity, accessibility, and authenticity of processed information and to ensure business continuity of services provided to clients. The Policy is approved by the Security Committee, established by the Management Board and headed by the Director of the Security Department. All employees of mBank work to implement the Policy by ensuring accessibility of services while protecting interests of mBank and its clients.

The Bank's IT Infrastructure Vulnerability Monitoring Policy defines procedures for the identification of vulnerabilities in the ICT environment. It covers reporting of required security fixes and monitoring of their implementation. The Policy ensures compliance with the guidance of PFSA's Recommendation D concerning ICT software upgrades. The Policy applies to employees of the Security Department, employees of the IT and Technology units authorised as administrators, and owners of end-user software.

mBank's Online Payment Security Policy ensures the necessary security of online transactions and protects the bank's processes. It provides a framework necessary to secure online payments. The Policy incorporates the mBank Payment Security Standard which defines online payment security rules and requirements for designing and upgrading IT products supporting payment services. The Policy was approved by the bank's Management Board; any updates of the Policy are also approved by the Management Board. The mBank Payment Security Standard is reviewed at least on an annual basis and approved by the Security Committee. According to the Policy, we comply with the legal requirements for security of payment services, including the PFSA recommendations concerning online payment transaction security. The Policy defines among others the procedures of risk assessment and prevention, as well as incident monitoring and reporting. The Policy sets requirements regarding strong client authentication, monitoring of transactions, protection of sensitive payment data, client education and communication.

### **Compliance risk**

mBank's Management Board is responsible for effective management of compliance risk. The Supervisory Board oversees compliance risk management. The objective of compliance risk management is to mitigate the risk of non-compliance of the Bank's internal regulations with laws, internal regulations, and standards of conduct accepted by mBank, including the risk of non-compliance with guidance and recommendation of the Polish Financial Supervision Authority and other supervisory authorities responsible for financial institutions.

We mitigate compliance risk according to implemented and updated policies, and we provide annual mandatory compliance training to all employees.

The compliance policy defines the framework of ensuring mBank's compliance with laws, internal regulations, and market standards.

All employees of the Bank are responsible for the implementation of the compliance policy according to their responsibilities and powers.

In addition, mBank has in place policies which govern in detail specific areas of compliance, including mBank's policy for the assessment of qualifications (suitability) of members of the supervisory body, the management body, and the key function holders, mBank's anti-money laundering and counter-terrorism financing, the global sanction policy, mBank's conflict of interest management policy, the anti-fraud policy, the anti-corruption policy, and the gift policy.

All cases of non-compliance and fraud can be anonymously reported in the electronic whistleblowing system which is accessible on all internet-enabled devices.

### **Conduct risk**

Conduct risk is understood as the risk generated by malpractice in the distribution of banking products or provision of financial services. In particular, conduct risk includes:

- the risk of misselling of banking products/transactions, i.e., misleading and careless selling of products and services or distortion of characteristics of products and services, resulting in selling of products or services which not dot match the client's needs;
- the risk of manipulation of reference interest rates, exchange rates or other financial instruments or benchmarks.

**Risk of external fraud**

The risk of external fraud is understood as the risk of crime committed by a third party, including credit fraud, payment or payment card fraud, online banking fraud.

**Outsourcing risk**

Outsourcing risk is understood as the risk of adverse influence of a third party on the continuity, integrity or quality of the functioning of mBank Group, its assets or employees.

To mitigate outsourcing risk, the Management Board has made the Compliance Department responsible for the management and co-ordination of outsourcing within the meaning of the Banking Law and the Act on Trading in Financial Instruments, across the bank and including the foreign branches. The Compliance Department has appointed a Chief Outsourcing Officer who is employed in a position for compliance risk management. The management of risks of individual outsourcing contracts is a responsibility of directors of the bank's units who are the owners or administrators of such outsourcing contracts. The bank keeps records of outsourcing contracts.

Any unit of the bank which is planning to outsource any functions or services is required to analyse the risk and the effectiveness of the contractor and the processes to be outsourced. The results of the risk analysis are taken into account when deciding whether to conclude or continue an outsourcing contract. The contractor, the outsourced process, and the risks of the outsourcing contract are regularly reviewed within the term of a contract

The Compliance Department reports its performance as a control function responsible for compliance risk management in mBank, including outsourcing, on a quarterly and annual basis to the Bank's Management Board, the Supervisory Board, and the Audit Committee of the Supervisory Board. The procedures for risk review and reporting are laid down in detail in other internal regulations governing outsourcing: mBank's Outsourcing Policy, the Regulation of the President of the Management Board concerning the conclusion and implementation of outsourcing contracts in accordance with the requirements of the Banking Law and the Act on Trading in Financial Instruments, and the Circular Letter concerning the implementation of procedures for risk rating of Contractors, Sub-contractors, outsourcing contracts and processes in mBank.

In addition to the operational risks enumerated above, mBank manages other non-financial risks: reputational risk and environmental risk.

**Reputational risk**

As an institution of public trust, mBank must protect its image and reputation. We define reputational risk as the risk of negative perception of mBank or its subsidiaries by stakeholders. Reputational risk management identifies, assesses, and mitigates reputational risk in special processes in order to protect and strengthen the reputation of mBank and mBank Group.

mBank has in place an mBank Group Reputational Risk Management Strategy approved by the Management Board and the Supervisory Board, which defines the reputational risk management framework.

We use three lines of defence. The first line of defence includes all units of the bank, its foreign branches and subsidiaries, which are directly responsible for reputational risk in their operations. The second line of defence includes specialised units: Compliance, Communications and Marketing Strategy, and Risk. The third line of defence is the Internal Audit Department.

We protect mBank's reputation according to the mBank Group Code of Conduct, compliance policies and other policies (e.g. Policy on providing services and financing to entities operating in areas that are particularly sensitive in terms of mBank's reputation risk, Credit policy regarding industries relevant to the EU climate policy).

We monitor press reports, online comments, and social media posts, and react whenever they pose a risk to mBank's reputation. We monitor the image of mBank in an annual employee engagement survey. We focus on long-term customer relationships, speak and write to customers in a friendly and understandable language, and offer products matching their needs and abilities. We analyse satisfaction survey results and clients' complaints. We consider reputational risk in product development. A dedicated team monitors

threats to reputation. In the event of a crisis, the team mitigates or eliminates its adverse impact on the reputation of mBank.

In 2018, mBank appointed an Ethics Officer responsible for drafting guidelines, issuing opinions, and supporting employees in the event of ethical dilemmas. We raise employees' awareness of reputational risk by communicating internally any lessons learned and by providing annual e-learning on anti-bribery and corruption, fraud prevention, anti-money laundering, and other compliance training. We educate the general public. We have for years run a social campaign focusing on cybersecurity, which highlights cyber risks and explains how to handle them. A special section of our website <https://www.mbank.pl/en/security/sme-corporate/> is dedicated to security matters. We act responsibly in all relations with clients, employees, the environment, and local communities. The area is governed by the corporate responsibility and sustainable development strategy, the sponsorship policy, and the Statute of the mBank Foundation.

**Environmental risk**

Environmental risk is the probability of adverse environmental impact or long-term effect caused by adverse environmental impact.

mBank manages environmental risk according to mBank's corporate responsibility and sustainable development strategy, which has become a part of the business strategy in 2019 (mBank Group Strategy for 2020-2023 "Growth fuelled by our Clients", approved by the Management Board and the Supervisory Board on December 12, 2019). The strategy sets targets for continued efforts to reduce our direct and indirect impact. We reduce direct impact through digitisation of banking and operational processes and activities, reduction of energy and water consumption, elimination of plastic. We reduce indirect impact through a responsible policy of financing of industries, including mBank's credit policy of financing of renewable energy sources (RES) and mBank's credit policy regarding industries relevant to the EU climate policy, which are designed to encourage our clients to engage in pro-environmental industrial, infrastructure, and housing investments. Details concerning our approach to climate issues are presented in Section 13.6. Climate-related information.

**13.5. Key performance indicators**

**Business and CSR indicators**

Key performance indicators	2019	2018
Number of mBank's mobile clients	1,894,700	1,484,500
NPS ratio (corporate segment)	33	35
NPS ratio (retail segment)	13	19
The budget expended by the mBank Foundation	2,881,392.21 PLN	3,971,600.42 PLN

- Complaints: time to resolution, number of complaints, acceptance ratio (resolution as requested by client):
  - Corporate segment: in 2019, 80% of complaints were closed to the advantage of the client. We process complaints as soon as possible, within 15 business days at maximum. In especially complex cases, we process complaints within 35 business days. We make sure that clients are affected to the least possible extent.
  - Retail segment: in 2019, 82% of complaints were closed to the advantage of the client. We strive to ensure that complaints are resolved on first contact, for example, by crediting the client's account with the claimed amount during the call. If that cannot be done, we make best efforts to resolve the issue as soon as possible: in 2019, we closed 59% of all complaints within 1 business day.

**Employee indicators**

Key performance indicators (mBank Group)	2019	2018
Number of employees (FTEs)	6,771	6,524
Rotation ratio	18%	22%
New hire ratio	21%	25%
Engagement ratio	55%	54%

**Environmental indicators**

Key performance indicators (mBank Group)	2019	2018
Electricity	10,716.39	11,506.62
Gas	494.22	437.07
Gasoline	3,619.93	3,801.27
Diesel fuel	591.46	589.60
<b>Total Energy consumption - CO<sub>2</sub> metric tons equivalent (CO<sub>2</sub>e)</b>	<b>15,421.99</b>	<b>16,334.55<sup>1</sup></b>
<b>Paper consumption [number of A4 sheets]</b>	<b>35,336,887</b>	<b>38,270,193</b>

<sup>1</sup>data for 2018 restated in scope of gasoline and diesel fuel, as compared to the data presented in mBank Group Integrated Report for 2018.

**13.6. Climate-related information**

**Business model**

mBank’s business model focuses on innovative state-of-the-art solutions. Continued development of mobile banking and digital customer service tools helps to improve processes and convenience for clients and to reduce adverse impact on the climate. Mobile and online banking solutions available to clients reduce the need to visit a bank branch. State-of-the-art videocall equipment installed in mBank’s offices and branches reduces the need for business travel. As a result, customer service and quality of relations with mBank no longer rely on frequent travel and car use. Moreover, digital internal processes and the development of remote channels help to reduce the quantity of paper documents and the need for their transport. Work from home, which is increasingly popular with our employees, also reduces consumption of resources at work without affecting productivity.

The mBank Group Strategy for 2020-2023 provides for further improvement of the bank’s remote access channels for retail and corporate clients. We want to ensure that our clients become even more digital and self-reliant in order to reduce visits to the bank’s branches. We will reduce the number of branches handling cash operations, the consumption of paper, and the circulation of hardcopy documents. We will simplify our processes to eliminate the internal flow of paper copies, as well.

The ESG objectives are an integral part of our business strategy for the first time in the history of mBank. We are guided by the United Nations (UN) Sustainable Development Goals (SDGs) set for 2030. mBank’s three areas of focus include climate and the environment. We have set targets to reduce our direct and indirect impact on the climate.

To reduce our indirect impact on the climate, we will inspire client behaviour necessary to stop and reverse adverse climate and environmental change. We will actively lend to finance clients’ pro-environmental investments in industry, infrastructure, and housing. We will offer special programmes including:

- project finance, e.g., installation of renewable energy sources;
- issuance of sustainable/green bonds and covered bonds.

We will implement investment strategies based on instruments integrating ESG themes and offer products raising the environmental awareness of clients.

Our goals include mBank's participation in the WIG-ESG index; initiatives implementing the bank's internal credit policy regarding industries relevant to the EU climate policy; and incentives for clients to switch to renewable energy sources.

To reduce our direct impact, we will measure and regularly reduce our total carbon footprint. We will save water and energy, segregate waste, and educate our employees. We want to raise employees' awareness of environmental impact and climate change, and encourage environmental behaviour. We need responsible vendors who share our values. We will take steps to raise our partners' awareness of sustainable development.

Our goals include reduction of mBank's carbon footprint; reduction of the consumption of electricity and natural gas; reduction of the environmental impact of our car fleet; saving water, paper, and office supplies in mBank's offices and branches; introduction of waste recovery; implementation of a vendor selection and vendor relations system incorporating ESG themes.

