

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

Dear Shareholders,

The operating results of mBank Group in 2019 were the best in our history. We continued dynamic growth of business volumes and revenues, combined with a strong cost discipline, while loan loss provisions remained relatively well under control. However, our net profit was eventually impacted by provisions set up against legal risks related to foreign currency loans. They significantly reduced our result to the level slightly exceeding PLN 1 billion.

Since January 2015, our activity and market capitalisation have been affected by the saga of Swiss franc mortgage loans. We have had to respect increased capital requirements and, due to the restrictive dividend policy, we have been unable to share our profits with the shareholders. Our share price has been shaken by multiple political statements and draft laws announcing expensive aid schemes for borrowers. Eventually, in 2019, it became very likely that the parliament would pass no legislation targeting the entire banking industry and that dissatisfied customers would have to assert their claim in courts. In the absence of a clear case-law, the judgment of the Court of Justice of the European Union combined with a growing number of court cases have triggered a discussion concerning the need for provisions to be set up against potential future costs of court decisions. As banks, we felt somehow forced by ongoing public debate and the position of auditors to implement new methodologies, burdened with numerous doubts. The provision amount has been estimated according to a portfolio approach based on a number of assumptions and discretionary parameters. Having said that, provisions for legal risk related to foreign currency loans stood at PLN 293 million in Q4 2019 alone and PLN 388 million in total for 2019, being a significant charge against our financial results.

Nevertheless, let me focus on our total income from the current business that was record-breaking in 2019. Revenues crossed the mark of PLN 5.5 billion, an increase of 13.7% from the comparable basis for the previous year (i.e. net of the one-off effect of the sale of an organised part of enterprise of mFinanse operating as a group insurance agent). Net interest income remained the main growth driver and reached PLN 4.0 billion, up by 14.5% year on year, mainly owing to revenue from loans and advances. This above-the-market dynamics was combined with further increase of net interest margin by 11 basis points, supported by favourably changing asset mix and a modest reduction of the funding cost. The share of higher-margin products has been rising steadily while the value of the CHF portfolio, which hampers our profitability compared to the peers, has been falling. At the same time, we boast a high proportion of balances on clients' transactional accounts, which translates into one of the lowest costs of deposits in the industry.

The annual net fee and commission income decreased by 1.2% year on year and stood at PLN 965 million in 2019. However, after several weak quarters, we have returned to the growth path in H2 2019. Last year's results were negatively affected by inflated fee costs paid to third parties selling mBank's products and the still depressed revenue from brokerage activity and distribution of investment products. Meanwhile, commissions from loans, payment cards, money transfers, and trade finance, directly linked to the growing activity and transactionality of our clients, visibly improved.

We were efficiently managing our costs in 2019, which excluding the contribution to the Bank Guarantee Fund (BFG), increased by 4.5% year on year. The largest cost component was personnel expenses, which went up by 7.0%, due to adjustments of salaries and an increase of the Group's average headcount by 234 FTEs. Unlike most banks in Poland, we have been expanding our brick-and-mortar retail distribution network. We added new branches in mid-sized cities, where we aspire to have a stronger strategic presence, and put new mKiosks in shopping malls. Depreciation advanced significantly, reflecting not only changes in reporting related to the implementation of IFRS 16, but also our continued investment in future growth. I should also mention the BFG contribution paid by mBank Group, which increased sharply by nearly 42% in 2019 and accounted for 11% of our total costs, which stood at PLN 2.3 billion. Nevertheless, we continued to enhance our operating efficiency. Consequently, our cost/income ratio improved for another year in a row from 44.5% to

42.2%, outperforming the sector's average and placing us among the leaders of the financial industry. We are focusing on smart management of our resources, optimisation, as well as simplification and automation of processes to maintain the advantage of our platform.

Prudent risk management and conservative credit policies ensure a high quality of our loan book. In 2019, the cost of risk was at 79 basis points, while the net impairment losses and change in the value of loans and advances increased by 14.3% to PLN 794 million. That development was driven by expanding volumes as well as an evolution of our loan portfolio structure. The share and value of unsecured loans have been rising in the retail banking segment. Corporate loan loss provisions, in turn, were mainly driven by individual large exposures. mBank Group's NPL ratio benefited from our regular sales of impaired receivables and favourable macroeconomic conditions, arriving at 4.5% as at the end of 2019 while the coverage ratio stood at 60.7%.

