

mBank Group Strategy

Implementation of mBank Group Strategy for 2012-2016

The underlying principles of the Bank's "One Bank" Strategy, which was adopted in July 2012, were to improve the long-term profits and income generating capacity of the Group supported by a sound balance sheet and by providing clients with a high level of technological support and simultaneously a stronger internal integration – strengthened by brand and network unification.

The Group achieved a great majority of its strategic goals. The structure of balance sheet has been improved in terms of funding diversification, including strengthening of client deposits' role and loan to deposit ratio decline from 125.1% in 2011 to 89.4% in 2016. Additionally, long-term liquidity has been kept high and the capital position has been organically strengthened. Despite a turbulent environment, which challenged some of the profitability assumptions, the Bank is positioned above the market in terms of profitability, revenue growth and remains one of the best banks in Poland in terms of cost efficiency. At the same time, the Bank kept its focus on internal integration of its business model (including the unification of brands, integration of traditional corporate banking services with investment banking offer, migration of former MultiBank customers to the new mBank platform, consolidation of brokerage business and Private Banking under the umbrella of mBank).

The table below presents financial objectives set under Strategy for 2012-2016.

Strategy for 2012-2016		
Financial objectives	Target values	As at the end of 2016
Loan-to-deposit ratio	approximately 115% by 2016	89.4%
Net Stable Funding Ratio (NFSR)	minimum 110%	114%
Core Tier 1 ratio	approximately 11%	17.3%*
Cost-to-income (C/I) ratio	maximum 48%	45.7%
Gross ROE	minimum 15%	13.6%
Net ROA	minimum 1.4%	1.0%

* Common equity Tier 1 Capital ratio calculated in line with Basel III rules.

Current and future trends in banking and mBank's positioning

Currently, the banking sector operates in a fast changing environment and is affected by a number of factors, which impact its activities and determining future targets. The wide-spread technological solutions and demographic processes change clients' behavior. A huge amount of information, reaching from a number of channels require the choice of the necessary and elimination of the useless ones. Non-financial sector players are gradually entering traditional banking territories (the trend is more pronounced outside of Poland) putting additional pressure on banks' earnings and their own ability to innovate and compete with a much wider group of market players. Growing regulatory requirements and less attractive market environment blurs the existing advantage of Polish banks over the Western competitors. The previous market reality, including (higher nominal interest rates and the level of transactional fees, relatively reasonable prudential and regulatory fees, lack of fiscal discrimination of the banks, ensured a relatively higher return on capital and higher efficiency in comparison to banks operating in other countries. The current and future challenges require re-visiting of long-established beliefs.

While creating our „mobile Bank” Strategy, we focused on three trends, which in our opinion dominate in the current market environment and determine our future activities. These are: client era, mobility era and efficiency era.

Client era



The time of focusing solely on creating and improving products has come to an end. Clients are at the centre of attention and banking, following the steps of other sectors, has also entered the era of the customer. Agile market disruptors (today e.g. Uber, Airbnb) are obsessively focused on meeting the needs and solving of the most significant issues of the consumers, who increasingly expect to be treated in the same way by mBank. The offering should be constructed in a way that it

fulfils real client need and understanding of the offer and making the right decisions takes minimal amount of time. Only products and functionalities that are used and appreciated by clients should be developed.

In our opinion, every interaction between us and the client should fulfil three critical criteria:

- realization of the need - authentic need of the client will be realized;
- ease - in a simple and friendly manner, almost unnoticeable;
- customer experience in line with mBank brand - creating positive emotions in line with our brand.

In order to get to know better and understand the preferences of the retail clients mBank will improve the Net Promoter Score (NPS), i.e. the organized process of measuring clients' satisfaction, already ingrained in the corporate and investment banking area. In terms of change of a shift in mBank's marketing philosophy – satisfied clients shall partially replace costly marketing activities - our goal as an organization is to have as many satisfied customers, brand ambassadors, as possible. The NPS numbers will not be the value in itself. The key value of the NPS system will be to deliver the precious knowledge for the organization, the system will be treated as a managing tool, indicating the critical areas of relations with the clients requiring an improvement on the our side.