### **Policies and due diligence process**

mBank Group pursues its goals to reduce its impact on the climate mainly through credit policies, which govern our approach to financing of industries with a positive or negative impact on the climate.

According to mBank's Renewable Energy Sources financing policy (RES), introduced in 2018, we will invest PLN 1 billion to finance wind farms and photovoltaics. In 2019, we implemented mBank's credit policy regarding industries relevant to the EU climate policy, which defines the framework of financing of energy-intensive and greenhouse gas industries. Both policies are described in detail in the section dedicated to climate risk management.

Those credit policies were approved by mBank's Corporate and Investment Banking Risk Committee comprised among others of the Vice-President of the Management Board, Head of Risk and the Vice-President of the Management Board, Head of Corporate and Investment Banking. The credit policies are updated on an on-going basis and reviewed at least on an annual basis, including expert assessment of the impact of climate change. mBank Group's Strategy for 2020-2023, which sets climate targets and measures, was approved by the Management Board and the Supervisory Board of mBank. The Management Board of mBank at its session in December 2019 discussed the climate risk management approach and financing framework, defined in the credit policy regarding industries relevant to the EU climate policy and the RES credit policy. The Risk Committee of the Supervisory Board was introduced to those policies in December 2019.

### **Outcomes**

The bank's total exposure to the renewable energy industry was PLN 663.6 million as at December 31, 2019, including financing eligible under our RES Policy at PLN 458.9 million.

### **Principal risks and their management**

According to the EU Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01), we have analysed the risk of mBank's adverse impact on the climate and the risk of adverse impact of the climate on the bank. Our analysis was prepared on the best effort basis and with the use of currently available interpretation of the new regulation.

The functioning of the bank has no material direct impact on the climate. The bank's industry does not generate significant greenhouse gas emissions. In the opinion of the bank, its impact is mainly indirect through financing provided to clients. The bank's impact on the climate derives from decisions to grant financing to clients in different industries. We can reduce the impact mainly by reducing financing for clients in industries relevant to the EU climate policy.

According to the Supplement on reporting climate-related information, the risk of adverse impact of the climate on a company is either physical risk or transition risk.

Physical risks are risks to the company that arise from the physical effects of climate change, e.g., weather-related events or longer-term changes in the climate, such as rising sea levels. Thanks to mBank's business

model, where the key customer service channels are remote channels, i.e., online and mobile banking, mBank is not exposed to direct impact of physical risks typical of manufacturing companies. Energy blackouts constitute potential physical risk identified. At mBank we manage this risk with use of adequate technical solutions, meaning redundancy of power supply and generators. For data center objects, mBank applies requirements of at least TIER III level, ensuring constant energy delivery from two independent sources, also linked to the generator. We manage this risk at mBank according to the Business Continuity Management System.

The geographic location of our offices and branches in Poland, the Czech Republic and Slovakia, in a moderate climate, limits the physical risk to a service provider’s operations. This implies an insignificant risk to the functioning of the bank’s branches and head offices. However, physical risks may have an indirect impact on the bank by impacting our clients. In particular, flood, fires, and rising sea levels may hurt the real estate industry (retail and commercial mortgage loans), floods and heatwaves may hurt agriculture, and low water levels in rivers may hurt the chemical industry.

According to our analysis, the bank is mainly exposed to transition risks. According to the Supplement on reporting climate-related information, transition risks are risks to the company that arise from the transition to a low-carbon and climate-resilient economy. mBank’s transition risks mainly include climate risks related to our clients, particularly the corporate segment that we finance mainly with loans, leasing, and debt origination and investment. Companies in industries with a significant impact on the climate may carry higher credit risk, i.e., the risk of loss caused by counterparty default and the risk of impairment of credit exposures due to the counterparty’s deteriorating financial position, for instance, driven by rising costs of mandatory environmental investments. Risks related to financing of companies in industries relevant to the EU climate policy may involve mainly higher impairment losses on loans and advances measured at amortised cost and negative value change of loans and advances measured at fair value through profit or loss, as well as attrition of some income.

The table below presents transition risks identified at mBank.

<b>Risk category</b>	<b>Description</b>	<b>Risk category according to the EU guidelines</b>
Technology risk	Occurs if a technology with a less damaging impact on the climate replaces a technology that is more damaging to the climate. This may be driven by new regulatory requirements and additional investments or higher costs.	Policy risks Technology risks
High capex requirements	Industries relevant to the EU climate policy often require higher investments due to large scale and concentration of projects. With weaker momentum in the cycle for such industry, that could generate negative cash flows.	Technology risks
More eco-friendly competitors	Occurs if the choices of customers shift towards products and services of competitors that are less damaging to the climate.	Market risks
Client’s reputational risk	Companies perceived as climate adverse could face challenges in customer acquisition and retention, raising funding, and the cost of financing.	Market risks Legal risks
mBank’s reputational risk	A company financed by mBank could face protests and criticism from the media and NGOs; it may lack environmental certificates or policies and publish no environmental reports; it may have no carbon footprint reduction strategy. That would affect the reputation of the bank as its financial provider.	Reputational risks
CO <sub>2</sub> allowance costs	Companies in industries contributing to climate change are often required to acquire greenhouse gas emission allowances. The required number of allowances, price trends in the allowance market, and the client’s approach to buying allowances could impact the client’s financial results.	Policy risks Technology risks

mBank's framework of identification and assessment of climate risk is defined in mBank's credit policy regarding industries relevant to the EU climate policy, introduced in November 2019. As a part of the credit process, the policy provides rules for the financing of projects in industries which have a particularly strong impact on the climate, including energy and heat; chemicals; cement and lime; ceramics and glass; pulp, paper and cardboard; coke manufacturing and processing; oil refineries; coal mining; transport. The policy prohibits financing of construction of hard coal and lignite mines and expansion of the production capacity of existing mines. In the energy and heat industry, we are not allowed to finance construction of new coal-fired energy units or boilers; investments in construction and development of nuclear power plants; shale gas exploration and production; and new clients whose share of electricity from hard coal or lignite (measured by production capacity) is more than 50%. We give preference to projects which significantly reduce greenhouse gas emissions, where we recommend preferential pricing.

Climate change provides not only risks but also opportunities for mBank.

The key opportunity related to climate protection is the opportunity to expand the bank's offer to address changing needs of clients. For example, we finance projects involving renewable energy sources. mBank's credit policy of financing of renewable energy sources (RES), introduced in 2018, provides PLN 1 billion for wind farms and photovoltaics. We work on projects based on PPA (Power Purchase Agreements). Under that model, an investor who wants to develop a green energy source, typically a wind farm, initially signs a long-term energy sale agreement, for instance with a manufacturer. Under the RES financing policy, mBank has closed the biggest deal on the Polish market providing financing for a portfolio of photovoltaic projects, worth close to PLN 90 million, with the R.Power Group. The investment project includes the development of 34 solar power plants with a total capacity of 33MW and a total area of 70 hectares.

To align its product range with changing needs of clients, mLeasing launched financing of photovoltaic panels in 2019. mBank's leasing subsidiary finances companies' photovoltaic systems worth up to PLN 250 thousand with a capacity up to 50kW. The leasing period is up to 6 years and the client's required contribution is at least 10% of the value of the project.

Since 2019, mBank private banking clients are the first in Poland to invest responsibly in line with the ESG standards. With mBank's ESG Balanced Strategies, private banking clients can invest in portfolios of equity and debt from issuers with a positive ESG track record. ESG strategy assets accounted for 19% of assets in investment strategies with a comparable investment risk level.

The bank may also gain access to new forms of funding, including green bonds and other ESG-related debt.

### **Key performance indicators**

Direct greenhouse gas emissions (scope 1):

- 4,211.39 t CO<sub>2</sub>e in 2019
- 4,390.86 t CO<sub>2</sub>e in 2018

Indirect greenhouse gas emissions from the generation of acquired and consumed electricity, steam, heat, or cooling (collectively referred to as "electricity") (scope 2):

- 11,210.61 t CO<sub>2</sub>e in 2019
- 11,943.69 t CO<sub>2</sub>e in 2018

Total energy consumption and/or production from renewable and non-renewable sources (consumption):

- 33,208.03 MWh of energy from non-renewable sources in 2019
- 34,428.08 MWh of energy from non-renewable sources in 2018

All indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (Scope 3): at the beginning of 2020 we made an attempt to determine the GHG emissions of our corporate clients' loan portfolio. At the first stage we decided to analyse the largest credit exposures at mBank, meaning loans exceeding PLN 200 million as at the end of 2019. The clients fulfilling this criterion were asked about their direct CO<sub>2</sub> emissions in 2019, the change (in %) of their emissions compared to 2018 and expected increase/decrease of emissions in 2020. Majority of our clients informed us about their direct emissions. Several clients reported difficulties in obtaining data for 2019 due to prolonged process of its collection and potential verification. Nevertheless, due to varying methods of measurement and calculation of the data in selected companies as well as owing

to our aim to disclose only reliable data we decided not to publish the collected data. In 2020 we will work on improvement of our method for data collection concerning clients' emissions. Lack of universal and consistent measurement and reporting method among various sectors and branches significantly impedes aggregation of data, its reporting and comparability.

## 14. Statement of mBank on application of corporate governance principles in 2019

### 14.1. Application of corporate governance principles

The general corporate governance principles applicable at mBank, i.e. regulations and procedures determining the guidelines regarding the bank's authorities' actions, in particular towards stakeholders, arise from statutory regulations, in particular from the Code of Commercial Companies and Partnerships and the Banking Law Act, the provisions regulating the operation of the capital market and the rules laid down in the following documents: "Best Practice for WSE Listed Companies 2016", "Principles of Corporate Governance for Supervised Institutions" issued by the Polish Financial Supervision Authority on July 22, 2014 and the "Code of Banking Ethics" issued by the Polish Bank Association.

In 2019, we applied the corporate governance principles contained in the "Best Practice for WSE Listed Companies 2016", issued by the Warsaw Stock Exchange by way of Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) dated October 13, 2015.

The text of the "Best Practice for WSE Listed Companies 2016" is available on the website of the Warsaw Stock Exchange, in the section dedicated to the corporate governance of listed companies ([www.gpw.pl/best-practice](http://www.gpw.pl/best-practice)).

The "Principles of Corporate Governance for Supervised Institutions" are available on the website of the Polish Financial Supervision Authority ([www.knf.gov.pl/en/MARKET/Regulations\\_and\\_practice/Practice](http://www.knf.gov.pl/en/MARKET/Regulations_and_practice/Practice)).

#### Best Practice for WSE Listed Companies 2016

From among the detailed principles of the "Best Practice for WSE Listed Companies 2016", we do not apply principle no. VI.Z.2., which reads as follows: "To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years".

The principles for granting variable components of remuneration at mBank are compliant with the Regulation of the Minister of Development and Finance of March 6, 2017, on the Risk Management System, the Internal Control System, the Remuneration Policy as well as the Detailed Method for Banks' Internal Capital Assessment (Journal of Laws of 2017, item 637) and EBA's Guidelines on sound remuneration policies (EBA/GL/2015/22) of June 27, 2016, which do not provide for the premise indicated in item VI.Z.2 of the Best Practice.

Moreover, from among all recommendations specified in the "Best Practice for WSE Listed Companies 2016", we do not apply the following recommendations:

- items 2 and 3 of recommendation IV.R.2, which refer to conducting a General Meeting with the use of means of electronic communication. Item 2 concerns ensuring two-way communication in real time during the General Meeting allowing shareholders to speak from a different location. Item 3 is related to exercising the voting right in person or by proxy during the General Meeting.

For many years, we have broadcast General Meetings in real time, however, without the possibility to engage in two-way online communication by allowing shareholders to speak during the General Meeting from a different location. The Bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in General Meetings with the use of means of electronic communication. Moreover, in the opinion of the Management Board of mBank, the organisation of General Meetings with the use of means of electronic communication involves additional legal, organisational and technical risks.

