

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

Dear Shareholders,

In 2018 operating environment of banks in Poland was supported by favourable macroeconomic conditions. Strong GDP growth, historically low unemployment and very positive consumer sentiment were the key drivers stimulating new lending. On the other hand, the reputation of the financial sector and the regulator were overcast by scandals, including the insolvency of a large debt collector and temporary turbulences triggered by suspicions of a corruption proposal by the former Chairman of the Polish Financial Supervision Authority. Despite relatively strong competition on the market, we succeeded to achieve our objectives. We improved the key financial indicators and dynamically grew out business volumes.

Net profit attributable to the shareholders of mBank was PLN 1,316 million and increased by 4.3% year on year on a comparable basis, i.e., net of one-off gain on the sale of an organised part of the enterprise of mFinanse operating as a group insurance agent. I need to stress that mBank Group generated historically high recurrent total income of PLN 4,839 million in 2018, which represented an increase of 8.7% year on year, driven by better performance of both retail and corporate segment.

In a stable interest rate environment, net interest income grew by 11.5% year on year and stood at PLN 3,496 million, while net interest margin improved by 10 basis points to 2.58%. This was driven mainly by asset side of our balance sheet. In lending, we remained focused on high-margin products, which bolstered the interest income. The margin was also helped by continued decrease in the value and share of the CHF portfolio, which is a significant drag on our profitability compared to the main peers. After mBank's cost of funding had been reduced to historically low levels in 2017, it increased marginally in line with the margin on deposits. It should be noted that we boast a particularly high share of client deposits in non-interest-bearing transactional accounts, which helps to offset the cost of long-term funding raised on the wholesale market.

Analysing mBank Group's net fee and commission income in 2018, we need to take into account a sizable decline of income earned on insurance distribution following the sale of the group insurance business. Combined with a negative sentiment affecting the capital market and reluctance towards investment funds, this caused a modest 1.6% reduction of the net fee and commission income to PLN 976 million. However, the reported numbers indicate that other categories of fees and commissions grew dynamically, closing the gap in large part. We recorded a substantially higher income from lending, payment card services, bank accounts, money transfers, guarantees and trade finance, which are all closely related to the growing activity and transactionality of our clients.

In 2018, we continued to improve our efficiency and reduced the normalised cost/income ratio to 44.7% compared to 45.9% in the previous year. This level is superior to the industry average and puts us among the leaders of the financial sector. mBank Group's total costs went up by 5.9% to PLN 2,164 million. In contrast to 2017, contributions to the Bank Guarantee Fund, including the contributions to the deposit guarantee scheme and the resolution fund, remained unchanged in 2018. Amortisation increased sharply due to further investments in future growth. With additional security and IT expenditure, we can provide secure, innovative digital banking solutions to clients. Moreover, we decided to boost our marketing spending in order to support client acquisition and product promotion campaigns. Personal costs increased by 5.5% year on year while the total headcount of the Group fell modestly by 67 FTEs in 2018.

Prudent risk management and conservative credit policies ensure a high quality of our loan book. Cost of risk reached 78 basis points in 2018 while the net loan loss provisions rose by 36.8% to PLN 694 million. An uptick in retail segment was an effect of changes in the product mix of new sales to the advantage of unsecured loans, whose volume and share in the balance sheet has been growing steadily. In turn, net provisions of corporate banking were driven by individual provisions set up against several large exposures across different sectors. However, mBank Group's NPL ratio, partly supported by the sale of impaired receivables, decreased to 4.8% at the end of 2018 while the coverage ratio was at 62.8%.

Ultimately, the profitability of mBank Group in 2018 was strongly affected by the banking tax, which deducted PLN 402 million from our profit, taking away 2.9 percentage points from the return on equity. Thanks to a one-off transaction, ROE increased to 9.5% compared to 8.3% in 2017. However, the measure should be considered in the context of continued improvement of our capital position, driven by regulatory interventions which are designed to force banks with FX mortgage loans on their books to convert them into PLN and to make the sector resilient to market shocks. The Polish Financial Supervision Authority requires mBank to maintain an additional capital requirement to cover the risk of FX retail mortgage loans. Following a revision in the autumn of 2018, it has amounted to 3.64 percentage points for the Total Capital Ratio (TCR) and 2.73 percentage points for the Tier 1 capital ratio on a consolidated basis. Although, combined with the other capital buffers, our total capital requirement is the second highest in the sector, our capital base is well above the required minimum. mBank Group's Tier 1 capital ratio was at 17.5% and TCR equalled to 20.7% as at the end of 2018.