Mobility era



Smartphone, currently perceived as a first truly personal computer, will become a management centre of client's lives. The average user spends almost 3 hours a day with a smartphone and "Millennials" do not part with their device for the entire day. The majority admit that the first thing they do after waking up is reaching for a phone. The observed high dynamics of the increasing popularity of mobile solutions does not mean however that the market has already reached its peak. On the

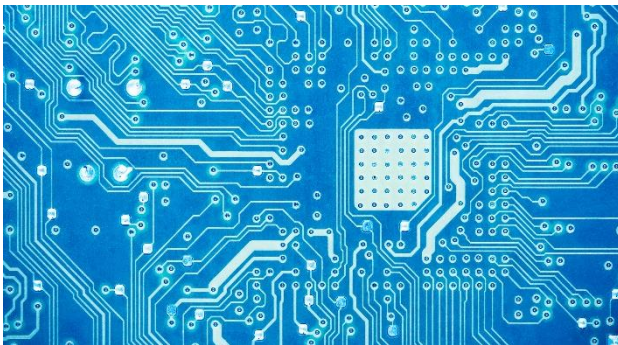
contrary - in mBank we expect that in the next few years a real smartphone revolution will take place. Mobile solutions will enter almost every aspect of life - mobility (mobile solutions) will be incorporated as a way of life.

Lean market disruptors, revolutionizing the existing force system on different markets (e.g. transport, travel, entertainment) offer the best applications, providing really mobile end-to-end customer experience and ultimate convenience (e.g. Uber, Airbnb, Spotify, Netflix).

Our three main advantages that position mBank to make a quantum leap in mobility are:

- unique brand – "m" easily associated with mobility;
- customers – younger and relatively more tech-savvy, hence more open for new banking possibilities;
- digital processes mastered, as a consequence of Internet DNA of the retail division.

Efficiency era



Polish banks have until recently been functioning in a market reality allowing significant advantage over the western counterparts in terms of return on equity (ROE) and efficiency (C/I). Since the beginning of 2015 that advantage has diminished significantly due to the growing regulatory requirements, new banking tax, other additional levies (including BFG contribution for covering the losses of cooperative bank and SKOK earlier). Less favourable market

environment exerts pressure on net interest income (interest rates on historically lowest level) and fees and commissions income (interchange fees on one of the lowest levels in Europe). The capital requirements are growing and the banking operations are limited by new liquidity indicators. The banking paradigms are changing, nevertheless return on investors' capital remains the most basic measure for efficiency of an organisation, key from shareholders' perspective.

mBank has a good starting position thanks to its effective multichannel business model, in particular digital channels and a limited branch network. The bank does not have a structural cost problem, which necessitates cost adjustments in a scale observed in many other banks in Poland and abroad as well as an effective, predictable risk management.

Mobile Bank – Strategy for 2016–2020

mBank Group's Strategy until 2020, titled mobile Bank, was accepted by mBank's Supervisory Board on June 10, 2016. The strategy sets the framework for most important strategic activity directions of the Group. It rests on three pillars creating a canvas for implementing specific business actions to be undertaken by mBank over the next years. There are: client centricity, leveraging on mobility and continued improvement of efficiency. The „mobile Bank“ Strategy also defines the foundations for the strategy implementation, including engagement of mBank employees, principles of the organization development as well as a framework for the bank's technological agility.

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

mBank's mission reflects the emergence of the client and mobility eras, which are the two most critical factors about to shape the business models at financial institutions.

„mobile Bank“ Strategy pillars:

- 1. Empathy for the client** – all mBank's actions will be driven by clients and their individual needs, preferences and behaviours. mBank's ultimate goal is to make sure that clients want to choose it permanently and are keen to recommend it, having been highly satisfied with its services. The goals of the Empathy pillar defined in the new mission are the following:
 - To help. To offer what clients really need and when they need it. To construct the offer in such way that it fulfils actual needs of the clients. To simplify so that understanding of the offer and making the right decisions takes minimal amount of time.
 - Not to annoy the clients, facilitating the cooperation with the bank and to minimize the hassle and effort for the customers. To deal efficiently with customers' difficulties during the first contact between a client and the bank, regardless of the contact channel.
 - To delight the clients by making them feel special and appreciated thus creating the most valuable brand ambassadors at mBank. Satisfied employees are also the natural ambassadors of mBank's services, therefore mBank will strongly promote among them the use of its offer, mobile solutions in particular.
- 2. Mobility** – it is mBank's ambition to be the synonym of mobile banking, focusing on the following priorities: convenience, usability and simplicity from customer's point of view. Consequently the development of new application functionalities will be concentrated on three main areas:
 - *Mobile Hub*: gate in a multichannel strategy in contacting the client - Regardless of the starting of a transaction – each distribution channel will be a click away on the client's tablet or smartphone. At the same time mBank expects, that most contacts in the 2020 perspective will commence on a smartphone which will be a "gate" for the client to seamlessly switch between channels;
 - *Reinforcing the role of mobile banking as a contact channel*: minimizing the functionality gap between mobile and internet - mBank will ensure bigger independence of the mobile channel and will limit its functionality gap compared to other distribution channels;
 - *Customer engagement* through use of innovative, unique functionalities engaging the client - mBank will create and reinforce the habit of using its mobile application, which will consequently generate additional opportunities to approach customers with an adequate product offering.
- 3. Efficiency** - focus on efficiency supports mBank's profitability in times when returns from core banking products in Poland are under significant pressure. Business development in terms of asset classes, maturities, sources of financing and concentration of the business activity (groups of products and client segments, presence on foreign markets) will be carried out in full compliance with the rules for optimal cost efficiency and process digitalization, efficient capital allocation and stable funding.

