

Introduction to mBank Group

The most successful organic growth story in Poland



November 2018

mBank Group in a snapshot

General description

- Set up in 1986, mBank (originally BRE – Export Development Bank) is Poland’s 4th largest **universal banking group** in terms of total assets and 5th by net loans and deposits at the end of September 2018
- Servicing **4.7 million retail clients** and 23.3 thou. corporate clients **in Poland** and over 920 thou. retail clients in Czech Republic and Slovakia
- mBank has **leading positions** in retail, corporate, SME and private banking, leasing, factoring, commercial real estate financing, brokerage, corporate finance and capital markets advisory as well as distribution of insurance
- Listed on the Warsaw Stock Exchange since 1992 with **a market value of ca. EUR 3.9 billion**, a member of WIG-20 blue chip index since its inception in 1994
- Highly capitalised, liquid bank with a strong funding profile and **a well balanced business mix** between retail and corporate banking segments
- Rated ‘BBB’ by Fitch and ‘BBB+’ by Standard & Poor’s
- A strategic shareholder, Germany’s Commerzbank, owns 69.3% of mBank’s shares

Key financial data (PLN M)

	2015	2016	2017	9M 2018
Total assets	123,523	133,744	131,424	146,656
Net loans	78,434	81,763	84,476	91,306
Deposits	81,141	91,418	91,496	102,425
Equity	12,275	13,051	14,292	14,803
Total income	4,093	4,295	4,454	3,799
Net profit	1,301	1,219	1,092	984
Net interest margin	2.13%	2.30%	2.48%	2.57%
Cost/Income ratio	50.1%	45.7%	45.9%	43.2%
Cost of risk	0.54%	0.46%	0.61%	0.80%
Return on Equity	11.8%	10.1%	8.3%	9.5%
Tier 1 ratio	14.3%	17.3%	18.3%	17.3%
Total Capital Ratio	17.3%	20.3%	21.0%	20.2%
NPL ratio	5.7%	5.4%	5.2%	5.2%
Coverage ratio	58.9%	57.1%	59.2%	62.1%

Main product lines

RETAIL BANKING

A wide range of modern financial services for mass market, affluent and private banking clients as well as entrepreneurs



Poland

Czech Republic
and Slovakia

5,603 thou. clients

CORPORATE AND FINANCIAL MARKETS

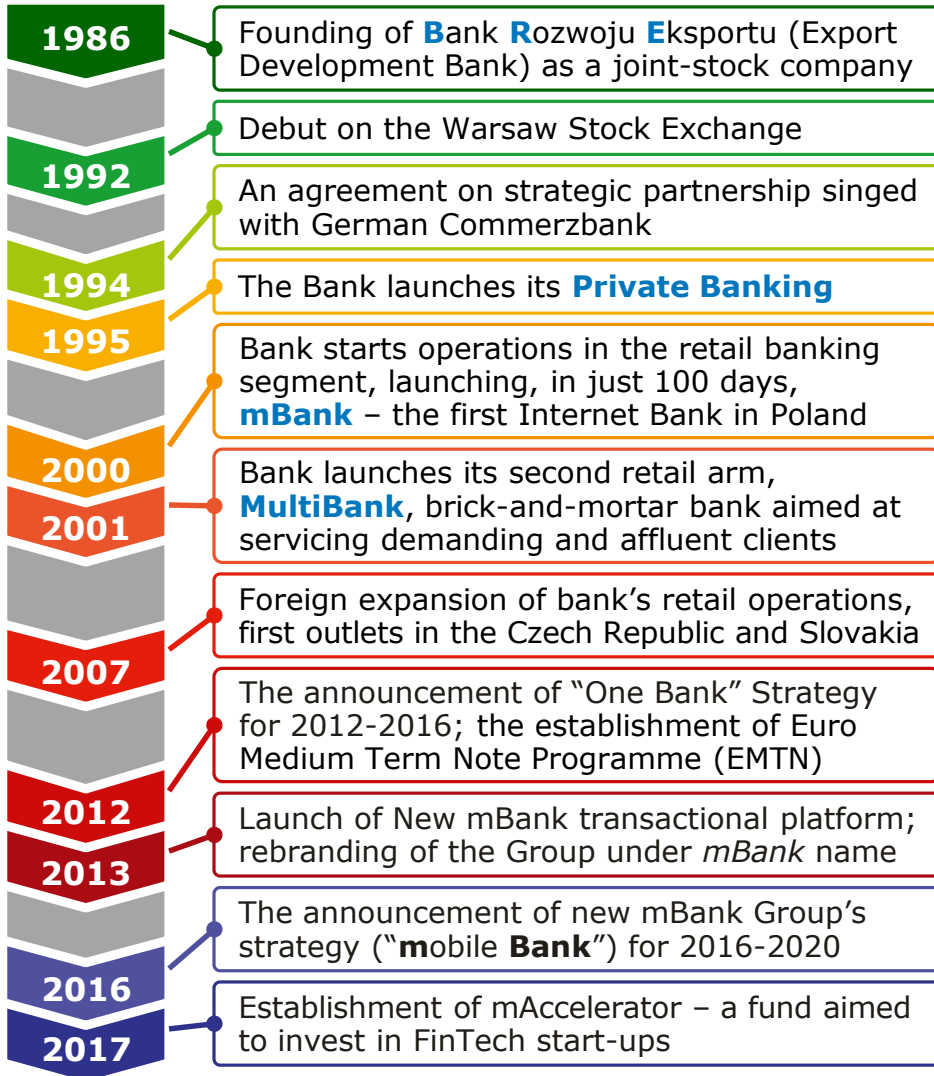
Fully fledged offering:

- Corporate banking
- Transactional banking
- Investment banking
- Brokerage
- Leasing
- Factoring

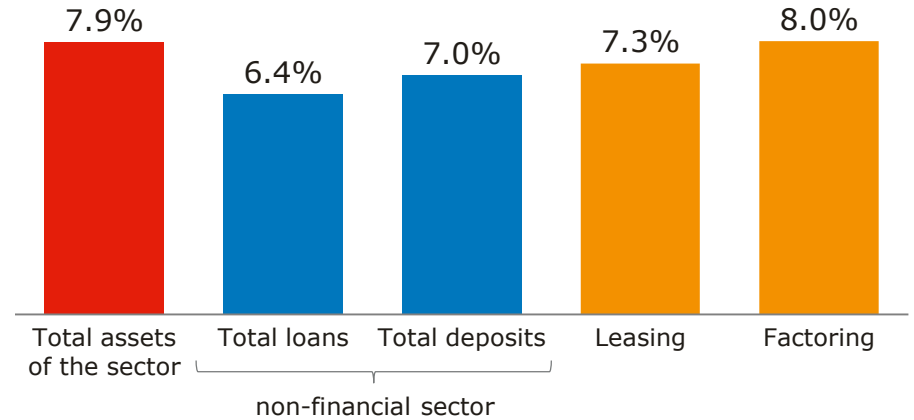
23.3 thou. clients

From a specialized corporate bank to a large universal bank

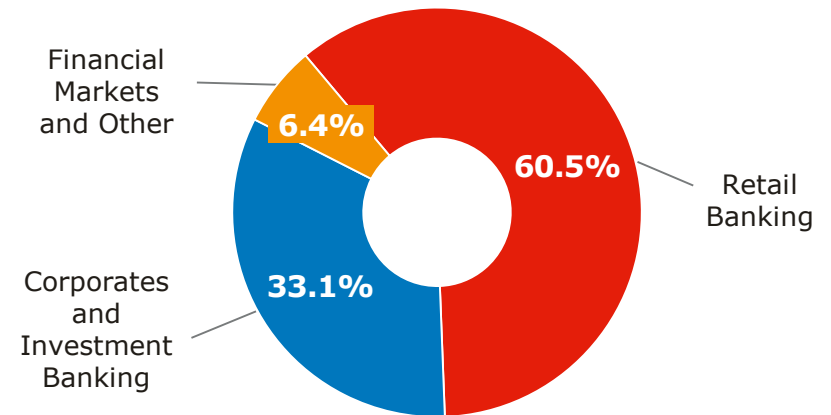
Brief history



Market shares as of 30.09.2018



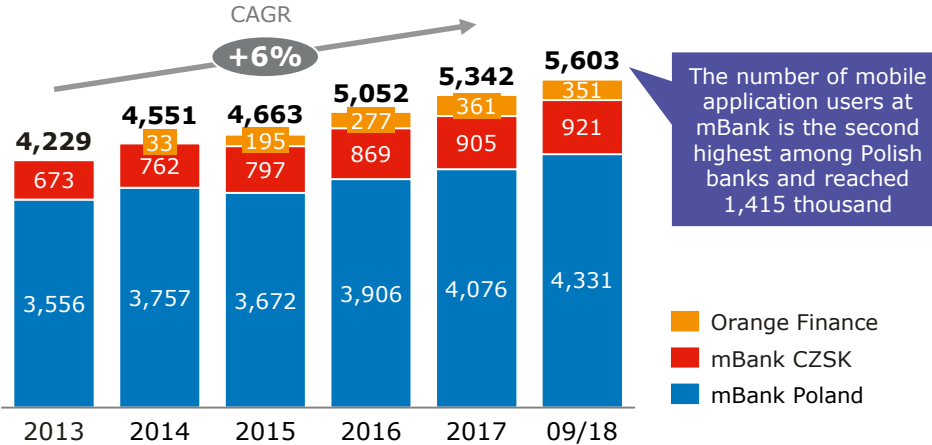
Composition of mBank Group's profit before income tax



