



Letter of the President of the Management Board of mBank S.A. to the Shareholders

Dear Shareholders,

The year 2021 was very intense for mBank. Facing an uncertain environment and a variety of challenges, we tried our best to respond to clients' needs and expand our business. From a macroeconomic perspective, after the first recession in almost 30 years which Poland experienced in 2020, GDP returned on track of moderate growth. According to the preliminary estimate, its dynamics reached 5.7% in 2021. The subsequent waves of the COVID-19 pandemic, when increasingly less severe restrictions were imposed, hit the economy less hard. Rapidly accelerating since last Spring inflation finally prompted the Monetary Policy Council to initiate a cycle of interest rate hikes in October. At the same time, the labour market remained in a very good shape. The fall in unemployment was accompanied by high wage growth. Salary expectations combined with rising energy and commodity prices exerted additional pressure on costs at enterprises. Those factors had a significant impact on banks which are largely dependent on the standing of their customers.

For 2021, mBank Group reported its first net loss since 2004 of PLN 1.2 billion. It did not in any way result from a weakness of our business but was caused by the decision to book very high costs of legal risk related to foreign currency loans in excess of PLN 2.7 billion. I want to stress very clearly that our profit on core business, excluding this burden, amounted to PLN 1.6 billion and was the best in mBank's history. It would also imply a return on equity (ROE) of 11.9%.

Our total revenues reached a record level of PLN 6.1 billion, i.e. higher by over 4% compared to 2020, despite the still challenging market conditions. Their largest component constituted net interest income, which grew by 2.4% year on year to PLN 4.1 billion. It was supported mainly by expansion of volumes and only to a limited extent by the monetary policy tightening initiated in the Autumn whose effects will not become fully apparent until 2022. The strong improvement of margin observed during Q4 2021 represented a break from the negative trend which had persisted since the Spring of previous year. Interests from loans are recovering at an accelerating pace while the high overliquidity in the banking sector allows us to keep the cost of deposits reduced to a few basis points.

Dynamic growth in our net fee and commission income continued last year. The rebound in customer activity after the initial phase of the pandemic combined with further adjustments to tariffs and fees enabled its increase by 25% year on year to PLN 1.9 billion. Most categories contributed positively to that development, including cards, lending, foreign exchange, transactionality (transfers and accounts), as well as distribution of insurance products. We attach increasing importance to adequate pricing of banking services and transparency in this area.

Operating expenses in 2021 were higher by less than 2%. The reduction of contributions to the Bank Guarantee Fund made it possible to largely offset the almost 10% increase in personnel costs. The latter resulted from pay rises for a part of employees and the Covid-related awards granted in the Autumn to recognise the commitment and effort of the staff put into the performed tasks in the most difficult period of the pandemic. The headcount in mBank Group remained fairly stable. At the end of December 2021, it was higher by 50 FTEs year on year. In parallel, we continued to adjust our organisational structure to operate even more productively and effectively in the rapidly changing circumstances. Maintained budgetary discipline in other areas enabled further improvement of our efficiency as measured by the cost/income ratio which stood at 40.2%. Such value is beyond the reach of most local competitors, ranking us among the leaders in the financial industry.

With significantly dispelled uncertainty around the impact of the pandemic on our clients and their return to servicing the debt once credit moratoria expired, the cost of risk in 2021 declined to 76 basis points. This level reflects our conservative approach to loan provisioning, particularly for corporate exposures. At the same time, we actively managed the quality of the portfolio. Thanks to sales of impaired receivables, mBank Group's NPL ratio fell to 3.9% at the end of 2021. We believe that with its profile and high diversification, our customer base both in retail and corporate segment is resilient to adverse trends in the environment.

In 2021, we still recorded a visible disproportion between the dynamics of business volumes. Gross loans, net of the FX effect, grew by 7.4% to PLN 121.2 billion. The expansion was driven by record-high sales of mortgages and a rebound in consumer credits. This was confirmed by a further improvement in our market share in retail loans to 7.9%. Subdued development of the corporate portfolio resulted from our focus on profitability and a more selective approach to new exposures, especially in the segment of the largest companies. Funds from clients deposited with mBank increased by 16.1% to PLN 159.9 billion in 2021, fuelled by inflows to current accounts. Our market share went further up to 8.3% in household deposits, and for enterprises it amounted to 10.7%, testifying to the clients' appreciation of our convenient transactional and payment solutions.

In addition to its very good liquidity situation, mBank Group maintained a strong capital position. At the end of 2021, its Tier 1 ratio stood at 14.2% and the TCR was equal to 16.6%. Despite their decline as a consequence of the posted loss and the increase in the total risk exposure amount (TREA), the surplus over the minimum levels required by the regulator remained significant and exceeded 3.4 percentage point. We stand by our intention to pay dividends. However, we have not been allowed to do so in recent years due to the additional criteria set by the Polish Financial Supervision Authority regarding foreign currency housing loans. As we believe in the long-term value of mBank, we want our shareholders, potential investors and the market to perceive it, too. In order to present the genuine and undistorted performance, we introduced a new segmentation in 2021. As a pioneer in the Polish banking industry, we separated the non-core part from the total business. It is unrelated to our current basic activity and includes mortgage loans granted to individual customers in Poland that at any point in time were in another currency than PLN. The presentation makes it clear what returns our existing platform actually generates.