- recommendation VI.R.3. concerning the remuneration committee. The recommendation stipulates, among others, that it is required that at least the majority of the committee members be independent. At mBank, the Remuneration Committee of the Supervisory Board as at the end of 2019 was composed of three members, including one independent member. Two members do not meet the criterion of independence. Despite changes in the composition of the Remuneration Committee, independent members did not represent a majority at any point throughout the year.

## **Principles of Corporate Governance for Supervised Institutions**

The "Principles of Corporate Governance for Supervised Institutions" cover relations with shareholders and clients, issues relating to the organisational structure, rules for ensuring an effective and efficient internal control system, as well as the risks of business activities.

We have adopted the "Principles of Corporate Governance for Supervised Institutions", excluding the principles listed in Article 8 (4) and in Article 16 (1).

The principle in Article 8 (4), which reads as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting", is similar to recommendation IV.R.2 of the "Best Practice for WSE Listed Companies 2016". As a large part of our shareholders are represented at General Meetings, with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, we have decided that departure from the rule defined in Article 8 (4) is justified.

Likewise, we do not apply the rule defined in Article 16 (1), which reads as follows: "It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured."

The departure derives from the fact that all Members of the Management Board speak fluent English. Communication without an interpreter is more effective as discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the specialised language. Furthermore, given that Management Board meetings review information that constitutes the company's secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board in its meetings. At the same time, most of the Management Board Members speak Polish, which means that the bank can be represented whenever participation of Management Board Members is required including communication in Polish without an interpreter. Minutes of Management Board meetings, as well as resolutions of mBank's Management Board, are prepared in two language versions, ensuring compliance with the provisions of Article 16 (2) of the "Principles of Corporate Governance for Supervised Institutions".

The stand of shareholders as regards the "Principles of Corporate Governance for Supervised Institutions" was presented in resolution no. 31 of the 28th Annual General Meeting of mBank S.A. of March 30, 2015.

In the above resolution, the shareholders undertook:

- to participate in the performance of the statutory objectives of mBank, ensuring security of its operations and with its interest in mind;
- not to violate the powers of other statutory bodies of mBank;
- to immediately solve any potential conflicts between shareholders to prevent infringing the interest of mBank and its clients;
- not to make decisions resulting in transferring assets from mBank to other entities, and in acquisition or alienation of or in conclusion of other transactions leading to mBank disposing of its assets under conditions other than market conditions or posing a threat to the security or interest of mBank; the individual rights will be granted to the given shareholder or shareholders when justified on the grounds of achieving significant objectives of mBank and not causing hindrance to proper functioning of the bodies of mBank or discrimination against other shareholders and reflected in the By-Laws of mBank;
- to provide, if needed, additional capital or grant financial support to the bank to the extent to which it is possible and compliant with authorisations, whereas it will only take place after the analysis of the entirety of reasons which led to such a necessity; the shareholders will take into consideration the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations the shareholders are bound to respect and considering the best interest of mBank and its clients;

- to make decisions with regard to dividend payment, depending on the need for maintaining an appropriate level of equity and on the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities; and
- to implement the recommendations of the PFSA regarding the election of Members of the Supervisory Board of the bank.

### **Code of Banking Ethics**

Apart from the corporate governance principles, we have for many years complied with the best banking industry practices, developed by the Polish Bank Association (ZBP). The currently applicable version of the "Code of Banking Ethics" was approved at the 25<sup>th</sup> General Meeting of the Polish Bank Association held on April 18, 2013. The "Code of Banking Ethics" is a set of principles referring to banks, their employees and persons acting as intermediaries in banking activities. The "Code of Banking Ethics" includes two parts: the "Code of Best Banking Practice" and the "Code of Employee Ethics". The "Code of Banking Ethics" is available on the website of the Polish Bank Association <http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>.

### **Model of values and behaviours of mBank employees and the rules on conduct towards business partners**

Our employees apply the Code of Conduct, which establishes the standards applicable in interactions between the bank's employees and the bank's business partners. This is meant to contribute to mutual trust. The guidelines related to behaviour include, among others, being guided by mBank's values, creating a sustainable corporate culture, corporate social responsibility, pursuing a responsible credit policy, treating relationships with clients in a responsible way, honesty in business relationships, applying established standards in relationships with clients and in internal relationships, avoiding conflicts of interest, responsible use of social media and simplifying communication.

It is also worth mentioning that we have defined behaviours which are most important from the perspective of the organisation and which facilitate achieving individual and team results and contribute to customer satisfaction. mBank's model of values and behaviours, which sets mBank's work standard, is based on the following organisational values: "client-centricity", "looking ahead", "simplifying", "commitment" and "professionalism".

### **Information policy**

We pursue a transparent, open, and reliable information policy, which builds mutual trust and loyalty of investors. When implementing the information policy, we comply with requirements arising from information confidentiality and security laws, which we must abide by as a public company and a supervised institution. Our high ratings and awards for widely understood corporate governance and investor relations bespeak transparency and effectiveness of our information policy. In May 2019, we again won a distinction of the Institute of Accountancy and Taxes and *Gazeta Gieldy Parkiet* daily in the category "Transparent WIG20 Company of the Year." In June 2019, we won the *Złota Strona Emitenta* (Issuer's Golden Website) contest organised by the Polish Association of Listed Companies in the category "Leader of Online Communication" for large companies (listed companies included in WIG20 and mWIG40).

The main means we apply in our information policy with regard to investor relations include:

- current and periodic reports;
- meetings, tele- and video-conferences of representatives of the Management Board and the Analysis and Investor Relations Department with investors and analysts, both in Poland and abroad;
- quarterly presentations of financial results for investors and analysts provided directly and through interactive webcasts and teleconferences;
- an ongoing contact by phone or e-mail with analysts and investors, including sending Newsletters on a monthly basis and, if necessary, other informational materials;
- participation of our representatives in domestic and foreign investor conferences and road-shows in selected European countries and in the United States of America;

- the company's website with a comprehensive investor relations section where we published information on, among others, our shareholders, the composition of the Management Board and Supervisory Board, General Meetings (including video recordings of General Meetings), ratings, the Euro Medium Term Note Programme, price of mBank's shares on the WSE, analysts' recommendations, the consensus on mBank Group's expected performance and the target share price. On our website, there are annual, periodical and current reports and presentations, including presentations of the results of the Group for equity analysts and investors as well as presentations for investors interested in the bank's debt securities, online versions of integrated annual reports enabling interactive access to the audited financial data, and an Investor's Calendar.

Open communication with shareholders during the General Meetings manifests itself, among others, in the following aspects:

- providing stakeholders with answers and explanations by the members of the bank's governing bodies;
- broadcasting the General Meeting online;
- participation of media representatives in the General Meeting.

#### **14.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank**

mBank is equipped with an internal control system which supports bank management by ensuring efficiency and effectiveness of the bank's operations, reliability of financial reporting, compliance with risk management rules of the bank, as well as compliance of the bank's operation with the law, internal regulations and market standards.

The internal control system encompasses the following:

- control function whose task is to ensure observance of control mechanisms concerning in particular risk management at the bank and which covers positions, groups of people and organisational units responsible for performance of tasks assigned to the function;
- compliance unit (Compliance Department), whose task is to identify, assess, control and monitor the risk of non-compliance of the bank's activities with the law, internal regulations and market standards and report in this respect;
- independent internal audit unit (Internal Audit Department), whose task is to examine and assess, impartially and objectively, the adequacy and effectiveness of the risk management system and the internal control system, excluding the internal audit unit.

The control function is a part of the internal control system comprised of all control mechanisms in processes running in the bank, independent monitoring of the application of such control mechanisms and reporting on the issue.

The control function is based on the following principles:

- guaranteeing access to important, real, up-to-date and complete information by decision makers;
- organising and maintaining adequate IT systems that ensure proper storage and processing of data, facilitate the evaluation and monitoring of different risk categories and generation of information useful in decision-making process;
- determining the information circulation rules in order to ensure that relevant information is submitted to competent persons.

The process of preparing financial data for reporting is automated and based on the accounting data of the bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating a collection of accounting balances on the basis of the system of general ledgers of the bank takes place within a process covering respective internal mechanisms and controls. The mechanisms consist,

among others, in verification and reconciliation of reporting data with books of accounts, sub-ledger accounts, and other documents on the basis of which financial statements are drawn up, as well as with the applicable legal provisions pertaining to accounting principles and the preparation of financial statements. Manual adjustments are subject to special controls. We continuously monitor changes in the law and external regulations related to the preparation of financial statements, update internal regulations on an ongoing basis and adjust our IT systems where necessary.

We have implemented mechanisms which effectively ensure the security of IT systems in the process of monitoring the operational risk which occurs in the preparation of financial statements in the bank. We have in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. We draw up consolidated financial statements based on data submitted by Group subsidiaries. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The Accounting Department controls the coherence and completeness of the bank's books of accounts and manages the model chart of accounts. Both Departments report to the Vice-President of the Management Board, Chief Financial Officer.

Financial statements are submitted to the Management Board of mBank for verification. The Audit Committee of the Supervisory Board receives quarterly financial statements before they are published. After consultations with the bank's external auditor and the Members of the Management Board of the bank, the Audit Committee recommends whether the Supervisory Board should approve or reject annual financial statements.

The annual and semi-annual financial statements of mBank are respectively subject to an independent audit or review by a statutory auditor. The selection of the statutory auditor of the bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. In the subsidiaries, supervisory boards decide on the selection of the statutory auditor.

The procedures of co-operation of mBank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an on-going basis.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. In "The Best Annual Report 2018" contest organised by the Institute of Accountancy and Taxes (IRiP), the results of which were announced in October 2019, we won the title "The Best of the Best" for the best annual report in the category of financial institutions for the seventh time in a row. Moreover, we also won a distinction for the best statement on application of corporate governance principles, which was awarded for the first time in 2019.

### **Information on the entity authorised to audit financial statements**

We abide by the principle regarding the rotation of statutory auditors. On April 12, 2018, the 31st Annual General Meeting of mBank selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa as the auditor to review the financial statements of mBank S.A. and the consolidated financial statements of mBank S.A. Group for the years 2018-2019. Entity authorized to audit financial statements for 2016 and 2017 with which mBank S.A. concluded a contract, was PricewaterhouseCoopers Sp. z o.o.

The agreement on auditing the financial statements of mBank S.A. and the consolidated financial statements of mBank S.A. Group was concluded on June 19, 2018.

The total gross amount of remuneration paid to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa related to the audit and review of stand-alone financial statements and consolidated financial statements of mBank S.A. was PLN 2,785 thousand in 2019.

The total amount of remaining gross remuneration paid to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa in respect of other services for mBank S.A. was PLN 754 thousand in 2019.

### **Auditor's services other than the audit of yearly financial statements**

The list of services other than the audit of yearly financial statements, rendered to mBank S.A. Group by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. in 2019, is presented below.

1. Review of the standalone interim financial statements of mBank S.A. and the consolidated interim financial statements of mBank S.A. Group as at and for the 6-month period ended June 30, 2019.
2. Review of the consolidation package of mBank S.A. for Commerzbank AG as at and for the 3-month period ended March 31, 2019, 6-month period ended June 30, 2019 and 9-month period ended September 30, 2019.
3. Audit of the consolidation package of mBank S.A. for Commerzbank AG as at and for the year ended December 31, 2019.
4. Verification of the disclosure document regarding the capital adequacy and variable components of remuneration of mBank S.A. Group as at June 30, 2019 and December 31, 2019.
5. Assessment of compliance with the requirements for safekeeping assets of mBank S.A. clients for 2019.
6. Services related to the verification of the prospectus for mBank S.A.
7. Services related to the verification of the prospectus for mBank Hipoteczny S.A.
8. Review of the interim financial statements of 2 subsidiaries as at and for the 6-month period ended June 30, 2019.
9. Audit of the consolidation package of 1 subsidiary for mBank S.A. as at and for the year ended December 31, 2019.
10. Specific scope audit of the consolidation package of 1 subsidiary and review of consolidation packages of 2 subsidiaries for mBank S.A. as at and for the year ended December 31, 2019.
11. Review of the consolidation packages of 3 subsidiaries for mBank S.A. as at and for the 6-month period ended June 30, 2019.
12. Specific scope audit of the consolidation package of 1 subsidiary and review of consolidation packages of 2 subsidiaries for Commerzbank AG as at and for the year ended December 31, 2019.