Strategy enablers

Implementation of specific, strategic initiatives will require strong engagement of employees of the entire Group, as well as targeted, agile IT strategy. As such, the foundations for the strategy implementation are:

- **Engaged people:** mBank will create conditions for full engagement of employees in building a friendly working environment allowing them to achieve their ambitions. The priority of HR strategy is attracting and retaining the best and motivated specialists and managers in the sector.
- **Technological advantage:** mBank will skilfully build world class IT organization and its agile, client-driven IT will become a source of the bank's competitive advantage.

mBank Group financial targets

In a rapidly evolving business, regulatory and technological environment, a reliable formulation of financial targets in a 5 year horizon becomes a significant challenge. mBank, leveraging on its key strengths has in the past been able to outperform most of its competitors in terms of financial results. It remains mBank's strategic goal to be positioned among the leading banks in Poland in terms of key financial measures.

Determining financial targets for the years 2016-2020 has been based on mBank's ambitious assumptions regarding mainly cost effectiveness as well as returns on equity and assets. Moreover, mBank's intention is to pay dividend of at least 50% of profits, subject to regulatory (Polish Financial Authority's) consent, as well as to further strengthen its funding base.

The table below presents mBank Group's financial aspirations:

Financial measure	Target point
Cost efficiency, Cost-to-Income (C/I)	Top 3 in Poland, each year i.e. to be one of three most effective listed banks in Poland
Return on capital, RoE net	Top 3 in Poland, each year i.e. to be among the three most profitable listed banks in Poland from the RoE standpoint adjusted for dividend distribution
Assets profitability, RoA net	Top 3 in Poland, in 2020 i.e. to be one of three listed banks in Poland with highest return on assets
Capital position, capital adequacy in terms of core capital CET1	Maintain the ability of dividend pay-out in terms of CET1 ratio, annually - maintain the ratio minimum 1.5 p.p. above capital requirement for mBank
Financial stability, Loans/Deposits ratio (L/D)	Maintain the L/D ratio at most not significantly higher than 100%, each year

The pillars of the “mobile Bank” Strategy in mBank’s activities

The pillars of mBank Group’s strategy for 2016-2020 have been developed in response to the most important challenges faced by banks in terms of running business activities. According to mBank, these pillars include the client era, the mobility era and the efficiency era. At present, mBank focuses on these three pillars which are also to set the directions for the Bank’s future operations. Below you can find our activities within the three most important trends in banking which, at the same time, constitute the pillars of our strategy.

Client-centric approach

The new “Mobile Bank” Strategy is our response to the challenges posed by the era of clients who serve as the starting point for all our decisions. The Bank’s mission and the desired clients’ experience of the relation with the Bank have been defined in the strategic document. We concentrate on a consistent building of a fresh, dynamic brand attracting new generations of consumers and entrepreneurs whose aim is to develop themselves, act, and fulfil both their plans and dreams. We emphasised the need for acting on three levels: satisfying clients’ needs (both the needs clients are aware of and “the needs of tomorrow”); in a simple and client-friendly manner, in the way characteristic of a modern institution being the icon of innovation; evoking positive associations and, at the same time, being completely different from other brands. Mobility at the level incomparable to the one offered by our competition should be the element distinguishing us from others.

We ran a number of activities in 2016 which broadened our knowledge about clients’ needs and expectations and enabled us to assess the Bank’s operations from their perspective. We apply all methods for acquiring this knowledge: market research, both quantitative and qualitative; ethnography; customer journey map; in-depth NPS survey. Additionally, we are guided by the analysis of data from our systems which is conducted with the use of available cutting edge technology.