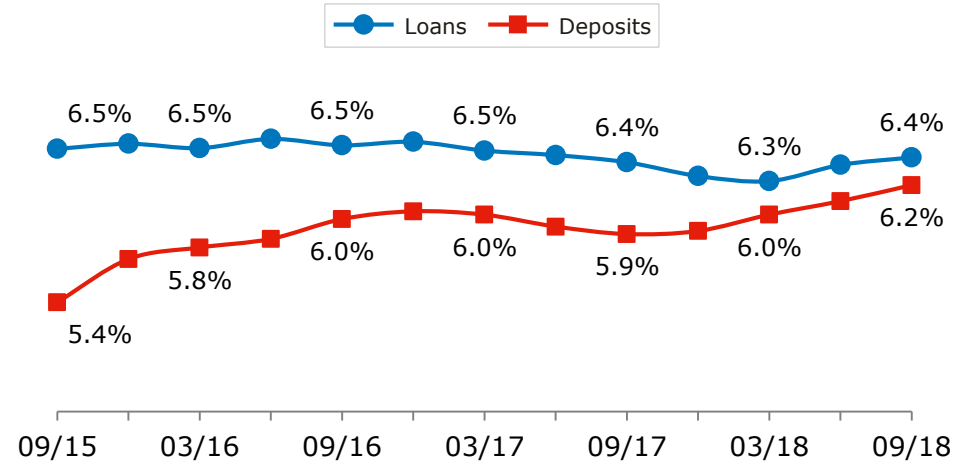
Profit before income tax: PLN 1,528 million in 2017

Poland's largest organically developed retail banking franchise

Number of retail customers (thou.)



Market shares – households segment



mBank's Mobile Application – focus on client convenience

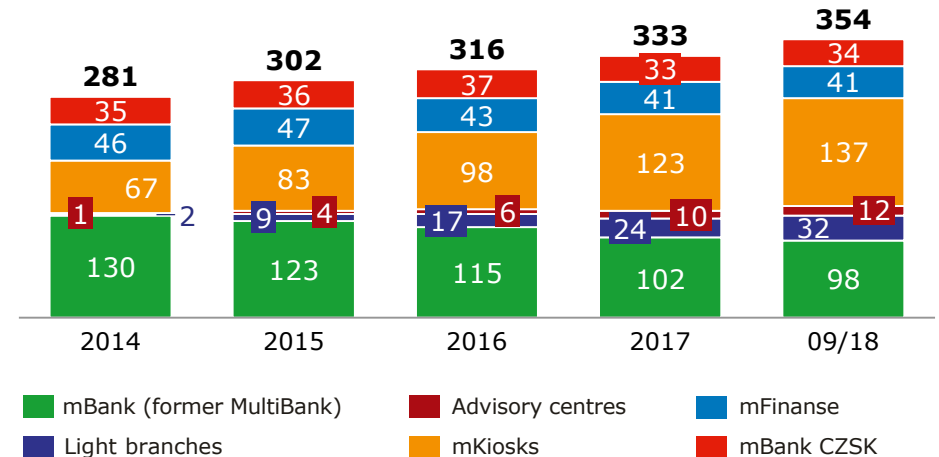
In April 2017, mBank launched a **new mobile application** with the Android Pay and Apple Pay functionality, the possibility of logging in with a fingerprint, and a display of the clients' spending to help them control their budget.

The software has a new interface and simpler navigation, inspired by users' habits. Customer can connect with call center directly from the app.



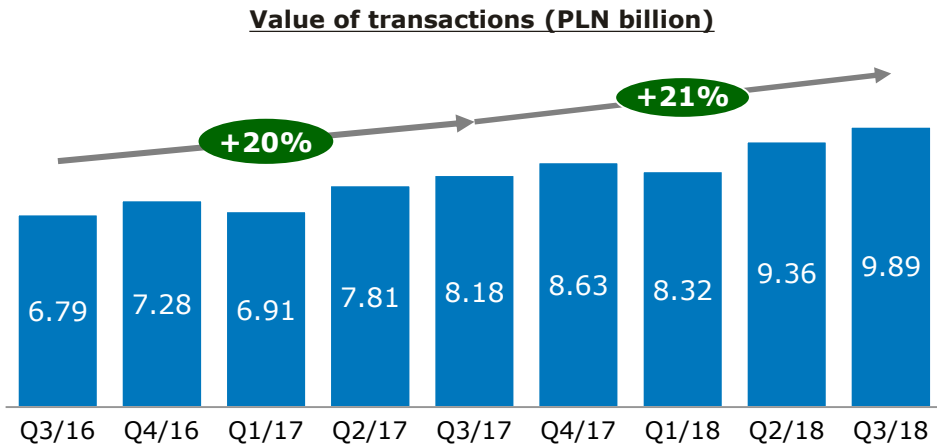
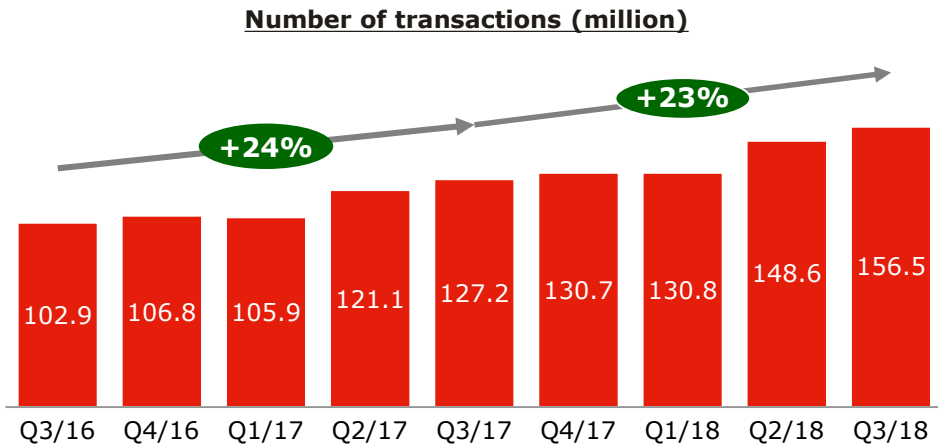
In July 2017 the share of clients who logged into their accounts via mobile devices exceeded the logins from computers; in September 2018 it reached 59%, compared to 55% in December 2017, 37% in 2016 and 28% in 2015.

Number of Retail Service Locations



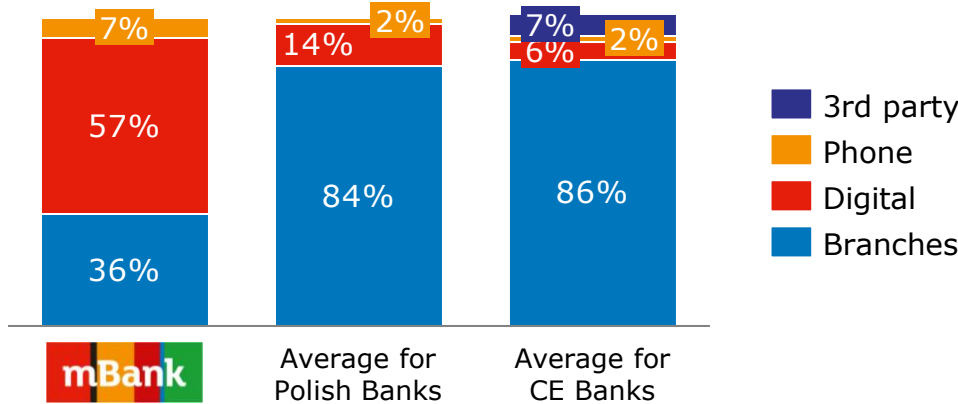
Premier transactional bank with digital DNA