### **14.3. Significant blocks of shares**

mBank's share capital amounts to PLN 169,401,468 and is divided into 42,350,367 shares with a nominal value of PLN 4 each, including 42,338,367 ordinary bearer shares and 12,000 ordinary registered shares. Each share carries the right to one vote during the Annual General Meeting of the bank.

In 2019, 13,385 ordinary bearer shares were admitted to trading and mBank's registered share capital grew by PLN 53,540.

Commerzbank AG is our majority shareholder.

As at December 31, 2019, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.31% of the share capital and votes at the General Meeting.

Shares accounting for 30.69% of mBank shares were in free float. These shares are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds, as well as individual investors. Nationale-Nederlanden Otwarty Fundusz Emerytalny holds the largest stake.

In accordance with the lists of shares of WSE-listed companies held in funds' portfolios as at the end of 2019, published by open-end pension funds, Nationale-Nederlanden Otwarty Fundusz Emerytalny held 4.7% of mBank shares. Furthermore, AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK held 4.1% of mBank shares, and Otwarty Fundusz Emerytalny PZU – 4.0%.

Shareholder	Number of shares as at the end of 2019	% share in the number of shares and votes
1. Commerzbank AG	29,352,897	69.31%

Pursuant to the By-laws of mBank, each share gives the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of the number of shares held, their percentage share in the equity, and the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the bank.

**Information on the majority shareholder**

Our majority shareholder, Commerzbank AG, is a leading German bank with a history dating back to 1870. It provides services to individuals and corporate customers.

Commerzbank holds branches and offices in almost 50 countries. With approximately 800 branches going forward, Commerzbank has one of the densest branch networks in Germany. Commerzbank serves more than 11 million private and small business customers nationwide and over 70,000 corporate clients, multinationals, financial service providers, and institutional clients worldwide. Commerzbank transacts approximately 30% of Germany's foreign trade and is the market leader in German corporate banking. The bank offers its sector expertise to its corporate clients in Germany and abroad and is a leading provider of capital market products.

Commerzbank Group is composed of two business segments: Private and Small Business Customers (Privat- und Unternehmerkunden) and Corporate Clients (Firmenkunden). In 2019, Commerzbank generated gross revenues of EUR 8.6 billion, while the headcount amounted to approximately 48,500.

The Commerzbank 5.0 Strategy adopted by the Board of Managing Directors and Supervisory Board of Commerzbank in September 2019 provides for the disposal of its majority stake in mBank.

**14.4. Principles of appointing and dismissing Management Board Members**

Pursuant to the By-laws of mBank, the Management Board is composed of at least three Members appointed for a joint term of five years.

At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish, and have experience on the Polish market which can be used while managing the bank.

The President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board are appointed and dismissed by the Supervisory Board, which acts pursuant to the provisions of the Banking Law and considers whether they have the relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (PFSA) approves two Members of the Management Board of the bank: the President of the Management Board and the Chief Risk Officer (Board Member responsible for developing and implementing the bank's credit policy and risk management).

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the Member dies, resigns from his or her position, or is dismissed. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration date of mandates of the other Members of the Management Board.

## **14.5. Principles of amendments to the Company's By-Laws**

Amendments to the By-Laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting. The draft is then presented to the Supervisory Board for approval.

Under Article 34 (2) of the Banking Law Act of 29 August 1997, an amendment to the bank's By-laws requires the authorisation of the Polish Financial Supervision Authority.

### **Amendments to mBank's By-laws in 2019**

The 32nd Annual General Meeting of mBank amended mBank's By-laws. The amendments were then registered by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

The amendments made to mBank's By-laws in 2019 were as follows:

- the Supervisory Board was assigned the following new responsibilities:
  - exercising supervision over the implementation and operation of an adequate and effective risk management system and internal control system in the bank, and
  - approving changes in the position of the head of the Internal Audit Department and the head of the Compliance Department;
- we specified the responsibilities of the Executive and Nomination Committee, including the following new responsibilities:
  - defining the scope of duties for candidates for the Management Board and the Supervisory Board of the bank and requirements with regard to knowledge and skills, as well as assessing the expected time commitment necessary to perform the functions,
  - performing periodic assessment of the structure, size, composition and effectiveness of the Management Board and its activities and recommending changes in this regard to the Supervisory Board, as well as performing periodic assessment of the knowledge, skills and experience of the Management Board as a whole and its individual members and informing the Management Board about the results of the assessment;
- we made changes to the wording of the task of the Audit Committee consisting in the monitoring of the financial reporting process, effectiveness of the internal control systems and risk management;
- we made changes to two provisions pertaining to the internal control system; and
- we updated the amount of mBank's share capital.

## **14.6. General Meeting and shareholder rights**

### **Meeting procedures and powers of the General Meeting**

The General Meeting is convened pursuant to the provisions of the Code of Commercial Partnerships and Companies, mBank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on mBank's website <https://www.mbank.pl/onas/lad-korporacyjny/>.

The General Meeting convened by the Management Board under the ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Annual General Meeting if the Management Board does not convene it within the time limit set out in the By-laws and an Extraordinary General Meeting if the Supervisory Board considers it necessary. In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

The shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or mBank's By-laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the bank's authorities or liquidators, motions to call members of the bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. The By-laws of mBank and Standing Rules of the General Meeting do not provide for the possibility of voting by mail or with the use of electronic means of communication.

The following matters require a resolution of the General Meeting (in addition to other matters set out in the Code of Commercial Partnerships and Companies):

- examination and approval of the report of the Management Board on the bank's operations and financial statements for the past financial year;
- adoption of resolutions on the distribution of profits or coverage of losses;
- vote of discharge of duties for members of the bank's authorities;
- election and dismissal of Members of the Supervisory Board;
- amendment to the By-laws;
- increase or reduction of the bank's share capital;
- adoption of resolutions concerning the redemption of shares, which set the rules of acquiring shares by the bank, in particular the amounts allotted to purchasing shares for redemption and funding sources and resolutions on redemption of shares, and in particular setting the policy of share redemption not regulated in the By-laws;
- creation and winding up of special purpose funds;
- issue of convertible bonds or preferred bonds;
- establishment of the principles of remunerating the Members of the Supervisory Board;
- liquidation of the bank or its merger with another bank;
- appointment of liquidators;
- matters submitted by the Supervisory Board;
- matters submitted by the shareholders in accordance with the By-laws;
- election of the entity authorised to audit financial statements as a statutory auditor of the bank.

The General Meetings of our bank take place in the bank's headquarters in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

### **Shareholders' rights**

The shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least half of the share capital or at least half of the total number of votes in the company may convene an Extraordinary General Meeting. The shareholders appoint the chairperson of this meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an Extraordinary General Meeting and that specific items be put on the agenda for this meeting. A request for convening an Extraordinary General Meeting submitted in writing or electronically should contain proposals of:

- a) the General Meeting agenda,
- b) the draft resolutions along with rationale for those resolutions.

If the General Meeting is convened by parties other than the Management Board, the Management Board is obliged to take necessary actions to convey the General Meeting.

Only persons who are shareholders of the bank sixteen days before the date of the General Meeting have the right to participate in the General Meeting. The shareholder(s) of the bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Annual General Meeting. The request should be submitted to the Management Board of the bank no later than twenty-one days prior to the date of the Annual General Meeting.

The shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- vote, propose motions and raise objections;
- justify their position briefly;
- stand for election of the Chairperson of the General Meeting and propose a candidate for the Chairperson of the General Meeting to be noted in the minutes;
- take the floor in the course of the General Meeting and make a reply;
- submit draft resolutions concerning the items put on the agenda;
- propose amendments and additions to draft resolutions being on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed;
- propose formal motions relating to the proceedings and the voting procedure;
- propose candidates for the bank's Supervisory Board in writing to the Chairperson of the General Meeting or orally to the minutes;
- review the book of minutes and request copies of resolutions authenticated by the Management Board;
- file a statement of claim for repealing a resolution of the General Meeting where the shareholder voted against the resolution of the General Meeting and after its adoption requested that his/her objection be recorded in the minutes or the shareholder was prevented from participating in the General Meeting without a sound reason, or the shareholder was absent from the General Meeting in the event of defective convening of the General Meeting or adoption of a resolution on a matter not included in the agenda;
- file a statement of claim against the company for declaring a resolution of the General Meeting adopted in breach of the law invalid.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- this could damage the company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the company;
- this could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

## **14.7. Composition, powers and procedures of the Management Board and the Supervisory Board**

### **Composition of the Management Board**

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Management Board Members, including the President, must be Polish citizens, have permanent residence in Poland, speak Polish and have experience in the Polish market necessary to manage mBank. The Members of the Management Board manage selected areas of the bank's operation within the

scope determined by the President of the Management Board. The division of powers of the Members of the Management Board has been described in detail in the Management Board's resolutions.

On April 12, 2018, mBank's Supervisory Board appointed the following Members of the Management Board of mBank S.A. for a joint term of five years:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Frank Bock - Vice-President of the Management Board, Head of Financial Markets
3. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer
4. Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology
5. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking
7. Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking.

Since its appointment, the composition of the Management Board has not changed.

Detailed information on mBank Management Board Members is presented below:

#### **Cezary Stypułkowski - President of the Management Board, Chief Executive Officer**



Cezary Stypułkowski holds a PhD in law from the University of Warsaw. In second half of 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the Management Board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. In 2003, he was appointed the President of the Management Board of PZU Group and held this function for three years. From 2006 to 2010, he worked for J.P. Morgan in London, from 2007 as the Managing Director of J.P. Morgan

Investment Bank in Central and Eastern Europe. Cezary Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012, co-chair of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IFF).

Mr Stypułkowski was appointed the President of the Management Board of mBank S.A. on August 2, 2010. He has been acting as the President of the Management Board of the bank as of October 1, 2010. The Polish Financial Supervision Authority approved his appointment on October 27, 2010.

#### **Frank Bock - Vice-President of the Management Board, Head of Financial Markets**



Mr Bock graduated from the Technical University in Karlsruhe (Germany) with specialisation in financial engineering and IT.

During his professional career, Frank Bock gained considerable experience in the scope of risk and treasury management in numerous institutions in Germany, the USA (New York) and Great Britain (London). Starting from the beginning of 2009, Frank Bock was the Managing Director for Treasury at Commerzbank AG. His duties included asset and liability management, market risk management and liquidity management at Commerzbank in Central and Eastern Europe, as well as functional support in strategic subsidiaries of Commerzbank: Comdirect, Commerz Real and mBank. Previously, as the Asset and Liability Management Director in Group Capital and Treasury Management of Dresdner Bank AG in Frankfurt, he was responsible for the management of market risk and liquidity portfolio. Prior to joining Dresdner Bank, Mr Bock worked for WestLB AG in Düsseldorf as Credit Treasury Head in Group Treasury and was a senior manager for risk management.

Vice-President of the Management Board of mBank S.A., Head of Financial Markets since May 1, 2017.

**Andreas Böger - Vice-President of the Management Board, Chief Financial Officer**



Mr Böger studied in Frankfurt and San Diego, graduated from the Frankfurt School of Finance & Management and holds the CFA certificate.

He started his professional career in HypoVereinsbank in Munich in 1994, where he headed the team responsible for assets and liability management and capital advisory. Since 2003, Andreas Böger worked in Deutsche Bank in Frankfurt.

In 2007-2013, he was a managing director of Global Capital Markets and Capital Solutions Europe & CEEMEA at Deutsche Bank in London. Mr Andreas Böger joined Commerzbank in 2013. Prior to taking up the position at mBank, he managed the corporate finance division within Commerzbank's Group Development and Strategy.

Vice-President of the Management Board of mBank S.A., Chief Financial Officer since July 1, 2017.

**Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology**



Mr Dąbrowski graduated from Warsaw University of Technology, Faculty of Electronics and Information Technology. In 2011, he completed the Executive MBA programme at the University of Warsaw and the University of Illinois.