A very important event of last year for us was the completion of work on the new mBank Group's Strategy for 2021-2025 titled "From an icon of mobility to an icon of possibility". Defining our goals and aspirations, we took into account expected economic and market prospects, regulatory requirements, technological progress, evolution of consumer behaviour, local constraints and internal conditions. I am firmly convinced that in the increasingly competitive market, attacked by new entrants, fintechs and internet giants, we can further build our advantage around fundamental banking values such as stability, security and secrecy. They are hard to be appropriated by scarcely-regulated entities. Our clients should have strong conviction that they can trust our services because we comply with much more demanding rules and standards.

We believe that the future of mBank lies in demographics. Its thorough understanding and exploitation will determine our success. We intend to be a leading retail banking franchise integrated with client life cycle. Our organic growth will continue to be fuelled by the constant acquisition of new (primarily young) clients and maturing of the existing base. We will be organized around demographic segments to develop a complete offer and value proposition precisely responding to the needs arising at different phases of the life. We will focus on mortgage lending expansion, comprehensive investment offering, personal financial management (PFM) tools and ecosystem of non-banking services. The number of active users of mBank's services has been growing steadily. At the end of December 2021, nearly 3 million of them were regularly logging into our mobile application, including 2.6 million in Poland. BLIK has also been gaining popularity, adopted by over 1.4 million of our clients.

In the corporate banking area, we will initiate, develop and intensify the cooperation with companies from prospective industries and the fastest growing sectors of the economy. We will increase our focus on SME segment. To further improve customer satisfaction and internal efficiency, we will provide the best end-to-end digital banking experience for corporates in Poland. We intend to strengthen relationships with customers through additional knowledge-based services and ensure assistance of top-rated advisors, equipped with deep industry expertise. Having a strong starting position in the e-commerce market, we aspire to be the preferred bank for merchants and online shops, as well as

favourite platform for customers buying on the Internet. We want our payment integrator Paynow to gain a significant share in processing transactional volumes. We also plan to modernize and extend our existing mDiscounts (mOkazje) platform.

As an integral and increasingly important part of our activity, we have developed a new ESG strategy for mBank Group. We are aware of our responsibility in four dimensions: for climate, society, financial health of our clients and being in line with our declared ESG values. We intend to continuously reduce our environmental footprint, support energy transition of our clients and reach climate neutrality in scope 1 and 2 by 2030. Our ambition is to become a fully climate neutral organisation (scope 3) by 2050 at the latest. Having integrated ESG standards into our business and risk processes, we will conduct responsible sale accompanied by clear and precise communication, transparently present the risks associated with specific financial products and continue educational campaigns on safe online banking and personal data protection. We want to build an ESG-oriented working environment and promote gender equality. We will contribute to social well-being through further cooperation with the Great Orchestra of Christmas Charity (WOŚP), activities of mBank Foundation (mFundacja) focused on mathematical education and a dedicated fund ("m jak malarstwo") supporting young artists. We want to remain a leader of sustainable banking in Poland. We strive to enhance our ESG disclosure to be recognized by our shareholders and broader investment community as a reference point among other financial institutions in the region.

As I mentioned in the introduction, the key factor that weighed most heavily on mBank's financial results last year was the cost of legal risk related to FX loans. Including the amount added in 2021, our total value of provisions exceeded PLN 4.1 billion. It covers the increased risk of individual lawsuits, resulting mainly from a higher than expected inflow of new cases and a change in the level of loss when the judgment is adverse to the bank, as well as the addition of provisions for a class action concerning indexation clauses. Moreover, the write-off contains the costs of a potential settlement programme which we began a pilot in December. We approached a group of 1,278 borrowers who have active CHF-indexed loans, offering to change their contracts into a PLN loan with simultaneous cancellation of part of the balance. The proposed method of conversion ensures an equal split of the materialised cost of FX risk between the client and the bank. Our calculations of legal risk costs assume the uptake rate of this solution at 34%. I believe that some borrowers will accept our format of the settlement while the others will fall into two groups: those who will enter the path of court battle with us or have already been in dispute, and those who are happy to keep their CHF loans and continue regular repayments. At the end of 2021, mBank distinguished by one of the highest coverage of CHF portfolio with created provisions among Polish peers at 32.2%. We believe this represents a significant protection against the CHF risk and provides the stability needed to implement our strategy.

I would like to thank you, our Shareholders, for the trust you place in us and your confidence in the strong foundations of our business model and inexhaustible potential for growth, which will allow us to systematically increase our company value in the future.

I would like to thank the Supervisory Board for its good cooperation and support which we could always count on throughout the year as we faced an uncertain environment and new challenges.

Yours sincerely,

Cezary Stypułkowski