Positive trends in mBank Group's balance sheet mix continued in 2018. The volume of gross loans, net of the FX effect, expanded by 10.0% year on year and stood at PLN 97.8 billion as at 31 December 2018. New retail loan production increased by 29% year on year to the historically high level of PLN 13.6 billion. The sale of non-mortgage loans was nearly double the volume of new housing loans. Although investments did not pick up noticeably, the corporate loan portfolio increased by 16.5% in 2018, mainly owing to the contribution of overdrafts and working capital loans. At the same time, the CHF mortgage loan portfolio continued to shrink. It decreased by CHF 398 million and its share in the total loan book fell to 15.1% at 31 December 2018.

With a negative sentiment towards investment funds, the growth rate of deposits accelerated considerably in the last few quarters, both across the banking industry and at mBank. Compared to the end of 2017, amounts due to customers increased by 11.5%. We are glad to report a continued increase of balances in retail current accounts, as their volumes combined with savings accounts grew by 19.1% year on year. This proves that clients appreciate mBank as a convenient and friendly transactional bank. The development of volumes ensured a loan-to-deposit ratio of 92.9%, which is comfortable from the perspective of liquidity position. In regards to funding sources, we issued new debt in 2018. We placed two tranches of unsecured bond under the EMTN programme: CHF 180 million and EUR 500 million, both with four-year maturities and attractive coupons. In April 2018, mBank Hipoteczny debuted on the international market with its first issue of EUR 300 million covered bonds. Investor demand was almost three times higher than the planned size of benchmark offering. These transactions support the stability of the Group's balance sheet and the maturity match of assets and liabilities. In addition, we repaid the final CHF 750 million of loans to Commerzbank.

mBank's share price declined by 8.8% in 2018, which was less than the loss of 12.1% recorded by the WIG-Banks index. After a peak in late January, valuation of banks faced a substantial two-month correction. Since April, development of share prices was marked by higher volatility and no clear trends, as sentiment was mostly influenced by short-term impulses. From the capital market perspective, the important event for us was a resumption of dividend payments. After a three-year pause, respecting the regulator's detailed guidelines including additional criteria set for banks with FX loans, mBank's Annual General Meeting held in April 2018 was allowed to adopt a resolution on paying out 20% of the 2017 profit as a dividend to the shareholders equal to PLN 5.15 per share.

The key features which distinguish mBank on the consolidating Polish market include our capacity of organic growth, which remains our major competitive advantage. In 2018, we continued to deliver high new client acquisition. We added more than 1.6 thousand companies to our corporate client base, which comprised 23.7 thousand clients at 31 December 2018. In retail segment, mBank acquired 350 thousand clients in Poland and 19 thousand in the Czech Republic and Slovakia. Net of Orange Finance accounts, we now serve 5,350 thousand clients in three markets. The demographic structure of our client base with a much bigger share of young persons is poised to support continued growth of the income potential of mBank clients resulting in growing future profitability.

In accordance with mBank Group's Strategy for 2016-2020, all our initiatives, projects and solutions are designed to strengthen the key pillars of empathy, mobility and efficiency. With a view to convenience for our clients, we added new functionalities to the mobile application, enhanced the transactional platform, and simplified a number of customer service processes. Clients gained the possibility of opening account at mBank via video chat with a consultant on a smartphone without

visiting a branch or waiting for the delivery of documents by a courier. We are one of the first banks in Poland to have launched Apple Pay, which allows clients to pay easily with a smartphone when shopping. We offer the option of scanning money transfer details directly from the computer screen or a printed invoice. We always focus on security, which is why we are testing user authentication solutions based on behavioural biometrics in partnership with an mAccelerator portfolio company.

Within a digital transition of corporate banking, we implemented a range of improvements ensuring more efficient customer service by our advisors. We redesigned key processes including the credit process for small companies, opening of bank accounts and management of access rights in mBank CompanyNet. To leverage our strong position in e-commerce, we founded mElements, the developer of a unique API which integrates mBank processes with online shopping platforms. In collaboration with Allegro and DotPay, we launched credit limits for microfirms that are determined based, among others, on their turnover volume.

I am very proud of our partnership with the Great Orchestra of Christmas Charity (WOŚP) led by Jurek Owsiak. For the first time, we played as a strategic partner and sponsor of WOŚP during the 26th Finals on 14 January 2018. We provided financial processing for this public fundraiser. Inspired by the generosity of our clients, we paid the biggest single contribution in the history of WOŚP, donating PLN 7 million for equal opportunities in infant therapy. I particularly appreciate an engagement of our employees, who both counted cash at the branches and collected money in the streets.

At the end of the day, mBank's success and its financial and business results depend on interactions with various stakeholders but the relations with our clients are the key. This is why we always follow their needs. We realise that the satisfaction of clients with our products and services is essential to further development of the Group. I believe that we have the attributes and competences necessary for future expansion in strategic segments under any circumstances, translating into the growth trajectory of our profits.

I wish to thank you, our Shareholders, for your trust. May I assure you that we will continue to deliver satisfying results rooted in the strong foundations of our business model.

I thank the Supervisory Board for their close cooperation and unwavering support.

Yours sincerely,

Cezary Stypułkowski