We have considerably improved the analytics arising out of clients’ complaints. This allows us to remove the reasons for complaints and, consequently, to increase the quality of services rendered to our clients. Thanks to these actions, the number of complaints has dropped despite the significant growth in the number of clients and the volumes of transactions.

Cultural and communication activities run every day at the Bank bring clients and their needs nearer to all mBank’s employees. We believe that successful relations with clients do not depend on front office employees only, but also on the work of those who have no contact with clients on a daily basis, which means that they have no opportunity to develop sensitivity to clients’ problems based on their personal experience.

In order to get closer to our clients and understand each other better, we have worked on communication language addressed to clients using not only conventional methods (training sessions with language experts) but also modern ones (algorithm to evaluate if documents are clear and correct). Agreements offered to our clients are written with the use of a revolutionary simple and “nonlegal” language as their clarity is one of our characteristic that distinguishes us from others.

We have implemented a wide range of technological innovations for our clients (i.e. a very popular mobile payment assistant) and we are still working on new innovations (mobile phone payments).

The strategy has provided for a new function in mBank Group – position for customer centricity culture and client relations, Management Board Plenipotentiary. The centralisation and high position of this function aim at, in an exact sense, – the coordination and standardisation of activities influencing clients’ experience, and in a symbolic sense – stressing the significance which the Management Board attaches to these issues.

Mobility

The mobile application, launched in February 2014, has won a large group of new users over the last three years, and based on a survey of actual needs of the clients, has been enriched with a number of new features. Mobile banking services are used systematically by over 1.1 million clients, an average user does banking via mobile devices 18 times a month. The “mBank PL” application offers

a wide range of convenient and unique solutions, e.g. the "loan in 30 seconds" which now accounts for 18% of overall cash loan sales.

Following the positive reception of the new features introduced in 2015, such as the payment of invoices using QR code scanning, NFC payments for Android system (available to Orange subscribers), and the option to change the authorisation limits on payment cards, mBank decided to pursue further development.

In 2016 we introduced a number of new features and improvements into the application, including:

- "mLine in a click" service, which allows clients to connect with mLine consultants directly from the application, without the need to use one's ID and telecode;
- option to change card transaction limits;
- possibility of logging into the application with a fingerprint;
- express transfers using telephone numbers within the BLIK system;
- possibility of purchasing travel insurance (at present, 15% of travel insurance policies are bought via the application);
- "Payment Assistant" service which reminds clients of all regular payments, suggesting the amount due and the payment date and allowing them to quickly settle invoices;
- mobile Authorisation - a service allowing users to authorise transactions made in the transaction system via the mobile application. Instead of typing passwords received in a text message, all that the client needs to do is to log into the application and accept (or reject) a given transaction with one click.

In February 2016 the mobile application was ranked the best banking application in the Mobile Trends Awards competition, and in September it won the "Newsweek Friendly Bank" ranking in the "Mobile Banking" category. For more information about the awards granted to mBank Group, see chapter 6.1. Key projects and innovations of mBank Group in 2016.

Efficiency

One of the signs of efficiency improvement at mBank Group was the implementation of the Lean approach in mCentrum Operacji.

The object of the operating activity of mCentrum Operacji (mCO) is to support the settlement of processes at mBank, in terms of both retail and corporate banking. The effective handling of processes constitutes an important element supporting the Bank in the achievement of the market success. The most significant factor in the operational area is increasing the efficiency of activities with a simultaneous maintenance of high quality of products offered to clients. This thesis was brought into focus when the decision about implementing the Lean approach was made in H2 2012.

The Lean approach was implemented in operations "from the bottom". This means that few small optimisation projects were launched at the very beginning. Operational employees were involved for this purpose and their creativity and knowledge about what does not work properly in the processes were used. First successes encouraged us to develop a culture of small changes in other areas. On that basis, it was decided to build and develop a culture of a continuous improvement in the whole operational area. Currently, depending on needs, various tools are applied from the wide range of those available under Lean Management. The most popular tools include whiteboards, mainly because of their usefulness and wide application range. The most significant indicators of process measurement, which are discussed at short, daytime meetings, are visualised with the use of the whiteboards. Thanks to that, it is possible to monitor processes on an ongoing basis and response swiftly to emerging threats, i.e. a rapid growth of the volume and, consequently, a risk of failure to meet the deadline contracted with a client. These changes could be successfully implemented due to

the commitment of the company's management that conducts weekly "economic visits" in particular operational divisions emphasising the significance of and need for the changes.