Growth of non-cash transactions with payment cards at mBank

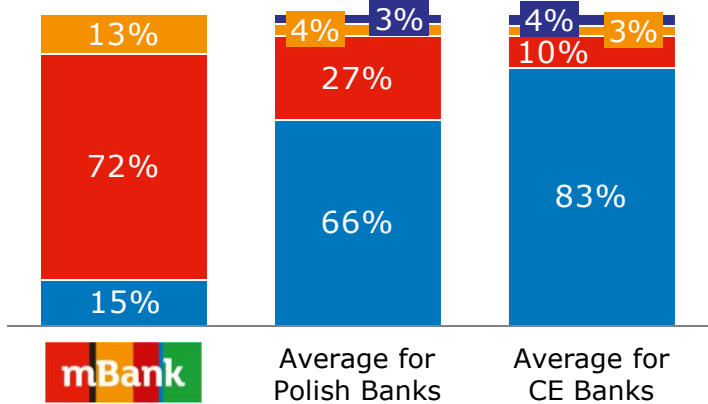


Role of digital channel in mBank's acquisition and product sales

Customer acquisition by channel, 2016



Sales mix by channel, 2016

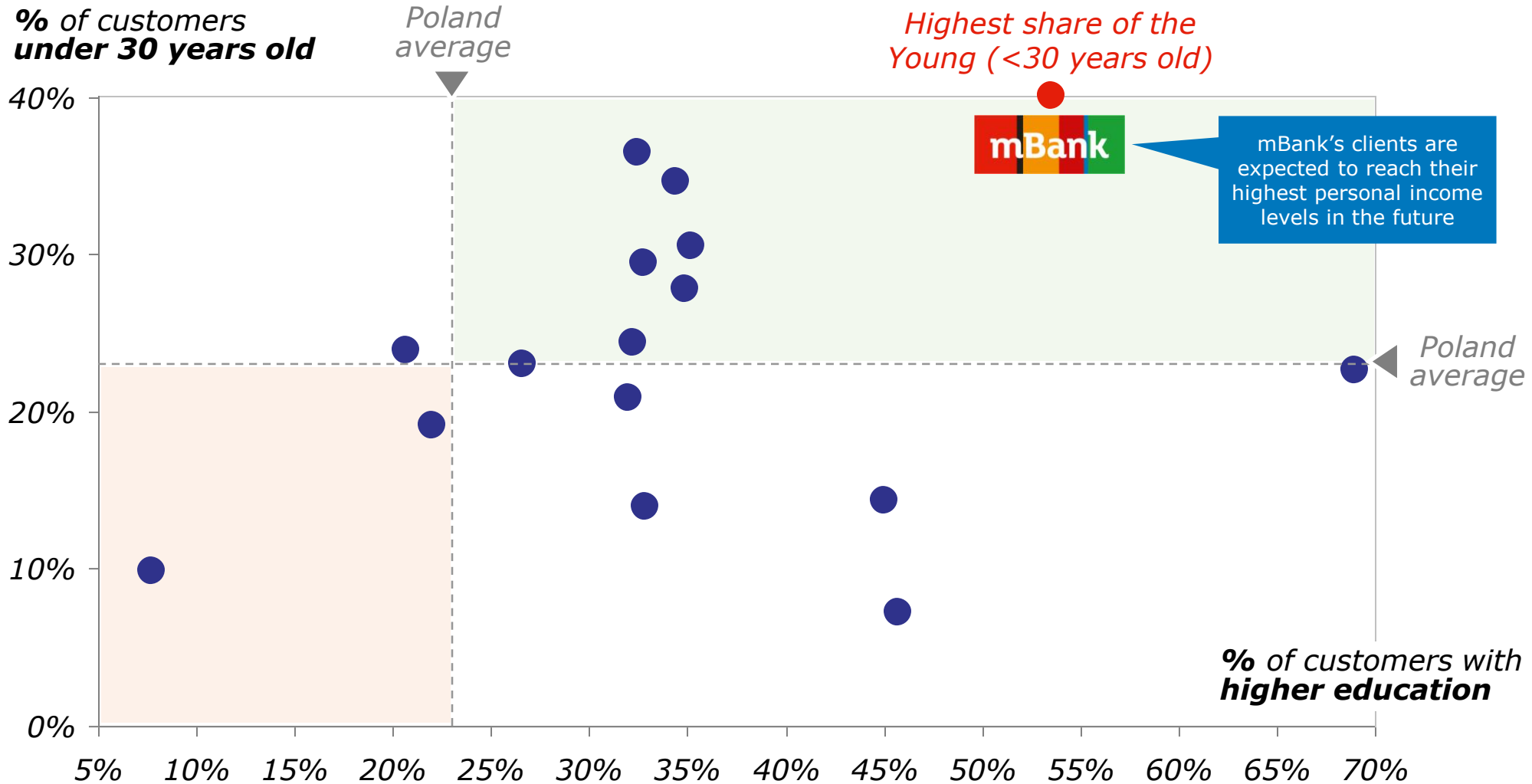


Source: Finalta, 100% McKinsey subsidiary.

Note: Data in terms of quantity of products sold (completed sales process).

Supportive demographic profile of mBank's retail client base

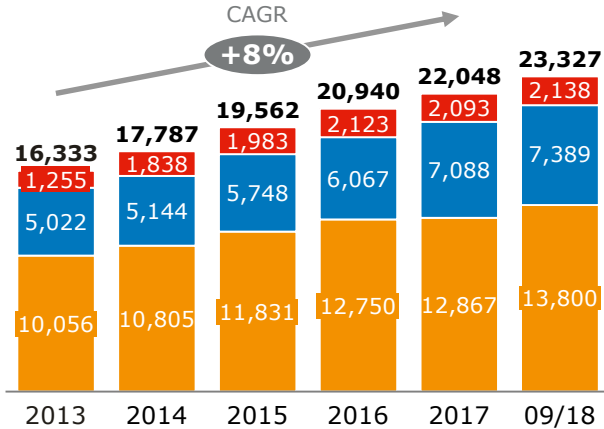
Distribution of Polish banks by attractiveness of customer base in terms of age and education



Source: mBank based on declarative answers from the syndicate survey Zoom Finance 4Q'16 by TNS, n=8.6k customers.

Strong presence and leading expertise in corporate banking

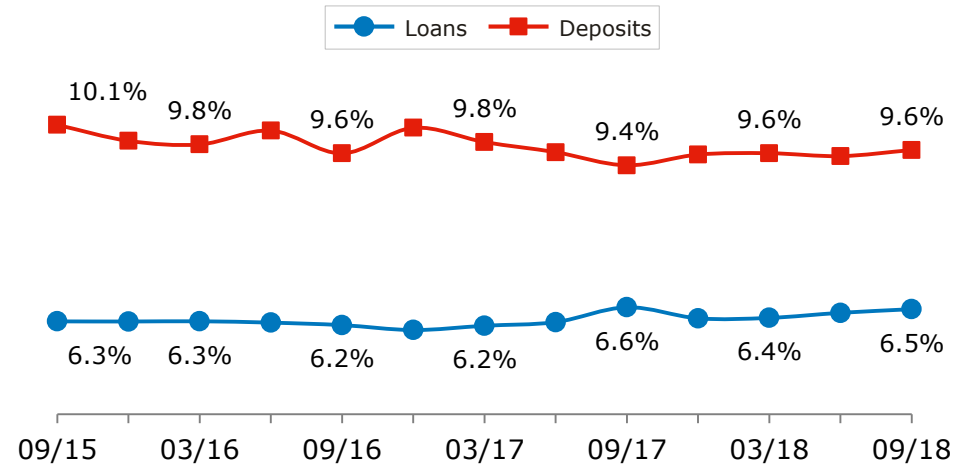
Number of corporate customers



Corporate customers split, starting from 2018:

- K1 – annual sales over PLN 1 B and non-banking financial institutions
- K2 – annual sales PLN 50 M to PLN 1 B
- K3 – annual sales below 50 M and full accounting

Market shares – enterprises segment



mCompanyNet – new version of the transactional system

In 2017 corporates gained access to a new version of mBank's transactional service **CompanyNet**.

The system is easier, more intuitive and adjustable to the individual needs of the user. Corporate clients can also use the advanced mobile application **mBank CompanyMobile**, which makes it possible to manage their company's finances on the move.