In 1995-2003, he worked in the Internet and telecommunications industry for Polska Online and TDC Internet, where he was responsible for the development of hosting systems and services. In 2004-2011, as the head of the Software Development Department, he co-created the Polish service centre of F. Hoffman-La Roche. In the following years, as the CTO of Allegro Group, Krzysztof Dąbrowski supervised one of the biggest agile transformations in the region. Since 2014, he performed the function of the managing director for IT and technology at mBank.

Vice-President of the Management Board of mBank S.A., Head of Operations and IT since April 1, 2017.

**Lidia Jabłowska-Luba - Vice-President of the Management Board, Chief Risk Officer**



Lidia Jabłowska-Luba graduated from the Mathematics Institute of the University of Gdańsk. From 1994 to 2001, Ms Jabłowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised financial institutions on M&A and public equity transactions. In 2002, Lidia Jabłowska-Luba joined Citigroup in Poland, first as the Head of Financial Institutions & Public Sector Division and since November 2003 as the Member of the Management Board in charge of finance and

operational risk management, capital management and implementation of the New Capital Accord. From 2008 to 2010, she served as the Vice-President of the Management Board of Kredyt Bank acting as Chief Finance and Risk Officer. She was also the Advisor to the CEO of Warta S.A. and TUnŻ Warta S.A. From 2010 to 2012, Lidia Jabłowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Additionally, Lidia Jabłowska-Luba held the position of the Vice-Chairwoman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group.

Vice-President of the Management Board of mBank S.A., Chief Risk Officer since April 12, 2013.

**Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking**

Mr Kocik graduated from the University of Łódź with a degree in Banking and Finance. In 2015, he completed the Advanced Management Program (AMP 189) at Harvard Business School. Holder of a securities broker license. From 1994 to 1996, Cezary Kocik was employed with the Brokerage House of Bank PBG as a securities broker. Starting in 1996, he worked for Bank PBG in the investment banking, debt collection and restructuring divisions. In 1999, Mr Kocik was employed with the debt

collection and loan restructuring department of Bank Pekao S.A. Since 2000 he was director of a Pekao Branch in Łódź.

He has been shaping mBank's retail banking since 2004: first in the retail credit risk area, then in the sales and business processes area, contributing to successful implementation of CRM system and substantially improving the effectiveness of key sales processes in direct channels.

Vice-President of the Management Board of mBank S.A., Head of Retail Banking since April 1, 2012.

**Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking**

Adam Pers graduated from the Faculty of Economics of the Academy of Economics in Poznań. In 2008, he completed an MBA programme organised by SGH Warsaw School of Economics. He gained expertise in the field of banking both at university and in three institutions operating on the Polish market. He commenced his professional career as an intern in Wielkopolski Bank Kredytowy S.A., then he worked in Raiffeisen Bank Polska S.A. Group for many years, at first in back office, then in corporate

banking and finally in the financial markets area. He was responsible for strategic projects concerning the reshaping of the dealing room and for one of the pillars of the bank's strategy and during the financial crisis, as the operational committee member, he was responsible for the bank's liquidity. In RBI Group, he was awarded the TOP Performer and Leader of the Year title. He joined BRE Bank/mBank Group in 2012, where at first he was responsible for restructuring in the area of the financial markets sales. Then, as a managing director he also supervised the integration of the area of cooperation with financial institutions and finally, the integration with the trading area.

Vice-President of the Management Board of mBank S.A., Head of Corporate and Investment Banking since October 26, 2017.

**Powers and procedures of the Management Board**

The Members of the Management Board are jointly liable for the overall operations of the bank. They work collegially and inform each other about the most important matters concerning the bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Andreas Böger)
- Capital Management Committee (chairperson: Andreas Böger)
- Data Quality and IT Systems Development Committee (chairperson: Andreas Böger)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Frank Bock)
- Balance Sheet Management Committee (chairperson: Frank Bock)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of mBank Group (chairperson: Lidia Jabłonowska-Luba)

- Retail Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Model Risk Committee (chairperson: Lidia Jabłonowska-Luba)
- Investment Banking Committee (chairperson: Lidia Jabłonowska-Luba)
- IT Architecture Committee of mBank Group (chairperson: Krzysztof Dąbrowski).

The Management Board manages the bank's business, represents the bank and defines the guidelines for the bank's operations, especially for the areas subject to risks, including the credit policy, the investment policy, the bank's assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board on a regular basis comprehensive information on all significant aspects of the bank's operations and related risks as well as risk management methods.

The Management Board operates pursuant to its Rules approved by the Supervisory Board. The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board. The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

The "Remuneration Policy for Employees Having a Material Impact on the Risk Profile of mBank S.A." ("Risk Takers Remuneration Policy") adopted in 2018 specifies remuneration rules for persons identified as employees having a material impact on the risk profile of the Bank („Risk Takers”) by determining fixed and variable remuneration components.

Total remuneration of the Members of the Management Board includes a fixed and a variable part. For the Members of the Management Board the relation between variable remuneration and fixed remuneration should not exceed 100% of the annual basic remuneration, with the proviso that variable remuneration exceeding 100% (not more than 200%) of the annual basic remuneration is subject to approval by the Annual General Meeting of the Bank.

The basic remuneration of the Members of the Management Board is determined by the Supervisory Board taking into account the following information:

- the resolution of the Management Board on the division of powers between the Members of the Management Board of the bank (with a particular focus on changes in powers),
- long-term results achieved as at the assessment date,
- available internal market data (e.g. internal comparison of mBank Group),
- available external market data (e.g. information on remuneration of management board members of other WSE-listed companies, additional market benchmarks).

A detailed description of the rules of the incentive programmes for the Management Board based on shares is presented in Note 41 of mBank S.A. Group IFRS Consolidated Financial Statements 2019.

On April 12, 2018, the resolution regarding the implementation of the incentive programme and determination of the rules for conducting it, and the resolution regarding the issue of subscription warrants, conditional share capital increase with divestment of the existing shareholders' pre-emptive right to subscription warrants and shares and amendments to the Company's bylaws and on applying for the admission of shares to trading on the regulated market and share dematerialisation were adopted at the 31st Annual General Meeting of mBank. The new Incentive Programme replaced two other programmes:

the employee programme dated October 27, 2008 and the incentive programme of mBank dated March 14, 2008 for Members of the Management Board. In line with the Incentive Programme dated April 12, 2018, the bank will issue no more than 934,000 ordinary bearer shares with a face value of PLN 4.00 each. In order to grant the rights, the bank will issue 934,000 registered subscription warrants. The Incentive Programme will be implemented until December 31, 2028 or until all shares are taken up, if it happens before that date.

The existing programmes are being gradually terminated. No new shares are granted under the 2008 programmes, and the bank only meets its obligations arising from deferred tranches under these programmes.

Warrants are offered to the group of Risk Takers, composed of Members of the Management Board of mBank and mBank Group's subsidiaries and selected employees of mBank.

The bonus of a Management Board Member is paid in the following way:

- 40% of the bonus - in the calendar year in which the bonus amount is determined (non-deferred part);
- 60% of the bonus - in equal tranches in the five subsequent calendar years following the calendar year in which the bonus amount is determined (deferred part).

The non-deferred part: 50% is paid in cash in the month following the month of the Annual General Meeting; the other 50% is paid in the form of subscription warrants issued not earlier than twelve months from the date of the AGM. The value of one subscription warrant will equal the Average Market Price minus PLN 4.00.

The deferred part is paid in five equal tranches in the five subsequent calendar years: 50% of each tranche is paid in cash in the month following the month of the AGM of mBank which approved the consolidated financial statements of mBank Group for the previous calendar year, but not later than by 31 July of the year in which the AGM of the bank was held; 50% is granted in the form of subscription warrants issued not earlier than after the lapse of 12 months from the AGM which approved the consolidated financial statements of mBank Group for the previous calendar year. The value of one subscription warrant equals the average market price minus PLN 4.00.

The bonus amount granted to a Risk Taker for a given calendar year is calculated individually for this Risk Taker and depends on the amount of the bonus pool. Bonuses are calculated on the basis of economic profit.

The remuneration of the Members of the Management Board in 2018-2019 is presented in the following tables.

	Remuneration paid in 2019 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2018	Deferred bonus <sup>1</sup>
1. Cezary Stypułkowski	3,333,230	297,804	400,000	697,648
2. Lidia Jabłonowska-Luba	1,680,000	196,843	180,000	340,000
3. Frank Bock	1,750,453	520,367	140,000	54,167
4. Andreas Böger	1,767,133	370,212	200,000	43,750
5. Krzysztof Dąbrowski	1,680,000	157,011	200,000	128,333
6. Cezary Kocik	1,680,000	214,546	240,000	400,000
7. Adam Pers	1,680,000	134,594	200,000	99,001
<b>In total</b>	<b>13,570,816</b>	<b>1,891,377</b>	<b>1,560,000</b>	<b>1,762,899</b>

<sup>1</sup> In 2019, the third deferred tranche was paid as part of the settlement of the cash portion of the bonus for 2015, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2016 and the first deferred tranche as part of the settlement of the cash portion of the bonus for 2017. Krzysztof Dąbrowski and Adam Pers were paid deferred tranches (with the date of payment in 2019) as the settlement of the cash portion of the bonus granted during the period of performing the functions of the Managing Directors.

	Remuneration paid in 2019 (in PLN)		
	Basic remuneration	Other benefits	Deferred bonus <sup>1</sup>
<b>Remuneration of former Members of the Management Board who ceased to perform their functions in 2017</b>			
1. Christoph Heins	-	-	100,000
2. Jarosław Mastalerz	-	-	320,000
3. Przemysław Gdański	-	-	348,334

<b>Remuneration of former Members of the Management Board who ceased to perform their functions in 2016</b>			
1. Jörg Hessenmüller	-	-	212,500

<sup>1</sup>In 2019, Members of the Management Board who ceased to perform their functions in 2017 and Jörg Hessenmüller received the third deferred tranche as part of the settlement of the cash portion of the bonus for 2015, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2016 and the first deferred tranche as part of the settlement part of the cash bonus for 2017.

	Remuneration paid in 2018 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2017	Deferred bonus <sup>1</sup>
1. Cezary Stypułkowski	3,580,421	241,475	434,466	805,415
2. Lidia Jabłonowska-Luba	1,629,000	183,087	150,000	445,000
3. Frank Bock	1,694,638	252,467	108,334	-
4. Andreas Böger	1,729,940	132,699	87,500	-
5. Krzysztof Dąbrowski	1,733,565	146,847	150,000	76,667
6. Cezary Kocik	1,879,956	199,194	250,000	475,000
7. Adam Pers	1,676,801	126,426	126,334	90,000
<b>In total</b>	<b>13,924,321</b>	<b>1,282,195</b>	<b>1,306,634</b>	<b>1,892,082</b>

<sup>1</sup>In 2018, the third deferred tranche as part of the settlement of the cash portion of the bonus for 2014, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2015 and the first deferred tranche as part of the settlement of the cash portion of the bonus for 2016 were paid. Krzysztof Dąbrowski and Adam Pers were paid deferred tranches (with the date of payment in 2018) as the settlement of the cash portion of the bonus granted during the period of performing the functions of the Managing Directors.

	Remuneration paid in 2018 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2017	Deferred bonus <sup>1</sup>
<b>Remuneration of former Members of the Management Board who ceased to perform their functions in 2017</b>				
1. Christoph Heins	-	-	75,000	62,500
2. Jarosław Mastalerz	-	-	50,000	475,000
3. Przemysław Gdański	-	-	166,668	445,000

<b>Remuneration of former Members of the Management Board who ceased to perform their functions in 2016</b>				
1. Jörg Hessenmüller	-	-		402,500

<sup>1</sup>In 2018, Members of the Management Board who ceased to perform their functions in 2017 and Jörg Hessenmüller received the third deferred tranche as part of the settlement of the cash portion of the bonus for 2014, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2015 and the first deferred tranche as part of the settlement of the cash portion of the bonus for 2016.

The bank's shares held by the Members of the Management Board:

As at 31 December 2019, the bank shares were held by five Members of the Management Board: Cezary Stypułkowski – 21,249 shares, Frank Bock – 334 shares, Andreas Böger – 270 shares, Krzysztof Dąbrowski – 1 000 shares and Cezary Kocik 1,040 shares.