Today one can say without hesitation that the cultural change has taken place. Operations, where, at the same time, the biggest increase in commitment among employees was reported in 2016, constitute a continuously developing area of the Bank.

All these activities generate measurable effects:

- 54% is the total result of optimisation calculated per FTE from the beginning of work on the improvement of the processes in operations;
- 85% is the increase in the employees' commitment measured according to a survey conducted by Aon Hewitt.

During the process of operational transformation, we completed several initiatives, necessary to achieve the aim. One of the most important initiatives was the implementation of the comprehensive project measurement system, known as OPOS. It is a tool supporting the management of processes and the employees' effectiveness.

A second part of improvements, i.e. the digitalisation of the carried out processes, has been implemented parallel to the introduction of the Lean approach. With the use of IT solutions including "The Correspondence Circulation System" (SOK) and ECM, i.e. a repository to store and browse electronic versions of documents, we completed initiatives, thanks to which:

- from June 2015, over 80% of operational processes have been conducted paperless and employees have been using only the application and two monitors to handle them;
- 25 thousand pages of printouts were eliminated monthly in 2016. In order to further develop the operation area, a continuous improvement of the processes is planned, taking into consideration:
 - opportunities brought by new technologies, e.g. robotisation;
 - process automation;
 - further digitalisation of processes, including in particular the elimination of paper from banking product lifecycle and, consequently, the growth of mobility;
 - further development of Lean Management, with the focus on employees.

CSR Strategy

[G4-34] At the end of 2015, the Management Board of the Bank adopted a strategy defining directions, goals and measures as regards CSR. "Strategy for corporate sustainability and responsibility of mBank S.A." is a result of group work involving key managers responsible for particular functional areas of the Bank. 2016 was the first year of the strategy implementation. In this report, our aim is to assess the actions taken by us.

The approach to social responsibility management adopted at the strategy building stage is based on the PN-ISO26000 standard. The provisions of the Global Reporting Initiative (GRI) G4 reporting guidelines and of the sector supplement relevant for the industry have been applied as well. In accordance with the guidelines set out in PN-ISO 26000, the work on the strategy was underpinned by meeting two fundamental conditions of corporate social responsibility, i.e. (a) identifying and mapping key stakeholder groups, (b) acknowledging the Bank's responsibility by defining and indicating key areas of corporate social responsibility. The workshop held at the end of May 2015, attended by key managers of the Bank responsible for areas potentially significant from the point of view of the Bank's corporate social responsibility helped identify the scope of responsibility and map the stakeholders.

The effects of the workshop and later in-depth interviews with selected managers made it possible to define the following goals and indicators (the main goals are supplemented by lower category targets and measures. Together, they form a comprehensive strategy).

Measure (KPI)	Milestone (MS) / Measure (M)	2016	2017	2018	2019	2020
Goal 1: We want to understand, respect and share our clients' values. We want to be open. We want to think and feel like they do.						
NPS for a business client (for particular major events)	M	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period
NPS for a retail client (for particular major events)	M	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period
Goal 2: We want to be a responsible lender.						
Number of major social or environmental conflicts in which mBank, being a financial institution, participates indirectly	M	0	0	0	0	0
Goal 3: We want to build an exceptional team, competence and skills. We want to share what's best about us with others. We want to be unique.						
results of the Employee Engagement Survey (assessment of workplace satisfaction)	M	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period	>100% from the previous period
Goal 4: We want to reduce our environmental footprint.						
Reducing bank's environmental footprint with respect to: - CO2 emission / revenue - water consumption / revenue - paper consumption / revenue	M	✓	✓	✓	✓	✓
Goal 5: We want to improve our management approach.						
position in the Ranking of Responsible Companies (guaranteeing a high position among institutions from the financial sector)	M	minimum 8th (among financial institutions)	minimum 5th (among financial institutions)	minimum 4th (among financial institutions)	minimum 4th (among financial institutions)	minimum 3rd (among financial institutions)
listed in the RESPECT Index	M		✓	✓	✓	✓

In June 2016, the Management Board adopted the "Code of Conduct", which once again clearly indicates the key areas of mBank's corporate responsibility and expected behaviours of employees (see the chapter 7. Responsible company, "Prevention of unethical behaviours", the frame "Code of Conduct").