Number of Corporate Service Locations

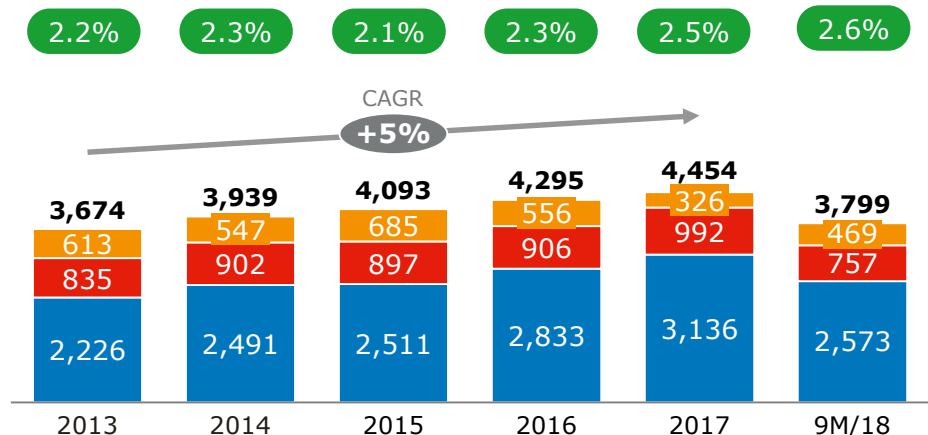
- 29 mBank's branches, incl. 10 advisory centres
- 17 mBank's offices, incl. 1 advisory centre
- 21 mLeasing
- 8 mFactoring
- 5 mBank Hipoteczny



Highly efficient platform underpinning solid financial results

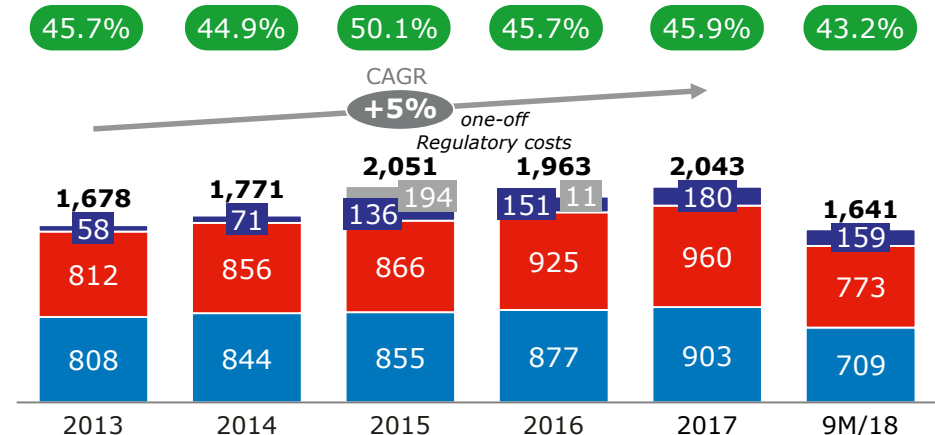
Total Income & Margin (PLN M)

■ *NII* ■ *NFC* ■ *Trading and other*



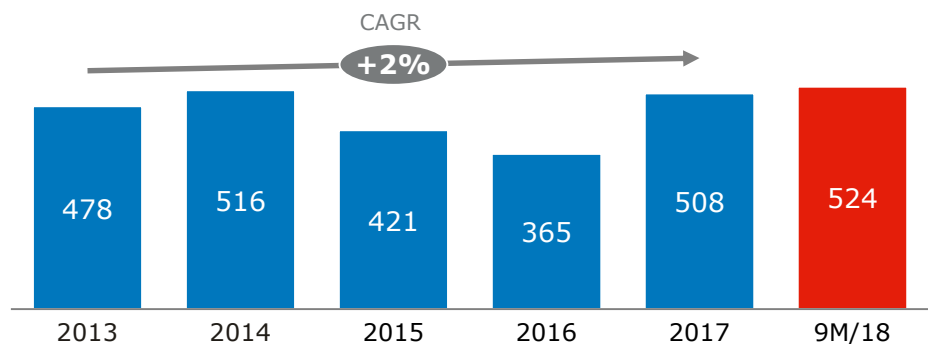
Total Costs & C/I ratio (PLN M)

■ *Personnel* ■ *Material and other* ■ *BFG*



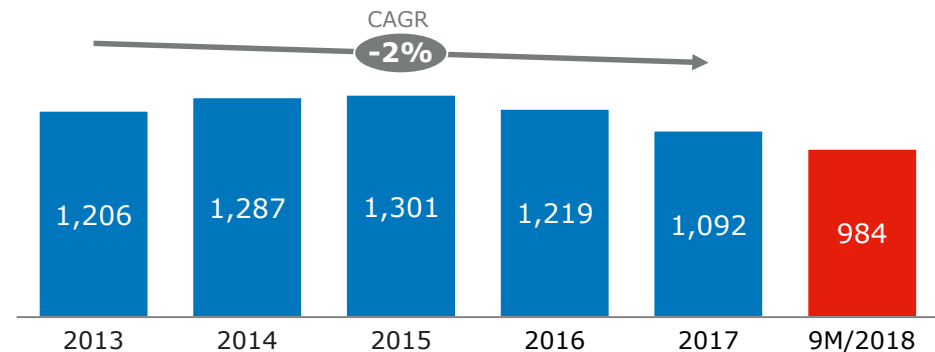
Loan Loss Provisions & Cost of Risk (PLN M)

0.70% 0.72% 0.54% 0.46% 0.61% 0.80%



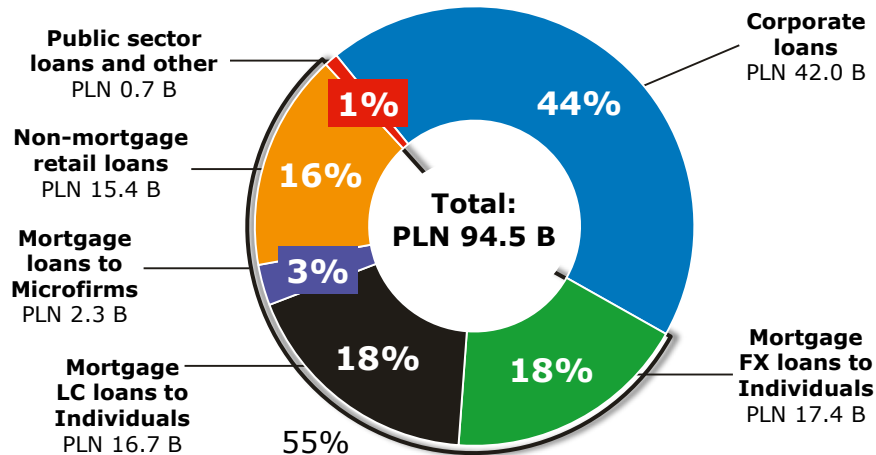
Net Profit & Return on Equity (PLN M)

13.1% 13.1% 11.8% 10.1% 8.3% 9.5%

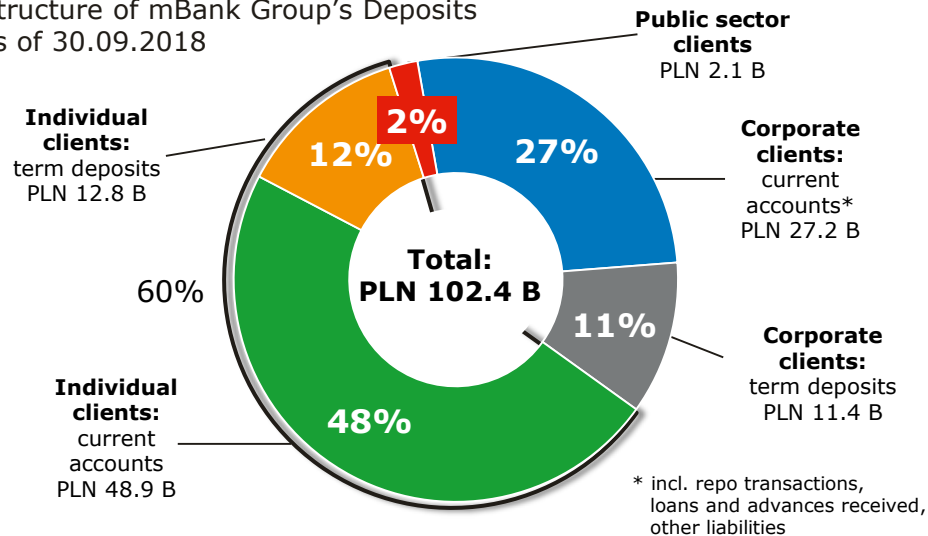


A well balanced business mix reflected in volumes

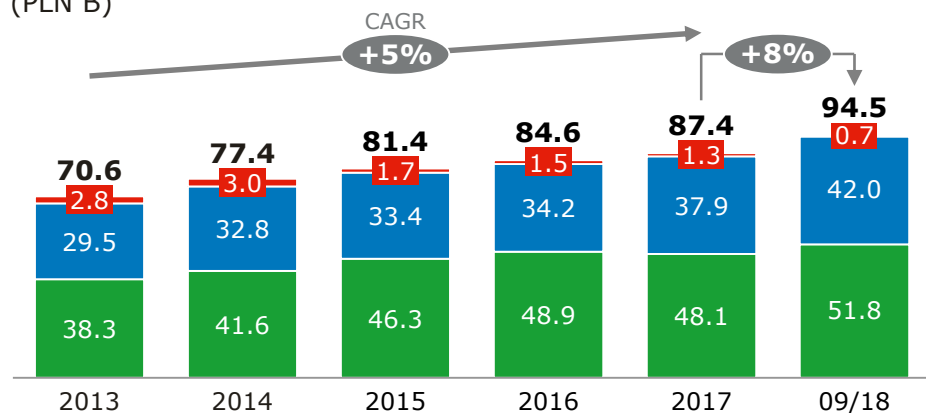
Structure of mBank Group's Gross Loans as of 30.09.2018