Last but not least, in addition to the provisions for Swiss franc portfolio, mBank Group's earnings in 2019 were also impacted by the banking tax. It reduced our profit by PLN 459 million, equivalent to a reduction of 3.0 percentage points in terms of return on equity. As a result, our ROE was only 6.6%, which may be unsatisfactory to the shareholders and lags behind the bank's cost of capital of approximately 9%. I have underlined on many occasions that the reasons for the low returns are largely beyond our control. Despite fundamental improvement of our operating results, our best efforts to deliver attractive profits remain undermined by the excessive public levies and regulatory burdens. On the other hand, we have been operating with sub-optimal capital base. The Polish Financial Supervision Authority (KNF) requires us to maintain an additional capital requirement against the risk of foreign currency mortgage loans to households. Following a revision in Autumn 2019, the consolidated add-on is 3.11 percentage points for the Total Capital Ratio (TCR) and 2.33 percentage points for the Tier 1 capital ratio. Combined with other buffers, we have to meet the second highest total requirements in the industry. Nevertheless, our capital measures were well above the necessary regulatory levels with mBank Group's Tier 1 capital ratio at 16.5% and TCR amounting to 19.5% as at the end of 2019.

Our business volumes have remained well on track. Thanks to very good new sales in both business segments, including the reactivation of mortgage loans as an anchor product, our gross loans increased by 11.0% to PLN 108.5 billion in 2019. Our market share improved to 7.0% in household loans and 7.5% in enterprises loans. Likewise, with a strong inflows to current accounts, our amounts due to customers expanded by 14.4% to PLN 116.7 billion in 2019. A negative sentiment affecting investment funds and the stock market combined with a lack of attractive alternative investment opportunities have bolstered a high growth of bank deposits. Convenient and friendly transactional solutions available to our clients boosted above-average surge in deposits and resulted in an increase of our market share to 7.0% in household deposits and close to 10% in enterprises deposits. Concerning the sources of funding, I should mention debt issuances completed in 2019. We placed 5.5-year unsecured bonds with nominal value of CHF 125 million under our EMTN programme. Strong investor interest ensured an attractive coupon. mBank Hipoteczny was active on the international covered bond market and issued EUR 300 million. Such transactions improve the stability of the Group's balance sheet and the maturity match of our assets and liabilities.

The key differentiator of mBank on the consolidating Polish market includes our ability of organic growth, which has become our major competitive advantage. Our customer acquisition was invariably strong in 2019. We acquired close to 2.8 thousand corporate clients and served 26.5 thousand businesses by the end of the year. mBank's retail customer base gained 217 thousand clients in Poland and 34 thousand clients in the Czech Republic and Slovakia. In total, we serve 5.6 million clients on those three markets. The demographic profile of our customer base with a superior share of young individuals suggests that the income potential of mBank's clients will be growing in the coming years to the advantage of our future earnings.

I cannot leave out the fact that our owner had decided to put mBank up for sale. The news officially broke in a Commerzbank's statement issued on 20 September 2019. In response to press reports, initially published by a German newspaper and then broadly followed up by other media, Commerzbank released a brief summary of its new strategy. A week later, following approval by the supervisory board, the intention was confirmed in a full presentation of plans for the coming years.

Commerzbank argued at this point in time that it needed to reduce risk-weighted assets and release equity capital in order to allow for a faster implementation of its strategy and associated investments. The deal will not be easy to close, not least because the risks of the foreign currency loan portfolio must be hedged. It is too early at this stage to anticipate the outcome. I will therefore refrain from discussing different scenarios and their potential implications.

mBank's share price declined by 8.2% in 2019, slightly less than the WIG-Banks index, which lost 9.2%. After a period of side trend lasting until the end of April, banks' stock valuations were affected by a strong correction. The outflow of capital from the Polish equity market was triggered by changes to the weights of countries in MSCI indices and the alignment of the portfolio mix of regional and global investors. Stock prices faced more volatility and a weak sentiment in H2 2019, mainly driven by the materialising risks related to the CJEU verdicts. In this context, mBank's stock price was bolstered by speculations concerning the potential sale of Commerzbank's stake.