For comparison, as at 31 December 2018, the bank shares were held by four Members of the Management Board: Cezary Stypułkowski – 19 384 shares, Frank Bock – 223 shares, Andreas Böger – 180 shares and Krzysztof Dąbrowski – 1,630 shares.

### **Composition of the Supervisory Board**

The Supervisory Board acts on the basis of adopted Rules and performs the functions provided for in the By-laws of mBank, the Code of Commercial Partnerships and Companies, and the Banking Law Act.

The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. A Member of the Supervisory Board whose mandate expired in the course of the joint term of the Supervisory Board may be replaced with another person, elected by the Supervisory Board. The term of a Member of the Supervisory Board so elected expires on the expiration of the term of the other Members of the Supervisory Board. Appointment of Supervisory Board Members in the course of the joint term of office of the Supervisory Board must be approved by the next General Meeting.

Members of the Supervisory Board should possess knowledge, skills and experience adequate for fulfilling their function and duties entrusted to them and should guarantee proper fulfilment of these duties. At least half of all Supervisory Board Members, including the Chairperson, shall hold Polish citizenship, permanently reside in Poland, speak Polish and have experience on the Polish market which can be used while supervising the bank's operations. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent. The independence criteria of a Supervisory Board Member are stipulated in the mandatory provisions of law.

As at the end of 2019, the composition of mBank's Supervisory Board was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board – he resigned as at December 31, 2019.
3. Tomasz Bieske – Member of the Supervisory Board
4. Marcus Chromik – Member of the Supervisory Board
5. Mirosław Godlewski – Member of the Supervisory Board
6. Jörg Hessenmüller – Member of the Supervisory Board
7. Gurjinder Singh Johal – Member of the Supervisory Board
8. Michael Mandel – Member of the Supervisory Board
9. Teresa Mokrysz – Member of the Supervisory Board
10. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Changes which have taken place since the election of the Supervisory Board by the 30th AGM of mBank held on March 30, 2017 are discussed below.

Thorsten Kanzler resigned from mBank's Supervisory Board and from the Supervisory Board Risk Committee as at September 23, 2018. By way of a resolution of mBank's Supervisory Board, Gurjinder Singh Johal was elected as a new Member of the Supervisory Board of mBank as at September 24, 2018 until the end of the current term of office of the Supervisory Board.

Dr. Janusz Fiszer, Member of the Supervisory Board and the Audit Committee, died on September 2, 2019.

On September 19, 2019, dr. Andre Carls resigned from the Supervisory Board, the Executive and Nomination Committee, the Remuneration Committee, and the Audit Committee with effect on September 30, 2019.

On December 5, 2019, Stephan Engels resigned from the Supervisory Board, the Executive and Nomination Committee, and the Remuneration Committee with effect on December 31, 2019.

Detailed information on mBank Supervisory Board Members, who performed their functions as at the end of 2019, is presented in the table below.

**Maciej Leśny - Chairman of the Supervisory Board**

Maciej Leśny graduated from the Faculty of Economic Sciences at Warsaw University in 1969. During his professional career, Maciej Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years, he worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of Foreign Economic Co-operation; the Ministry of Economy; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed a post-graduate course and training courses at universities in the USA: Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a holder of scholarship granted by the US government, Maciej Leśny studied at the American University in Washington, DC. During his scholarship time, he took part in a four-month internship at the World Bank and completed a privatization training course at the International Monetary Fund.

From March 1994 to 1998, Maciej Leśny was the Chairman of the Supervisory Board of mBank (formerly BRE Bank). Then, until December 2001, he was a Member of the Supervisory Board. In 2004, Maciej Leśny was re-elected as the Chairman of the Supervisory Board.

**Stephan Engels – Deputy Chairman of the Supervisory Board – resigned as at December 31, 2019.**

Mr Engels is a graduate of the University of St. Gallen in Switzerland. In the period of 1988-1993, he worked at Daimler-Benz AG's Internal Audit Department. Afterwards he headed the Regional Controlling (Europe) at debis AG for three years. From 1996 to 2000, he served as the Chief Financial Officer at debis AirFinance B.V. In 2000, Mr Engels joined DaimlerChrysler Bank AG as the Member of the Board for Credit, and then CFO and IT. In 2003, he took the position of the Member of the Board for Finance, Controlling, Risk Management & Strategy at DaimlerChrysler Services AG. From 2007 to 2012, he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and the Head of Management Group Controlling at Daimler AG.

On April 1, 2012 he was appointed Member of the Board, Chief Financial Officer at Commerzbank AG.

**Tomasz Bieske - Member of the Supervisory Board**

Mr Bieske studied economy at the University of Cologne. He worked in Dresdner Bank's head office in Frankfurt for six years. In 1990, Tomasz Bieske co-founded Arthur Andersen in Poland and became a partner and the Head of Financial Markets Group responsible for cooperation with financial sector clients. He continued his career path at Ernst & Young as the director of the Financial Markets Group, Audit and Business Advisory. He participated in the majority of the key projects in the financial services sector including preparation of public offerings of PKO BP S.A. and Kredyt Bank S.A. as well as audits of financial statements of the National Bank of Poland, PKO BP S.A., Pekao S.A., Getin Holding and a number of other banks. He managed many advisory projects in the banking sector.

Since 2011, he has been participating in the work of the committee for legal and business regulatory changes of the cooperative banking sector and closely cooperating with the Polish Bank Association (Związek Banków Polskich) and the National Association of Cooperative Banks (Krajowy Związek Banków Spółdzielczych). Tomasz Bieske has professional qualifications of a Polish statutory auditor. Until June 30, 2013, he worked for Ernst & Young.

**Marcus Chromik - Member of the Supervisory Board**

Marcus Chromik studied physics in Göttingen, Kiel and Munich. He also engaged in scientific research at Michigan State University. Mr Chromik holds a PhD in nuclear physics.

He started his professional career with McKinsey & Company in 2001. In 2004, he joined Postbank Group, where he held various executive positions, being responsible for, among others, new share issues and syndication, liquidity management and Credit Treasury. Later he served as the Chief Market Risk Officer

in Commerzbank's markets and corporates segment for more than three years, where he was responsible for market and liquidity risk management. As of 2012, Marcus Chromik became Divisional Board Member, Chief Credit Risk Officer at Commerzbank.

On January 1, 2016, he was appointed Member of the Board of Managing Directors at Commerzbank AG, Chief Risk Officer.

#### **Mirosław Godlewski - Member of the Supervisory Board**

Mirosław Godlewski completed the MBA programme at Warsaw University of Technology, the MBA programme at Ashridge Management College and Harvard Business School Advanced Management Program.

He is the Executive Chairman of Apteki Gemini, Senior Advisor at BCG, a Member of the Supervisory Board of Celon Pharma S.A., a Member of the Supervisory Board of Netia S.A. and the so-called "Angel Investor" at Hedgehog Fund.

Mr Godlewski was a member of the Supervisory Board at ABC Data SA and a member of the Nomination and Remuneration Committee. In 2007-2014, he was the President and CEO of Netia S.A. He also held executive positions with Opoczno S.A., Pepsi Cola General Bottlers-Polska Sp. z o.o., DEC Sp. z o.o. and MEMRB Polska.

#### **Jörg Hessenmüller - Member of the Supervisory Board**

Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded the title of Master in Management (Diplom-Betriebswirt (FH)). From 1989 to 2009, he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009, Mr Hessenmüller was appointed Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance. From April 2012 to June 2016, he was the Member of the Management Board of mBank S.A., Chief Financial Officer.

From July 2016, Jörg Hessenmüller worked as the Divisional Board Member for the Group division Digital Transformation & Strategy. On December 5, 2018, Jörg Hessenmüller was appointed to the Board of Managing Directors of Commerzbank AG as the Chief Operating Officer responsible for, among others, Commerzbank Group growth and strategy, digital transformation and IT, organisation, and security, with effect from January 15, 2019.

#### **Gurjinder Singh Johal - Member of the Supervisory Board**

Gurjinder Singh Johal graduated with a degree in Business & Finance from the University of East London (UEL) in 1994. In addition he completed managerial studies at Said Business School.

He started his career at Standard Bank London in 1995 before moving to Commerzbank in 2007. He initially assumed responsibility for the Emerging Markets & Credit Derivatives segment. From 2011 he headed the Global Credit Trading desk.

In 2016-2018 Gurjinder Singh Johal was Divisional Board Member and Head of Group Market Risk Management at Commerzbank. In October 2018, Gurjinder Singh Johal was appointed the Divisional Board Member responsible for Group Treasury of Commerzbank AG.

#### **Michael Mandel - Member of the Supervisory Board**

He is a graduate of Business Administration at the University of Münster. Between 1986 and 2000, he worked for Dresdner Bank AG, where he was responsible for private banking. In the years 2000-2002, he was a consultant in McKinsey & Company consulting company.

Since 2002, he has worked for Commerzbank AG, first as the Head of Business Development for the Private Customer Segment, and then the Group Manager for Private and Business Customers. In 2008, he was appointed CEO of Comdirect Bank AG. Since 2010, he has served as the Divisional Board Member for Private Customers at Commerzbank AG. In May 2016, Michael Mandel was appointed the Member of

the Board of Managing Directors at Commerzbank AG responsible for the segment of "Private and Business Customers".

#### **Teresa Mokrysz - Member of the Supervisory Board**

Teresa Mokrysz graduated from the Academy of Economics (now the University of Economics) in Katowice (1978). In 1990, she created the Mokate brand, one of the most recognisable Polish brands in the world. She transformed a small family-run company into an international business. As one of the owners, Teresa Mokrysz runs eight Mokate enterprises headquartered in Poland and in other countries of Central Europe. She built production plants in the Polish towns of Żory and Ustroń from scratch and expanded a production plant near Prague (producing coffee, tea and intermediate products for the food industry). She has successfully launched her products in several dozen countries on all the continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her the title of the "Most Entrepreneurial Woman in the World". Moreover, Teresa Mokrysz received a number of prestigious awards in Poland and abroad, including the "Leader of the Decade" title granted by *Gazeta Wyborcza*, and the "Success of the Decade" title granted by the *Businessman Magazine*. She funds scholarships for talented and underprivileged young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

At the meeting of the Executive and Nomination Committee of the Supervisory Board held on December 12, 2019, Teresa Mokrysz announced that she would not run for another term as a Supervisory Board Member in 2020.

#### **Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board**

Agnieszka Słomka-Gołębiowska holds PhD in economics. She is a graduate of Warsaw School of Economics specializing in finance and banking and completed the MBA programme of the French Institute of Management (IFG). She obtained her PhD degree at Warsaw School of Economics (SGH). Agnieszka Słomka-Gołębiowska works as a lecturer at Warsaw School of Economics and she conducts research into corporate governance. She attended several Executive Education courses, e.g. the IESE-Harvard Business School programme.

From 2006 to 2009, she was the Director in the Industrial Development Agency responsible for corporate governance, and before that, a consultant for private and state-controlled companies at Arthur Andersen. Since 2006, she has been a member of supervisory boards. Agnieszka Słomka-Gołębiowska was a holder of the Alexander von Humboldt Fellowship at the University of Münster and the Polish-American Fulbright Fellowship at the University of California, Berkeley. She was also a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Münster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School), Vienna (WU) and Florence (UniFi). She is the author of many publications on corporate governance.

As at December 31, 2019, there were three independent Supervisory Board Members: Tomasz Bieske, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska. Maciej Leśny and Teresa Mokrysz did not meet the independence criterion due to the fact that they have been sitting on the Supervisory Board for over twelve years. Marcus Chromik, Stephan Engels, Jörg Hessenmüller, Gurjinder Singh Johal, and Michael Mandel were not independent members due to their relationship with the main shareholder of mBank.