Structure of mBank Group's Deposits as of 30.09.2018

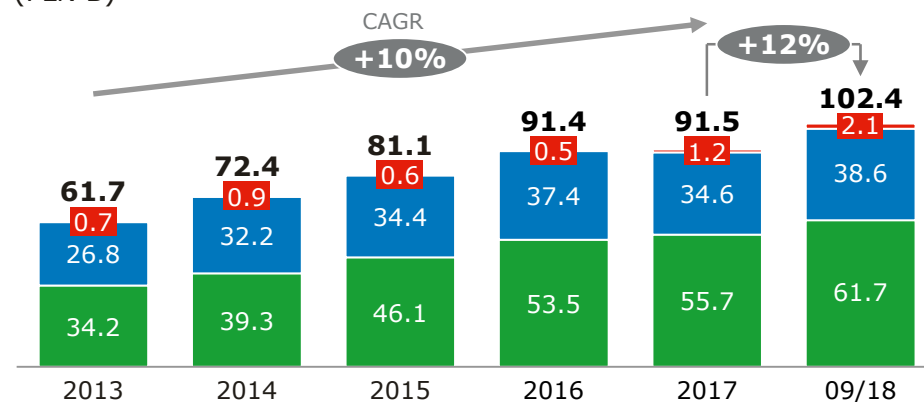


Total Gross Loans (PLN B)



Individual clients Corporate clients Public sector and other

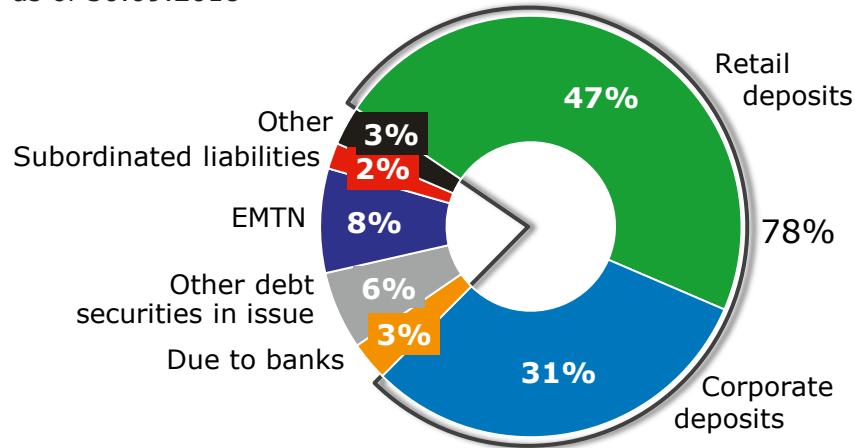
Total Deposits (PLN B)



Individual clients Corporate clients Public sector

A diversified funding base and strong capital position

mBank Group's funding structure as of 30.09.2018

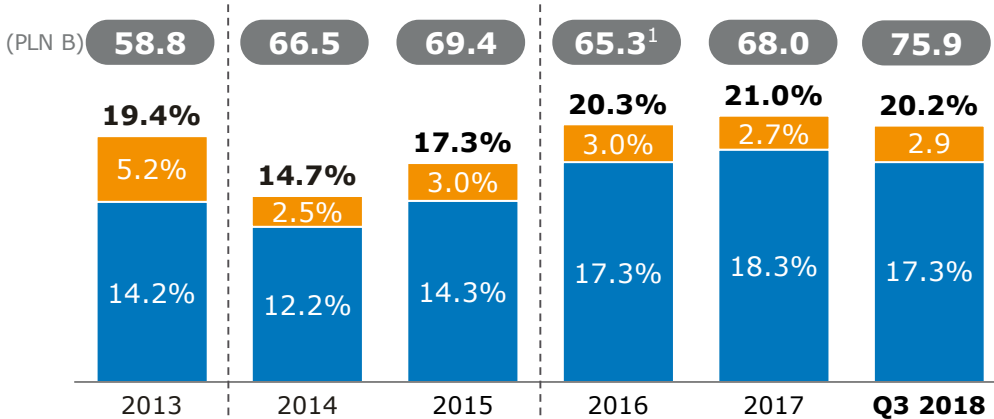


Major issues of debt instruments

Issue size	Issue date	Maturity date	Tenor	Coupon
Senior Unsecured Debt under EMTN programme				
CHF 200 M	08-10-2013	08-10-2018	5.0 Y	2.500%
EUR 500 M	01-04-2014	01-04-2019	5.0 Y	2.375%
EUR 500 M	26-11-2014	26-11-2021	7.0 Y	2.000%
EUR 500 M	26-09-2016	26-09-2020	4.0 Y	1.398%
CHF 200 M	28-03-2017	28-03-2023	6.0 Y	1.005%
CHF 180 M	07-06-2018	07-06-2022	4.0 Y	0.565%
EUR 500 M	05-09-2018	05-09-2022	4.0 Y	1.058%
Subordinated debt (Tier II)				
PLN 500 M	03-12-2013	20-12-2023	10.0 Y	WIBOR 6M + 225 bps
PLN 750 M	17-12-2014	17-01-2025	10.1 Y	WIBOR 6M + 210 bps

mBank Group's capital ratios

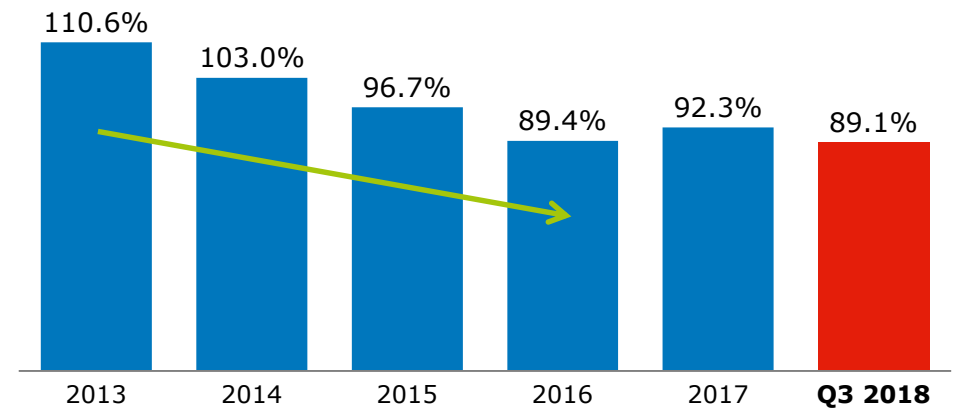
calculated in accordance with Basel III rules