From the perspective of capital markets and our mid-term strategy, we were very discontent to learn that we were prohibited from sharing our profits with the shareholders last year. The regulator's specific guidelines, including additional criteria set for banks holding foreign currency loan exposures, prevented a dividend payment. mBank's Annual General Meeting decided to retain all of the 2018 earnings.

Sustainable development has been gaining importance for us in recent years. We aspire to be a leader of corporate social responsibility in the banking industry. Therefore, we take multiple, various initiatives in many areas. The mFoundation supports education of children and youths in mathematics with grants, competitions, and actions. We regularly launch social campaigns raising awareness about cybercrime and promoting online security. I take special pride in the fact that we have been "playing together" with the Great Orchestra of Christmas Charity (WOŚP). As its strategic partner and sponsor, we provide financial support for cash collections during the grand finale and make financial contributions matching the generosity of our customers. Proceeds from a charity auction of art works from mBank's collection were transferred to the WOŚP foundation. I am glad to know that hundreds of our enthusiastic and dedicated employees were volunteers and helped to process the money raised.

We aspire to be a responsible lender and we reduce our indirect environmental impact. We have decided to limit financing of coal mining and coal-fired energy generation starting from April 2019. We have adopted a new policy in support of financing of renewable energy sources. After the initial limit was used up, we expanded the funding pool for RES projects to PLN 1 billion. The Group's subsidiaries follow suit. mLeasing has offered financing of photovoltaic panels to SMEs. Our private banking clients can invest in portfolios of stocks and bonds issued by companies with a positive ESG track record. Instead of buying individual assets, we are the first in Poland to offer a diversified off-the-shelf product: the ESG Balanced Strategy.

With a focus on the convenience of clients, we have launched new functionalities in the mobile app, improved the transactional platform, and simplified the user interface in 2019. We added life and health insurance and real estate insurance to products available on smartphones. Last Autumn, we presented a new desktop for online banking users. Its simple and transparent design can be customised depending on the user's preferences. Digital transition of corporate banking continued with new administrator functionalities, allowing clients to add or delete users and define access rights in mBank CompanyNet system. This is only one example of how we empower customers to go digital and independent when performing simple tasks that shouldn't take up clients' or advisors' time. Moreover, mBank has been authorised as a TPP (third party provider) by the Polish Financial Supervision Authority. As a result, we will work with our subsidiary mElements to offer state-of-the-art payment solutions and value added services in an open banking model.

Our new mBank Group's Strategy for 2020-2023, titled "Growth fuelled by our clients", was approved in December 2019. It addresses recent developments in the market and regulatory environment as well as expected future trends. The four pillars of the strategy (Client, Platform, Efficiency, Employees) correspond to the key components of our business model. In the coming years, we will continue our strategy of organic growth based on acquisition of young customers and dynamic companies from prospective industries. We will accompany them in every step of their lives and

development, designing products, services, access channels, and customer service models in line with their needs. We will remain the most convenient transactional bank. We will provide ease and speed of use, top security standards, an advanced platform, and personalisation. We will develop our offer based on the mobile first paradigm, boosting the share of sales and customer service in the digital sphere. We will advance optimisation, automation, and digitisation of internal processes to achieve savings and improve operational excellence. From the financial perspective, we will be systematically improving our profitability due to rising revenues, decent cost discipline and prudent approach to risk management, while more favourable balance sheet structure will lead to a higher margin. I strongly believe that we have all the attributes and competences necessary to ensure under any conditions that we can continue to grow in the strategic segments and achieve our targets, resulting in a positive trajectory of earnings.

I would like to thank you, our Shareholders, for your confidence, and assure you that based on the strong foundations of our business model we continue to have the potential to increase the company's shareholder value.

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

Yours sincerely,

Cezary Stypułkowski