#### **Powers and procedures of the Supervisory Board**

The responsibilities of the Supervisory Board include, in particular, the following matters:

- Exercising supervision over the implementation and operation of an adequate and effective risk management system and internal control system in the bank,
- Advising and supervising the Management Board in defining internal guidelines for the activity of the bank, especially for the areas subject to risks, including the bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the bank;

- Supervising compliance of the bank's risk-taking regulations with the strategy and financial plan of the bank;
- Approving the disclosure policy rules concerning risk management and capital adequacy adopted by the Management Board;
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board;
- Assessing the adequacy and effectiveness of the risk management system and the internal control system;
- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the bank, the risks of its activity, and the methods and effectiveness of risk management;
- Preparing a concise assessment of the position of the bank to be presented to the Annual General Meeting and attached to the annual report of the bank for the previous financial year.
- Approving the bank's annual financial plans, multi-year growth plans, as well as the strategy of the bank and the rules of prudent and stable management of the bank;
- Reviewing any motions and matters which are subject to resolutions of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board prepares justifications for draft resolutions to be presented to the General Meeting for approval;
- Issuing and approving rules provided for in the By-laws of mBank;
- Appointing and dismissing the President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law Act and other generally applicable laws;
- Defining the terms of contracts and remuneration of the Management Board;
- Authorizing the Chairperson of the Supervisory Board to represent mBank in agreements with the Management Board Members, including the conclusion of management contracts with Management Board Members;
- Receiving, in advance, information on creating, acquiring, closing and managing branches, permanent representations and parts of the enterprise, and initiating and terminating undertakings and fields of operations;
- Approving conclusion or amendment of any significant contract or agreement with the Members of the Management Board or the Supervisory Board;
- Approving conclusion, amendment or termination of any significant affiliation or co-operation agreements;
- Receiving information on the expected deviations from the annual budget;
- Analysing reports of the Internal Audit Department Director received at least once per year;
- Issuing guidelines for the Management Board Members regarding the level and structure of remuneration for the senior management;
- Approving the policy of variable remuneration components of persons holding managerial positions in mBank;
- Approving the operational risk management strategy developed by the Management Board, assessing implementation of the strategy and, if necessary, commissioning its review;
- Granting the Members of the Management Board of the bank consent to sitting on management or supervisory boards of companies outside mBank Group;
- Granting consent to appointment and dismissal of the directors of the Internal Audit Department and the Compliance Department and approval of their remuneration;

- Approving the organisational rules of the Internal Audit Department and the Compliance Department; and
- Presenting a report on the assessment of the functioning of the bank’s remuneration policy to the Annual General Meeting to allow the Annual General Meeting to assess this policy.

Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board on his or her own initiative, or on request of the Management Board, or on request of a Supervisory Board Member, no less frequently than three times a year. All Management Board Members participate in the meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted by a simple majority of votes. In the case of an equal number of votes, the Chairperson of the Supervisory Board has the casting vote.

No resolution should be passed without the consent of the majority of the Independent Members of the Supervisory Board on the following matters:

- any benefits provided by the bank or any entities associated with the bank to the Members of the Management Board;
- consent for the bank to enter into a significant agreement with an entity associated with the bank, a Member of the Supervisory Board or the Management Board, and entities associated with them.

There are four Supervisory Board Committees: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. In addition, the Supervisory Board has set up a Working Group for IT, which holds regular meetings.

Members of the Committees as at the end of 2019 are presented below.

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee
Jörg Hessenmüller – Chairman	Marcus Chromik - Chairman	Tomasz Bieske - Chairman	Stephan Engels – Chairman <sup>1)</sup>
Stephan Engels – Member <sup>1)</sup>	Mirosław Godlewski - Member	Jörg Hessenmüller - Member	Tomasz Bieske - Member
Maciej Leśny - Member	Gurjinder Singh Johal – Member	Agnieszka Słomka-Gołębiowska - Member	Maciej Leśny - Member
Teresa Mokrysz - Member	Agnieszka Słomka-Gołębiowska - Member		

<sup>1)</sup> Stephan Engels resigned as at December 31, 2019.

### **Executive and Nomination Committee**

The tasks of the Executive and Nomination Committee involve, in particular, exercising regular supervision over the bank’s activity in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual usufruct rights or interests in real estate, shares in companies and partnerships, and other fixed assets if the value of a transaction exceeds 1% of the bank’s own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including bankruptcy proceeding with the possibility to make an arrangement or other settlement with the bank’s debtor or in the case of disposal of assets so acquired. The Committee is also responsible for initial recruitment for the positions of Management Board and Supervisory Board Members of the mBank.

In addition, the Executive and Nomination Committee defines the scope of duties for candidates for the Management Board and the Supervisory Board of the bank and requirements which such persons have to meet to perform their functions. Moreover, the Committee defines the target gender representation ratio for the Management Board and the Supervisory Board of the bank and develops a diversity policy to

facilitate the achievement of the target ratio. The Committee performs periodic assessments of the structure, size, composition, and operational effectiveness of the Management Board at least once a year and recommends changes in this respect to the Supervisory Board.

### **Audit Committee**

The Audit Committee issues opinions concerning the selection of a statutory auditor by the General Meeting, recommends the Supervisory Board to approve or reject financial statements, develops the policy and procedures for the selection of an external auditor and provision of other permitted services by the auditor, monitors the financial reporting process as well as the effectiveness of internal control systems, risk management systems and internal audit, and recommends the Supervisory Board to grant or refuse consent to appointment/dismissal of the head of the Internal Audit Department and the head of the Compliance Department. Moreover, the Audit Committee presents the Supervisory Board with the opinion on the annual assessment of adequacy and effectiveness of the control function, the Compliance Department and the Internal Audit Department, recommends the Supervisory Board to approve or reject the principles of mBank's information policy concerning capital adequacy and recommends the Supervisory Board to approve or reject mBank's compliance policy and annual report on compliance risk management in the bank.

Pursuant to the Rules of the Supervisory Board, the Audit Committee is composed of at least three members, whereas at least one of the Audit Committee members has to possess knowledge and skills in the scope of accounting or financial statements audit. The Rules of the Audit Committee of the Supervisory Board stipulate that the majority of the Audit Committee members, including its Chairperson, have to be independent.

As at the end of 2019 the Audit Committee was composed of three members. The members who have knowledge and skills in the scope of accounting and financial statements audit include: Tomasz Bieske – the Committee Chairman and Jörg Hessenmüller – the Committee Member.

Tomasz Bieske and Agnieszka Słomka-Gołębiowska meet the independence criteria. The independence criteria are specified in Article 129 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

All the members of the Audit Committee have vast knowledge in the sphere of banking:

- Tomasz Bieske - a certified auditor for financial statements audit, a long-term employee of Arthur Andersen Polska and Ernst & Young Polska;
- Jörg Hessenmüller - a long-term member of mBank's Management Board, Chief Financial Officer (CFO), member of the Board of Managing Directors of Commerzbank AG;
- Agnieszka Słomka-Gołębiowska - PhD in economics, a graduate of Warsaw School of Economics specialising in finance and banking and the MBA programme of the French Institute of Management (IFG). She is the author of many publications on corporate governance.

The Audit Committee recommends a statutory auditor to audit the financial statements of mBank S.A. and the consolidated financial statements of mBank S.A. Group to the Supervisory Board. The statutory auditor is elected by the AGM based on a recommendation submitted by the Supervisory Board. The recommendation is prepared in accordance with an election procedure which takes into account the applicable laws. The procedure for selecting an audit firm to audit mBank's financial statements approved by the Audit Committee in 2018 meets the requirements of Article 16 (2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of financial statements of public-interest entities.

The policy for selecting an audit firm in mBank S.A. approved by the Audit Committee meets the requirements of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 (Regulation No. 537/2014). The policy incorporates the principle regarding the rotation of statutory auditors. The duration of total uninterrupted statutory audit engagements referred to in Article 17 (1) paragraph 2 of Regulation (EU) No. 537/2014 carried out by the same audit firm or an audit firm related to this audit firm, or any

member of the network operating within the European Union to which these audit firms belong, must not exceed five years. The key statutory auditor may carry out a statutory audit again in the bank after at least three years of the completion of the last statutory audit. In the case of a statutory audit, the first agreement on statutory audit is concluded with an audit firm for the period not shorter than two years with an option to extend it for another two-year period.

The policy on the performance of permitted non-audit services in mBank S.A. by the audit firm carrying out the audit, by entities related to the audit firm and by a member of an audit firm network approved by the Audit Committee meets the requirements of the Act on Statutory Auditors, Audit Firms and Public Oversight and Regulation No. 537/2014.

Pursuant to the policy on the performance of permitted non-audit services in mBank S.A. by the audit firm carrying out the audit, by entities related to the audit firm and by a member of an audit firm network, a statutory auditor or an audit firm carrying out the statutory audit, or any member of the network to which the statutory auditor or the audit firm belongs, do not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union:

- any prohibited non-audit services in the period between the beginning of the period audited and the issuing of the audit report;
- any services that consist in designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

Under Article 136 of the Act on Statutory Auditors, prohibited services do not include the following:

1. services that consist in:
  - a. conducting due diligence procedures with regard to economic and financial condition,
  - b. issuing comfort letters in connection with prospectuses issued by the audited entity, in accordance with the national standard of related services and by means of agreed procedures,
2. assurance services with regard to pro forma financial information, forecasts of results or estimated results, published in the prospectus issued by the audited entity,
3. examination of historical financial information of the prospectus,
4. verification of consolidation packages,
5. confirmation of fulfilment of conditions of the concluded loan contracts on the basis of analysis of financial information coming from financial statements audited by a given audit firm,
6. assurance services in reporting concerning corporate governance, risk management and corporate social responsibility,
7. services consisting in the assessment of compliance of information revealed by financial institutions and investment companies with the requirements for disclosing information concerning capital adequacy and variable remuneration components,
8. certification concerning financial statements or other financial information for supervision bodies, the supervisory board or another supervisory authority of the company, or owners, exceeding the scope of the statutory audit, to help these authorities to perform their statutory duties.

Provision of the said services is possible only in the scope not related to the tax policy of the bank, after the Audit Committee evaluates hazards and safeguards for the independence.

The audit firm auditing the financial statements of mBank and mBank Group provided the permitted non-audit services to mBank. Therefore, the Audit Committee each time assessed the independence of the audit firm and granted its consent to the provision of the services.

The Audit Committee held 4 meetings in 2019.

### **Risk Committee**

The Risk Committee has, among others, the following tasks: exercising permanent supervision over credit risk, market risk, liquidity risk and non-financial risks, including operational risk. Moreover, the Risk

Committee issues recommendations for approval or rejection of exposures posing single entity risk, in accordance with the parameters defined by the Supervisory Board. The Committee discusses matters related to corporate, financial markets, and retail portfolio risk. In addition, the Committee discusses non-financial risks, such as cyber risk, reputational risk, and legal issues.

Moreover, the Risk Committee provides the Supervisory Board with recommendations for approval or rejection of transactions, provided for in the Banking Law, concluded between the bank and Members of the bank's authorities, and recommendations for approval or rejection of the bank's disclosure policy regarding risk management. The Risk Committee is also responsible for recommending the Supervisory Board to approve or reject strategies and policies created by the Management Board, issuing opinions on the bank's current and future readiness to take risk and issuing opinions on the strategy of risk management in the bank's operating activity prepared by the bank's Management Board and information on the strategy implementation submitted by the Management Board.

### **Remuneration Committee**

The tasks of the Remuneration Committee include among others: reviewing issues related to the remuneration principles and amounts of remuneration paid to the Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competing activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the bank's senior management and the policy on variable components of remuneration paid to persons holding managerial positions at the bank. In addition, the Committee monitors the level and structure of senior management remuneration, issues opinions and monitors the remuneration policy adopted by mBank and assists the bank's bodies in matters regarding development and implementation of this policy.

All standing committees of the Supervisory Board make reports on their activity in the past reporting year available to the shareholders. The aforesaid reports are appended to the set of materials for the Annual General Meeting and can be found on mBank's website at <https://www.mbank.pl/en/investor-relations/general-meeting/>.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 50 regarding the remuneration rules for the Members of the Supervisory Board of mBank S.A. adopted by the 30<sup>th</sup> Annual General Meeting of mBank S.A. held on March 30, 2017. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson - PLN 14,500 monthly, while Members of the Supervisory Board earn PLN 12,000 monthly each.