■ Core Tier 1 / CET 1 ■ Tier 2 ● xx.x Total risk exposure amount

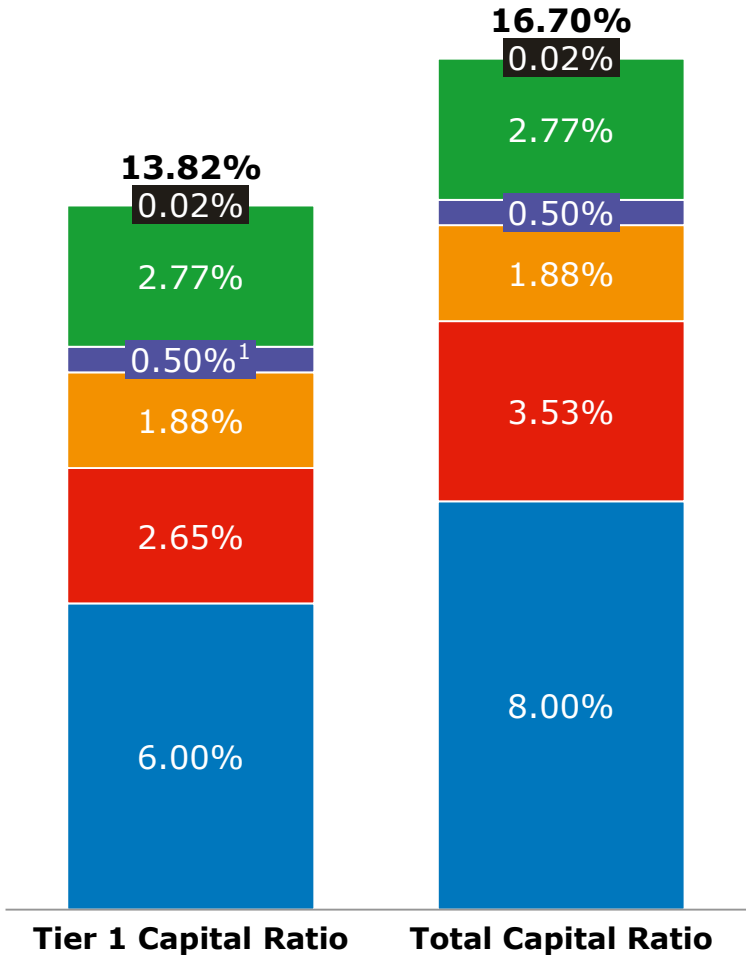
¹ Due to the adjustment of the application of the regulatory floor to the requirements of article 500 CRR and the extensions of the AIRB approach

mBank Group's loan-to-deposit ratio



mBank has to fulfil one of the highest capital requirements

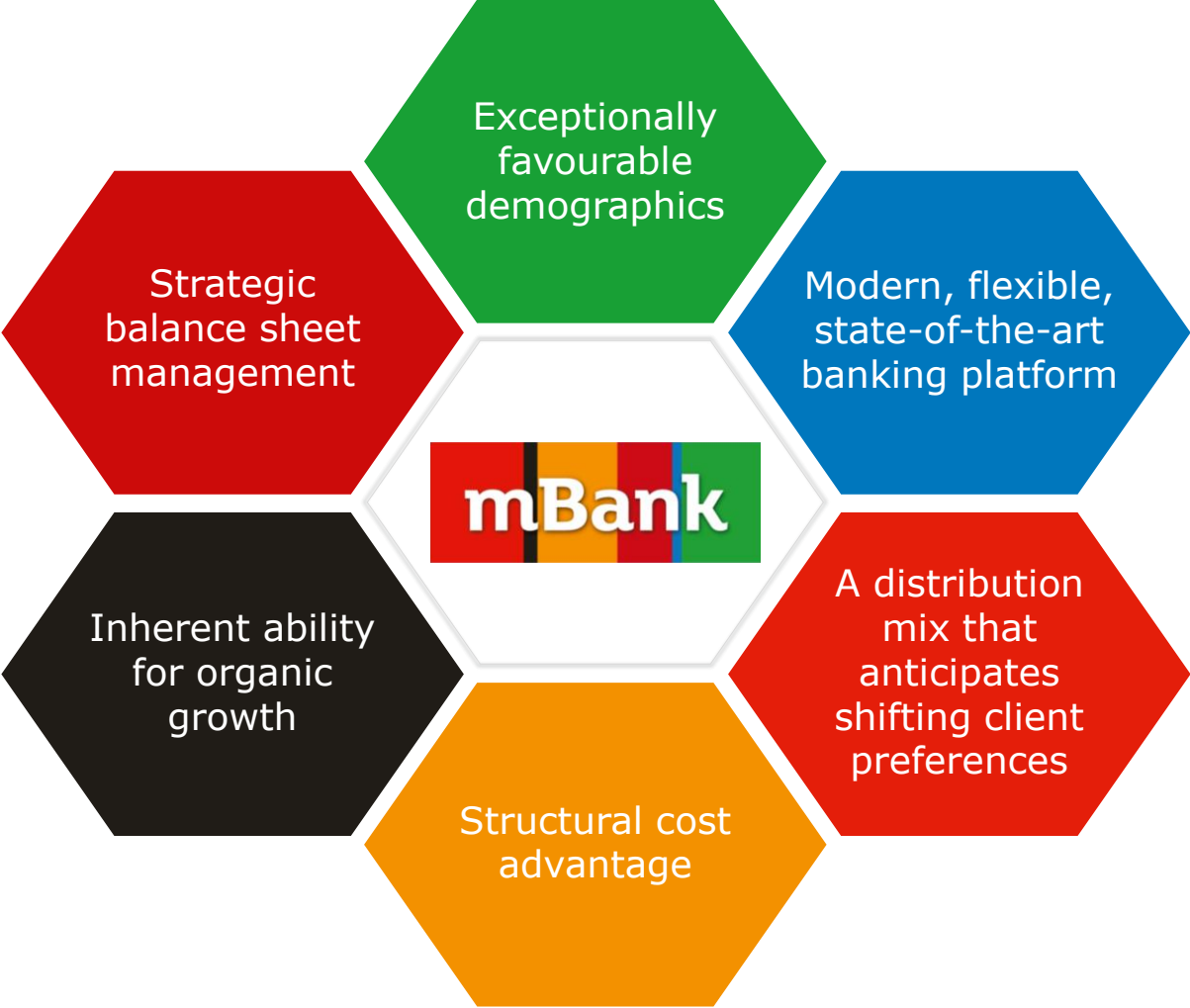
Regulatory capital requirements for mBank Group as of 30.09.2018



- **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 01.01.2018; it replaced the previous Polish FSA 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 is gradual and it was raised to from 1.25% to 1.875% from 01.01.2018 and to 2.5% from 01.01.2019.
- **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 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

mBank benefits from several strategic advantages

Competitive strengths of mBank Group



mBank Group's Strategy for 2016-2020

Specific business actions will be based on three strategy pillars

1

Empathy

- **Offer the best customer experience** i.e. give clients what they need just in time they need
- **Make banking easy**
- **Focused customer acquisition** oriented on **development of active client base**, incl. mBank's aspiration to acquire 1/3 of the young entering the banking market
- **Broaden the sources of information about the client** to target our offer more precisely

2

Mobility

- **Be the point of reference** in terms of **mobile banking**
- **Offer the best** (most convenient, hassle-free, intuitive and engaging) **mobile application on the banking market**
- **Enhance 'mobile first' distribution approach** within the multichannel model
- **Minimize the functionality gap** between mobile and internet
- **Expand base of active mobile app users** and sales via mobile channel

3

Efficiency

- **Grow while keeping the FTE base at current level**
- **Increase average revenues per client** every year
- **Enhance assets profitability** through an active management of balance sheet structure
- **Strengthen funding independence** through rising volume of covered bonds and clients transactional deposits
- Simplify, streamline, automate and **digitalise all processes to be a paperless bank**

New mission emphasizes focus on being close to clients and taking advantage of the mobile revolution

