

Opinion of the Supervisory Board of mBank S.A. on the situation of the Bank in 2019 including assessment of the internal control system and the Bank's relevant risk management system

Basis: Rule III.1. (1) of the Code of Best Practices for WSE Listed Companies

Despite a global slowdown observed in 2019 the Polish economy was growing fast. According to initial estimates from Statistics Poland (GUS), in 2019 the gross domestic product (GDP) was by 4.0% higher in real terms compared with 2018. The unemployment rate hit a record low, consumer confidence was buoyant, the PLN exchange rate was relatively stable and an increase in exports and a high surplus in foreign trade were recorded.

The banking sector had to deal with a low interest rate environment, high regulatory pressure, and a relatively weak stock exchange performance. The sector's results were adversely affected by provisions for legal risk connected with foreign exchange mortgages created by certain banks, including mBank.

In 2019 mBank strengthened its leading position in mobile and transactional banking. The bank introduced a number of functionalities and improvements in apps dedicated to both retail and corporate clients. The "Growth fueled by our clients" strategy of mBank Group for 2020-2023 adopted in December 2019 assumes strong focus on clients, development of the banking platform and apps, and continuous improvement of operational efficiency.

The income earned by mBank Group in 2019 reached its all-time high of PLN 5.5 billion with net interest income propelled by rising volumes and changing asset structure being the main driver. High profitability and strict cost discipline made it possible to reduce the cost/income ratio to 42.2%, even amid considerably higher contributions to the Bank Guarantee Fund (BFG).

The profit of mBank Group was negatively affected by high provisions for legal risk connected with foreign currency loans, which were up by more than PLN 367 million compared with 2018. Underlying this increase was the revised methodology for calculating provisions for legal risk of individual lawsuits over indexation clauses in CHF mortgage and housing loan agreements.

Consequently, the profit after tax attributable to Owners of mBank amounted to PLN 1,010.4 million, which represents a year-on-year decrease. Net return on equity (net ROE) stood at 6.6%.

Considering the macroeconomic conditions prevailing in 2019, the Supervisory Board appreciates the Bank's financial results. In particular, the Supervisory Board welcomes high profitability of the Group. The Board is aware of a positive shift in the Group's balance sheet structure towards high-margin loans and a change in the term structure of deposits, spurred by strong inflows to current and term accounts. Also strong capital ratios (Total Capital Ratio at consolidated level of 19.5% and Tier I Capital Ratio of 16.5%) are worth stressing as they allow the Bank to continue on a stable growth path in the longer perspective, while at the same time meeting the supervisory measures.

In view of all the developments described above, the Supervisory Board's assessment of mBank's performance in 2019 is positive.

The Supervisory Board appreciates the engagement and efforts of the Bank's Management Board and employees in the past year, aimed at growing the long-term shareholder value of the Bank. At the same time, the Supervisory Board trusts that these efforts will continue in 2020 going forward. Last but not least, the Supervisory Board would like to thank the Shareholders for their confidence in mBank.

Assessment of the internal control system and the Bank's relevant risk management system

The internal control system of mBank is comprised of institutional control exercised by the Internal Audit Department, as well as functional control.

The Supervisory Board has an Audit Committee that monitors internal control and compliance matters on an ongoing basis. The Internal Audit Department and the Compliance Department are functionally subordinate to the Audit Committee. The Audit Committee of the Supervisory Board was regularly apprised of audit-related issues in 2019, including, among others, assessments of the internal control and risk management systems as well as major audits conducted at the Bank and in subsidiaries of the Group. In addition, the Committee assessed and approved the Audit Plan for 2019. Furthermore, the Chairman of the Supervisory Board received copies of reports on all audits conducted by the Internal Audit Department at the Bank and in subsidiaries of the Group. The Audit Committee of the Supervisory Board was also supported by the external auditor who regularly presented the findings and conclusions from the audit of financial statements in 2019.

The Supervisory Board gives a positive opinion on the internal control system of mBank S.A. in terms of both its functional and institutional part.

During the meetings of the Audit Committee, the Compliance Department informed the Committee about compliance-related issues and provided the Supervisory Board with all reports of the Compliance Department as well as amendments to the Compliance Rules which required the supervisory body's approval.

On matters of risks, the Supervisory Board acts through its Risk Committee exercising ongoing supervision of all risks, in particular credit risk (including concentration risk), market risk, operational risk, liquidity risk, and business risk.

The Risk Committee issues recommendations on significant exposures carrying the risk of a single business entity. Furthermore, the Risk Committee dealt with numerous major risk-related issues in 2019, including macroeconomic problems, real estate market strategy, and the Treasury securities portfolio.

The Bank has also a range of committees tasked directly with managing risk in mBank Group. These include, among others: the Credit Committee of the Management Board of the Bank, the Data Quality Management Committee, the Capital Management Committee, and the Assets and Liabilities Committee.

The Supervisory Board gives a positive opinion on the risk management system at mBank S.A. In the opinion of the Supervisory Board, the system covers all risks relevant to the Bank and the Group.

Maciej Leśny

Chairman of the Supervisory Board