Additional monthly remuneration is granted for the participation in standing committees of the Supervisory Board: 50% of monthly remuneration of a Supervisory Board Member for the first committee and 25% for participating in another committee. No additional remuneration is paid to a Member of the Supervisory Board who sits on three or more Standing Committees of the Supervisory Board. However, a Supervisory Board Member performing the function of the Chairperson of the Audit Committee of the Supervisory Board of the bank is entitled to additional remuneration equal to 80% of the sum of remuneration he or she is paid.

The remuneration of the Supervisory Board for 2018-2019 is presented in the table below.

	Remuneration paid in 2019 (in PLN)	Remuneration paid in 2018 (in PLN)
1. Maciej Leśny	366,133	367,235
2. Stephan Engels	-	-
3. Tomasz Bieske	429,185	429,025
4. Marcus Chromik	-	-
5. Mirosław Godlewski	216,540	216,000
6. Joerg Hessenmueller	-	216,000
7. Gurjinder Singh Johal	216,000	54,000

**mBank S.A. Group**

Management Board Report on Performance of mBank S.A. Group in 2019

8.	Michael Mandel	-	-
9.	Teresa Mokrysz	220,385	220,225
10.	Agnieszka Słomka-Gołębiowska	258,285	257,435
	Andre Carls <sup>1</sup>	216,000	288,000
	Janusz Fiszer <sup>2</sup>	144,000	216,000
	Thorsten Kanzler <sup>3</sup>	-	162,000
	<b>In total</b>	<b>2,066,528</b>	<b>2,425,920</b>

<sup>1</sup> Andre Carls Thorsten Kanzler resigned from his function on September 23, 2019

<sup>2</sup> On September 2, 2019 the Management Board of Bank became aware that Dr Janusz Fiszer died on September 2, 2019.

<sup>3</sup> Thorsten Kanzler resigned from his function on September 23, 2018

**Activity of the Supervisory Board in 2019**

The Supervisory Board held six meetings and adopted 72 resolutions in 2019. The resolutions covered all areas of the bank's operation and were consistent with the scope of supervisory functions specified in generally applicable laws, the Banking Law, PFSA recommendations, corporate governance principles, and mBank's By-laws and the Rules of the Supervisory Board.

At its meetings in 2019, the Supervisory Board discussed and assessed the current results of mBank Group and individual business lines taking into account the financial plan. The Supervisory Board also discussed and accepted other detailed reports required by the law concerning different areas of the bank's activity, including, i.a., regular risk, compliance, audit, bancassurance and IT security reports. At its meeting on December 12, 2019, the Supervisory Board approved the "mBank Group Strategy for 2020-2023 – Growth fuelled by our clients".

During their regular meetings in 2019, the Supervisory Board Committees discussed in detail the key issues concerning individual areas of the bank's activity, which, pursuant to the applicable regulations, must be approved by the Supervisory Board.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2019 is presented in the table below.

	Attendance <sup>1</sup>
Tomasz Bieske	6/6
Andre Carls (Supervisory Board Member until September 30, 2019)	4/4
Marcus Chromik	4/6
Jörg Hessenmüller	5/6
Stephan Engels	5/6
Mirosław Godlewski	5/6
Janusz Fiszer (Supervisory Board Member until September 2, 2019)	4/4
Gurjinder Singh Johal	3/6
Maciej Leśny	6/6
Michael Mandel	1/6
Teresa Mokrysz	6/6
Agnieszka Słomka-Gołębiowska	6/6

<sup>1</sup> Attendance at meetings/number of meetings during the term of office

### **14.8. mBank's Diversity Policy**

The basic elements of the diversity policy have been incorporated in our HR policy for several years. We are guided by the principle that diversity creates value added for the organisation. Elements of the diversity policy are present in various regulations, procedures and processes.

Diversity arising from experience, knowledge, education, interests and a number of other things fosters creativity, innovation and effectiveness, and thus contributes to the company's competitive advantage, service quality and economic results.

mBank treats people equally regardless of their sex, age, marital status, family background, physical abilities, nationality, country of origin, sexual orientation, and political and religious beliefs, that is all the factors that may give rise to direct or indirect discrimination. We offer a workplace that helps the management make use of and develop their unique features, skills and interests, for example, through participation in training activities and clubs that bring together people with similar interests. Diversity management contributes to creating an organisational culture based on openness and tolerance where everyone feels appreciated and respected, and is offered career development opportunities.

Pursuant to the gender equality policy, we try to ensure that both men and women take part in external and internal recruitment and in the succession planning regarding the key functions at the bank, taking into account the principles of equal treatment in hiring new employees. Our recruitment process involves a selection method that ensures objective assessment of candidates' skills. Each employee of the bank can be promoted to a managerial position if they have a relevant professional track record. Evaluation of job positions is based on objective criteria, which prevents discrimination.

The Management Board and the Supervisory Board apply the "Policy for the assessment of qualifications (suitability) of members of the supervisory body, management body and key function holders in mBank S.A.". The policy aims at introducing principles which must be fulfilled so that key functions in the bank are held by individuals who have relevant qualifications, knowledge, skills, professional experience, predispositions and reputation that are suitable for the function. The Suitability Policy includes a separate chapter dedicated to the diversity policy.

When selecting and appointing Members of the Management Board and proposing candidates for Members of the Supervisory Board, mBank takes into account the diversity issue:

- with respect to the Management Board:

When deciding on the composition of the Management Board, the Supervisory Board makes every effort to ensure its diversity, especially in terms of age, education, professional experience and participation of women. The Supervisory Board pays attention to the diversity of educational background and professional experience of the Management Board Members.

- with respect to the Supervisory Board:

The age structure of the Supervisory Board Members should be diverse. Moreover, the Supervisory Board aims at ensuring that its members have diverse educational background and professional experience. The Supervisory Board also lays emphasis on the adequate participation of women.

The composition of the Supervisory Board reflects the concepts underlying the diversity policy. The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

At the end of 2019, there were two women among the ten Supervisory Board Members, making up 20% of the total number of Members.

Supervisory Board of mBank								
	31.12.2016		31.12.2017		31.12.2018		31.12.2019	
	number of members	%						
Women	2	17%	2	17%	2	17%	2	20%
Men	10	83%	10	83%	10	83%	8	80%
<b>In total</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>	<b>10</b>	<b>100%</b>

There is one woman among the seven Management Board Members.

Management Board of mBank								
	31.12.2016		31.12.2017		31.12.2018		31.12.2019	
	number of members	%						
Women	1	14%	1	14%	1	14%	1	14%
Men	6	86%	6	86%	6	86%	6	86%
<b>In total</b>	<b>7</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>7</b>	<b>100%</b>

The total participation of women in the Management Board and the Supervisory Board will be at least 30% by 2028. The recommended number of women in the Management Board is at least one woman.

mBank's managers graduated from different fields of study in Poland and abroad, including economics, technology, IT, law, philology and other. The management consists of people with diverse experience in Polish, European and American financial and non-financial institutions. The management team is aware of the importance of diversity for the work environment and takes part in training sessions based on recognising differences and deriving benefits from them. The Success Insights method is used to identify employees' abilities and skills. The method helps to identify personality traits that can be used at work.

## 15. Glossary

**ABB** – Accelerated book building

**AIRB** – Advanced Internal Rating-Based

**BFG** – Bank Guarantee Fund

**BGK** – Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

**BRRD** – Banking Recovery and Resolution Directive

**BPV** – Basis Point Value, a measure that represents how much money the portfolio will gain or lose for a 0.01% (one basis point) parallel up movement in the yield curve. IR BPV is an interest rate basis point value and CS BPV is a credit spread basis point value. BPV of PLN – 100,000 shows that the 0.01% increase in interest rates will cause a PLN 100,000 fall of the value of the portfolio.

**CEE** – Central and Eastern Europe

**CET 1 ratio** – Core Tier 1 ratio, core equity capital ratio, calculated as: Tier 1 capital (calculated with accordance with CRR resolution)/total risk exposure amount

**CNB** – Czech National Bank

**CRD IV** – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Capital Requirements Directive IV).

**Cross-selling** – a trade technique of selling a product or service combined with purchase of another product to an existing customer

**CRR** – 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 (Capital Requirements Regulation).

**ECB** – European Central Bank

**Economic Profit (EP)** – measure of shareholders' value added, defined as the difference between gross profit and nominal cost of equity (understood as equity multiplied by required annual rate of return fulfilling minimum expectations of investors, set internally in the bank).

**EIB** – European Investment Bank

**Fed** – US Federal Reserve

**FTE** – Full Time Equivalent

**GDP** – Gross Domestic Product – a monetary measure of the value of all final goods and services produced in a country or region over a given period

**Guarantee de minimis** – A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

**GUS** – Polish Central Statistical Office

**ICAAP** – Internal Capital Adequacy Assessment Process

**IPO** – Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

**K1** – Large enterprises (annual sales exceeding PLN 1 billion)

**K2** – Mid-sized enterprises (annual sales of PLN 50 million – PLN 1 billion)

**K3** – Small enterprises (annual sales below PLN 50 million, full accounting)

**KSF** – Financial Stability Committee

**KUKE** – Export Credit Insurance Corporation

**LIBOR** – London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 1 month, 2 months, 3 months, 6 months and 1 year loans

**LtV ratio** – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

**M&A** – Mergers and Acquisitions

**MBA studies** – Executive Master of Business Administration postgraduate studies offered in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

**MbO** – Management by Objectives

**MPC** – Monetary Policy Council (in Polish: RPP)

**MREL** – Minimum requirement for own funds and eligible liabilities, determined in BRRD

**MS** – Mid-swap, the reference rate used as benchmark to calculate total interest rate cost for variable rate bond

**NPL** – Non-Performing Loans – impaired loans

**NSFR** – Net Stable Funding Ratio

**P/BV ratio** – Share Price/Book value per share

**P/E ratio** – Share Price/Earnings per share

**PD** – Probability of Default

**PFSA** – Polish Financial Supervision Authority (pol. KNF)

**PPS** – Purchasing Power Standard

**RWA** – Risk Weighted Assets

**SME** – Small and Medium Enterprises; entities employing up to 250 employees

**ST** – Stress Test – a potential loss on the portfolio which would occur as a result of rapid adverse changes in market parameters. ST is a sum of ST Base and ST CS. If ST equals PLN 1m and stress scenario conditions occur, probable loss will be PLN 1m (ST value).

**Tier 1** – Tier 1 capital, calculated according to article 25 of CRR Regulation (CET1 capital + the instrument eligible for AT1)

**Tier 2** – Tier 2 capital, calculated according to part II, title 1, chapter 4 of CRR Regulation

**Total capital ratio** – calculated as own funds (Tier 1 + Tier 2)/total risk exposure amount

**TREA** – Total Risk Exposure Amount

**VaR** – Value at Risk

**WIBOR** – Warsaw Interbank Offered Rate; Polish equivalent of LIBOR determined for Polish Zloty in Warsaw

**WIG** – Warsaw Stock Exchange Index, covering shares of entities listed on the primary market

**WSE** – Warsaw Stock Exchange (in Polish: GPW)

**ZBP** – The Polish Bank Association

## 16. Statements of the Management Board

### True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

- The annual consolidated financial statements, the annual financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group and mBank S.A. as well as their financial performance.
- The Management Board Report on Performance of mBank S.A. Group in 2019 (including the Management Board Report on Performance of mBank S.A.) presents a true picture of the developments, achievements, and situation of the mBank S.A. Group and mBank S.A., including a description of the main risks and threats.

### Signatures of the Members of the Management Board of mBank S.A.

Date	First and last name	Position	Signature
26.02.2020	Cezary Stypułkowski	President of the Management Board	Signed electronically
26.02.2020	Frank Bock	Deputy President of the Management Board, Head of Financial Markets	Signed electronically
26.02.2020	Andreas Böger	Deputy President of the Management Board, Chief Financial Officer	Signed electronically
26.02.2020	Krzysztof Dąbrowski	Deputy President of the Management Board, Head of Operations and Information Technology	Signed electronically
26.02.2020	Lidia Jabłonowska-Luba	Deputy President of the Management Board, Chief Risk Officer	Signed electronically
26.02.2020	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	Signed electronically
26.02.2020	Adam Pers	Deputy President of the Management Board, Head of Corporate and Investment Banking	Signed electronically