„To help. Not to annoy. To delight... Anywhere.“

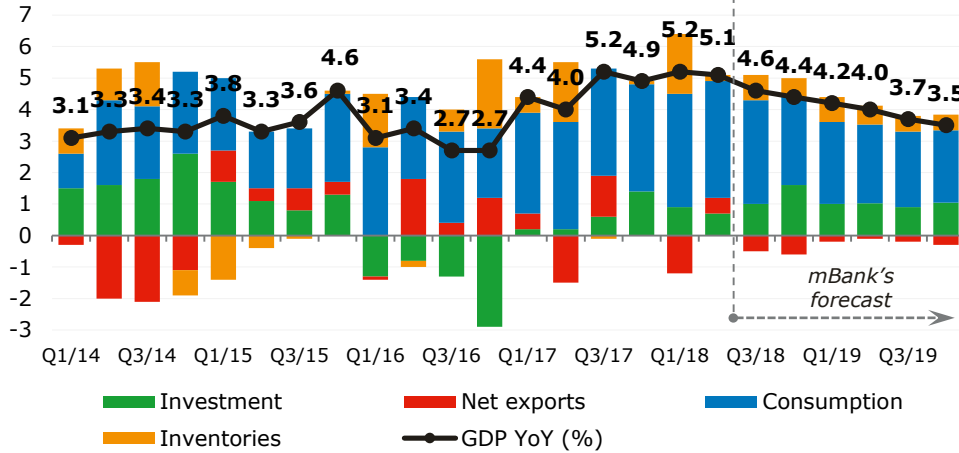
mBank Group's Strategy for 2016-2020

Financial performance targets – 5 key measures

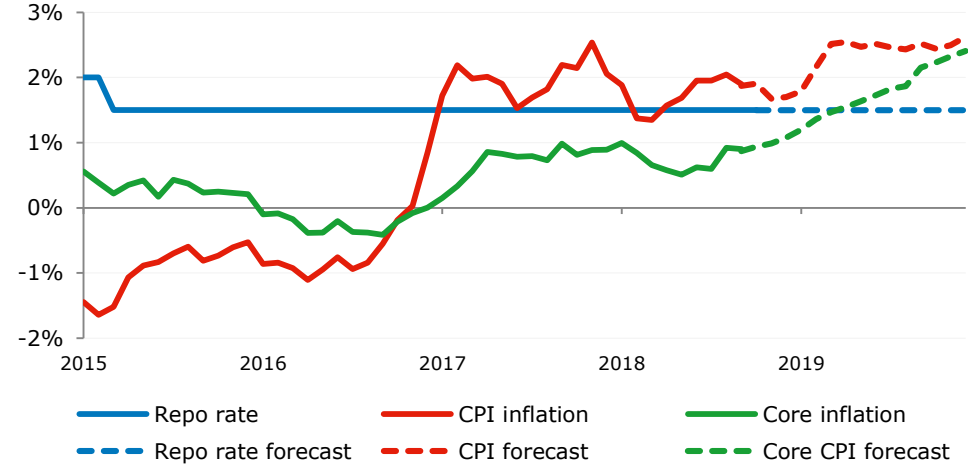
	Financial measure	Target point
1	Cost efficiency: Cost/Income ratio	Top3 in Poland, every year to be one of three most efficient listed banks in Poland
2	Owner's capital profitability: Return on Equity (ROE net)	Top3 in Poland, every year to be among the three most profitable listed banks in Poland, assuming ROE adjusted for dividend payment
3	Balance sheet profitability: Return on Assets (ROA net)	Top3 in Poland, in 2020 to be one of three listed banks in Poland with the highest ROA
4	Capital position in terms of core capital: CET 1 ratio	Maintain CET 1 ratio min. 1.5 p.p. above capital requirement for mBank and the ability to pay dividend every year
5	Financial stability and liquidity: Loan-to-Deposit ratio	Maintain L/D ratio at the level not significantly higher than 100% , every year

Macroeconomic environment remains supportive for banks

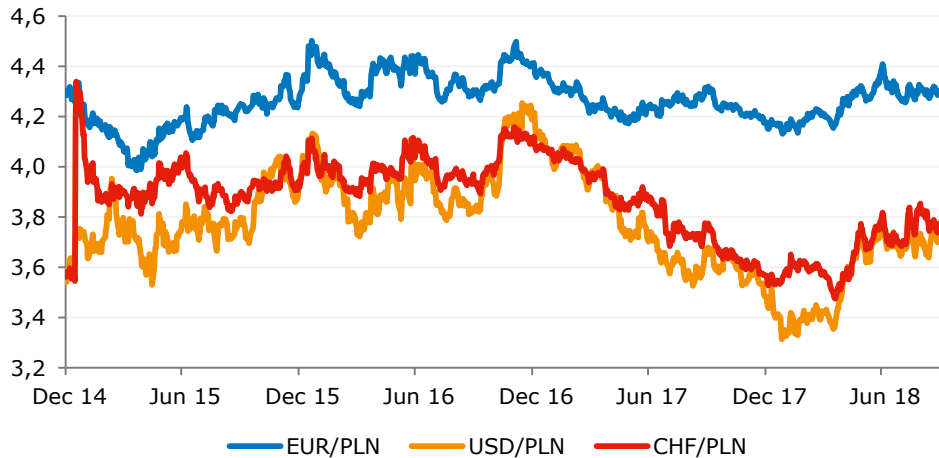
GDP growth in Poland (% YoY)



Inflation rate (YoY) and the path of interest rates



Flexible exchange rate



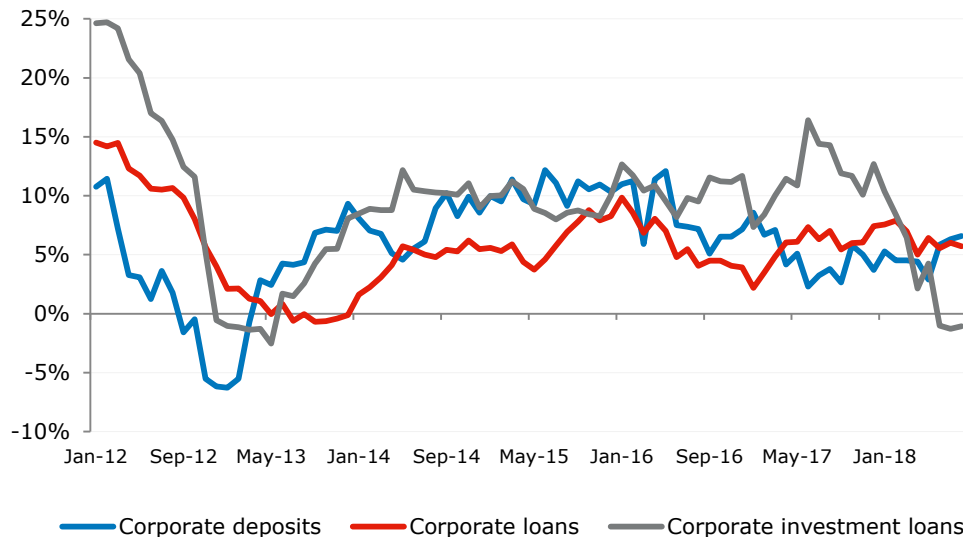
Key economic indicators for Poland

	2016	2017	2018F
GDP growth (YoY)	3.0%	4.8%	4.8%
Domestic demand (YoY)	2.3%	4.9%	5.6%
Private consumption (YoY)	3.9%	4.9%	4.6%
Investment (YoY)	-8.2%	3.9%	6.2%
Inflation (eop)	0.8%	2.1%	1.6%
MPC rate (eop)	1.50	1.50	1.50
CHF/PLN (eop)	4.11	3.57	3.84
EUR/PLN (eop)	4.40	4.18	4.40

Source: Central Statistical Office (GUS), National Bank of Poland, Bloomberg, mBank's estimates as of 05.11.2018.

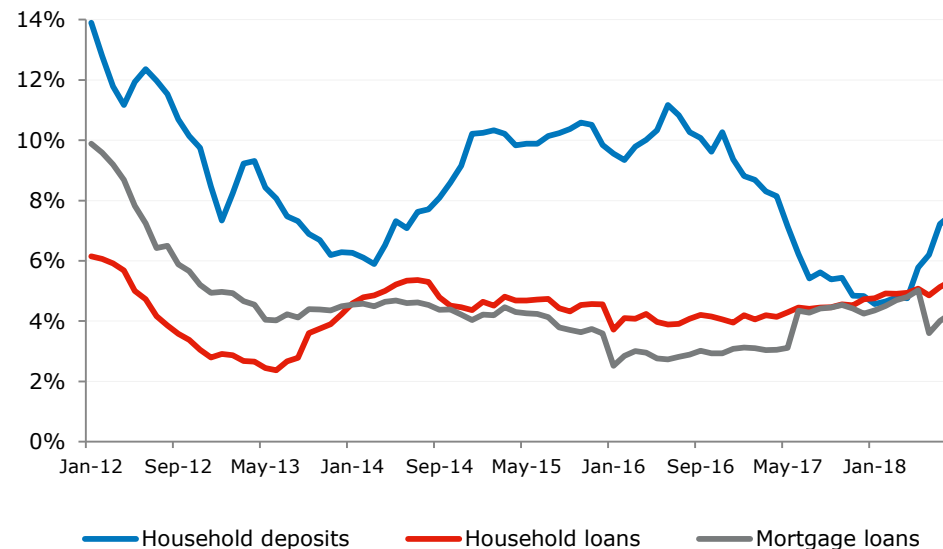
Credit growth rebounding, deposit growth slowed down

Corporate loans and deposits (% YoY, FX-adjusted)



Corporate deposits rebounded a bit, but the pressure on profit margins is reducing their growth. Corporate lending is rising at stable pace, but with large shifts in structure (more working capital loans).

Household loans and deposits (% YoY, FX-adjusted)



Household deposits rebounded sharply as alternative forms of saving lose their shine and nominal income growth remains solid. Mortgage lending is driving the acceleration in household credit.

Corporate volumes – YoY

	2016	2017	2018F
Corporate loans	5.0%	5.9%	8.2%
Corporate deposits	7.9%	2.4%	8.3%

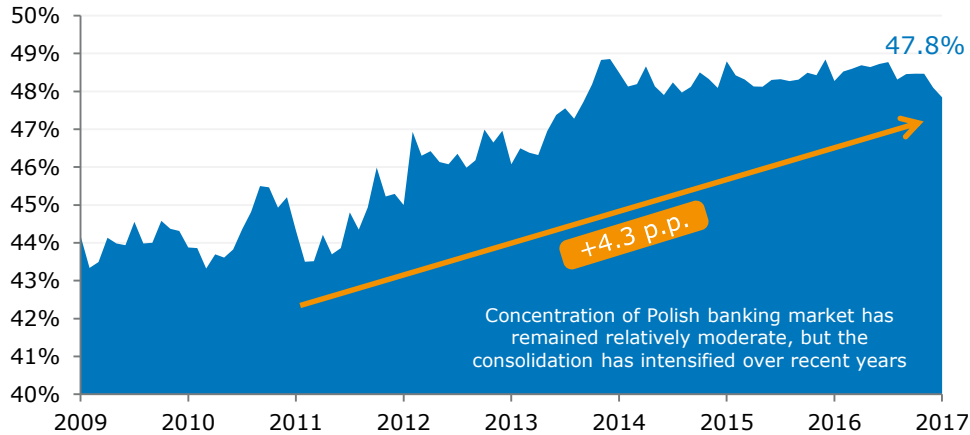
Household volumes – YoY

	2016	2017	2018F
Mortgage loans	4.8%	-0.1%	7.3%
Non-mortgage loans	5.5%	5.3%	7.2%
Retail deposits	9.7%	4.2%	8.3%

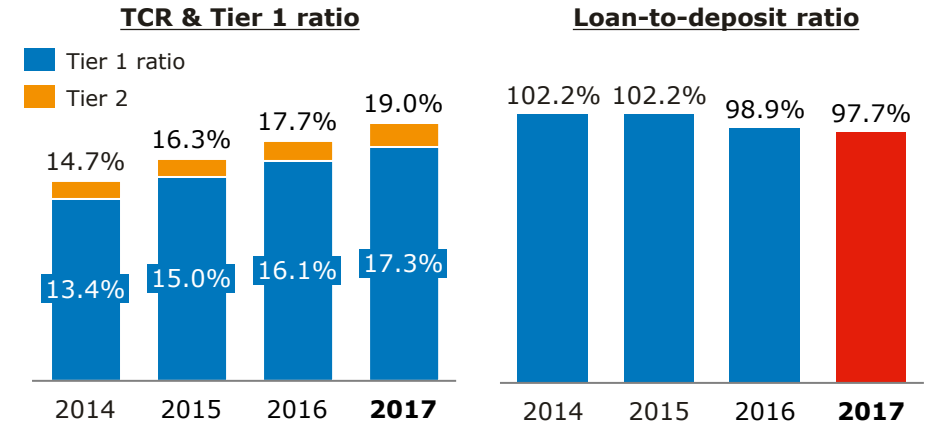
Source: National Bank of Poland, mBank's estimates as of 05.11.2018.

A well-capitalized and stable banking sector in Poland

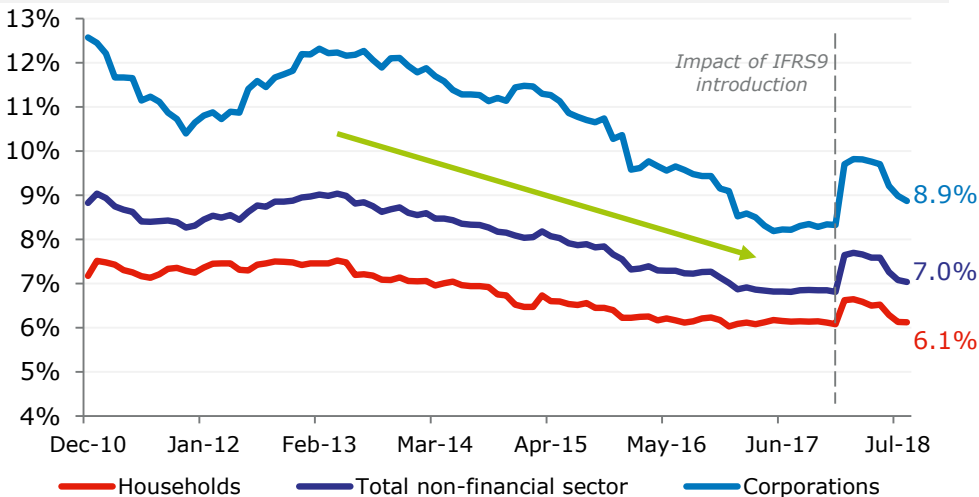
Share of 5 largest banks in sector's total assets



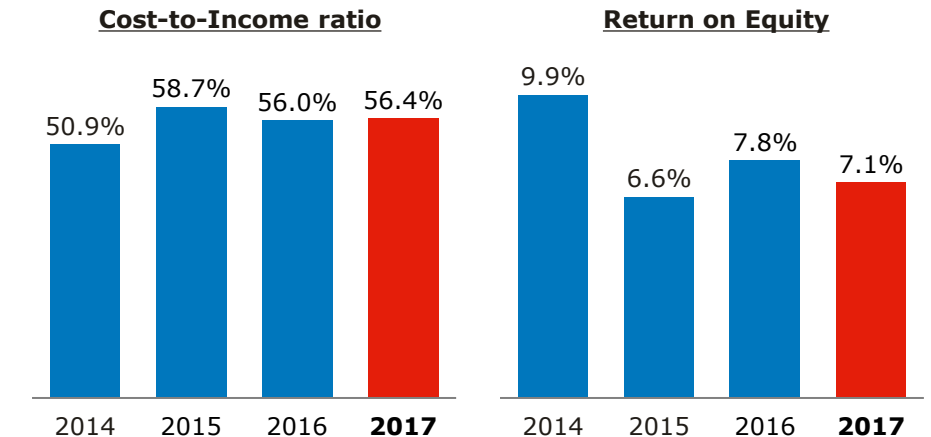
Capital adequacy and Funding: capital and L/D ratios



Asset quality: development of NPL ratios by segment



Efficiency and Profitability: C/I ratio and ROE



Source: mBank calculations based on data published by the Polish FSA, National Bank of Poland.

Note: Ratios (C/I, ROE) impacted by one-off costs in 2015 and banking tax in 2016-2017.

Operating conditions for banks have remained challenging

Key factors affecting operations and profitability of Polish banks

Low interest rate environment

After two interest rate cuts, by 0.5% in October 2014 and another 0.5% in March 2015, the Monetary Policy Council has kept the NBP interest rates unchanged with the reference rate currently at 1.50%, compared to the level of 4.25% at the end of 2012.

Interest cap on non-mortgage loans

Polish consumer lending rates are legally capped at 10% [=2 * (1.5% + 3.5%)]. Since January 2016, contractual interest on loan is not allowed to be higher than 'maximum interest' defined in the *Civil Code*, i.e. two times 'statutory interest', which is equal to the sum of NBP reference rate and 3.5%.

Reduced interchange fee on cards

Starting from 29 January 2015 the interchange fee on card transactions in Poland was reduced from 0.5% to 0.2% for debit cards and 0.3% for credit cards. Earlier, from 1 July 2014 the maximum interchange fee rate was cut from 1.1-1.3% to 0.5% for card payment transactions.

Lowered maximum Loan-to-Value limits

According to the amendment to Recommendation S, LTV limits for residential real estate mortgage loans were set at 90%, if part of the loan exceeding the 80% limit was insured or backed by high quality collateral, and at 80% in other cases. A transition period assumes a gradual reduction of the limits to the target levels in 2017, by decreasing 5 p.p. every year. In 2016 general LTV limit was set at 85%.

Charges to the Bank Guarantee Fund

On 9 October 2016 entered into force the *Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution*. Consequently, in 2017 two new funds – Deposit Guarantee Fund and Resolution Fund – were created as well as a calculation of banks' contributions were changed (no longer based on TREA).

Tax imposed of financial institutions

Starting from February 2016, banks, other credit institutions and insurers have to pay a special tax. In case of banks, assets above PLN 4 billion are taxed, with own funds and government bonds deducted from the tax base. Banks under recovery proceedings are not to pay the tax. The monthly tax rate is set at 0.0366%.

Additional capital requirements

Since 1 January 2018 the minimum required capital ratios have been raised to 10.875% for Tier 1 and 13.875% for TCR. Moreover, the Polish FSA imposed individual additional capital requirements on banks most exposed to FX mortgage loans.

Source: mBank based on the National Bank of Poland, the Polish Financial Supervision Authority, the Bank Guarantee Fund.