

Dear Sir/Madam,

Please find attached the annual financial statements of mBank Hipoteczny S.A. for the year 2019.

The macroeconomic conditions for banks were relatively good in 2019 and the boom in the residential and commercial properties market helped the Bank in consolidating positive trends in our operations.

The balance sheet total as at the end of 2019 reached PLN 13.19 billion; the loan portfolio closed with PLN 11.88 billion, while the gross profit amounted to PLN 59,07 million.

mBank Hipoteczny is a mortgage bank with the longest history of issues of covered bonds in the Polish capital market. The value of outstanding mortgage covered bonds issued by the Bank as at 31 December 2019 was PLN 8.2 billion, which accounts for 32% of the total market, which already amounts to more than PLN 25.8 billion.

The covered bond issue activities of the Bank are a significant element of the Strategy of the mBank Group in the area of financing. The magnitude of bond issue activities in 2019 and parameters of individual issues are a confirmation of the implementation of the Bank's financing strategy, which mainly provides for fund raising and refinancing of long-term mortgage loans through issues of covered bonds with the assumption of the reduction of mismatches between the maturity dates of liabilities and assets, currency mismatch and lower costs of funds raised.

In 2019, the Bank successfully placed on the market 2 issues of mortgage covered bonds with the total nominal value of PLN 1.4 billion. The value of outstanding mortgage covered bonds issued by the Bank as at 31 December 2019 was PLN 8.2 billion, which accounts for 32% of the total market, which already amounts to more than PLN 25.8 billion.

The issue in the amount of PLN 100 million was conducted under the Covered Bonds Issue Programme approved by the PFSA in 2016. The book-building process was run by mBank S.A., subscriptions were made by 8 subscribers, including asset management institutions, banks, as well as insurance companies and pension funds. Currently, this is the issue of PLN covered bonds with the longest maturity traded on the Warsaw Stock Exchange in Warsaw.

The issue of EUR 300 million is another benchmarking issue of covered bonds in the international market conducted under the International Covered Bonds Issue Programme. The final valuation was 43 base points above MS (Mid-Swap), and the coupon was 0.242%. From the perspective of the mBank Group, this has been the most favourably placed debt issue in the international market to date.

Declaration forms for purchase of mBH covered bonds for the total amount of over EUR 1 billion (3.4 times the value of the placed issue) were submitted by more than 74 investors. After the allocation, the transaction structure by geographical location and entity is as follows:

Geographical allocation:

1. Scandinavian countries — 29%
2. Austria — 9%
3. CEE — 4%
4. Switzerland — 3%
5. Benelux — 3%; and other countries — 4%

Allocation by entity:

1. Investment funds — 55%
2. Banks — 28%
3. Pension funds and insurance companies — 8%
4. Governmental agencies — 9%

The Bank's covered bonds are instruments that carry low investment risk, resulting from the statutory requirement of multi-tiered security of their issue and trade.

It should be noted that the Bank launched its preparations to implement a new treasury product, i.e. the Green Covered Bonds, which will meet the criteria of sustainable financing (harmonised with the ICMA Green Bond Principles and the Climate Bond Initiative taxonomy). By issuing Green Covered Bonds, the Bank intends to obtain funds for the mBank Group, which could be earmarked for financing eco-friendly projects implemented by customers, in particular concerning energy-saving residential properties. The works are carried out within the project team in cooperation with mBank and an external counsellor.

Since 1 January 2019, the Bank has not carried out acquisition of loans to finance commercial properties. The process was moved to mBank. The commercial receivables pooling from mBank was not carried out. The Bank signed an agreement with mBank, under which it outsources activities related to the administration and monitoring of the portfolio of loans to finance commercial properties remaining in its books.

In the retail area, in line with the mBank Group's strategy, the Bank carried out 8 pooling transactions, thanks to which it recorded an increase in the portfolio of mortgage loans for retail customers by PLN 1,307 million, i.e. 21.2%.

The net value of the entire loan portfolio increased by 5.84% as compared to the end of 2018, reaching PLN 11.7 billion.

In 2019, the Bank's activities in the area of retail loans focused on acquiring retail loans exclusively in the pooling model. In 2019, the Bank actively cooperated with mBank to modify the product — the retail mortgage loan — and maximise sales of this type of loans granted on the part of mBank, which meet the requirements of securing issues of covered bonds by the Bank. A new, innovative process was also developed to ensure the possibility of transfer of retail assets in monthly cycles.

The currency structure of the loan portfolio changed slightly. Compared to the end of 2018, the share of loans in PLN increased by 6.14 percentage points and as at the end of 2019, it accounted for 73.22% of the loan portfolio. The share of loans in EUR amounted to 26.48%.

The financial credibility of mBank Hipoteczny S.A. and covered bonds and issued by the Bank is assessed by an international rating agency — Fitch and since 27 May 2019 — Moody's Investors Service Ltd. The following ratings were in place as at the reporting date:

| | RATING | Prospect | Date of assignment |
|--|---------------|-----------------|---------------------------|
| <i>Long-Term Issuer Default Ratings (IDR)</i> | BBB | Stable | 30-11-2018 confirmation |
| <i>Short-Term Issuer Default Ratings (IDR)</i> | F2 | - | 30-11-2018 confirmation |
| <i>National Long-Term Rating</i> | AA-(pol) | Stable | 30-11-2018 confirmation |
| <i>National Short-Term Rating</i> | F1+(pol) | - | 30-11-2018 confirmation |

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| <i>Support Rating</i> | 2 | - | 30-11-2018 confirmation |
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Fitch assigns its ratings according to the following scale (in descending order):

- long-term international/domestic (pol) ratings: AAA, AA, A, BBB, BB, B, CCC, CC, C, RD, D
- short-term international/domestic (pol) ratings: F1, F2, F3, B, C, RD, D
- support ratings: 1, 2, 3, 4, 5

| | Moody's rating | Prospect | Date of assignment |
|---|---------------------------|-----------------|--|
| <i>Long-term Issuer Ratings</i> | Baa2 | Stable | 27-05-2019 <i>rating assignment</i> |
| <i>Short-term Issuer Ratings</i> | Prime-2 | - | 27-05-2019 <i>rating assignment</i> |
| <i>Long-term Counterparty Risk Ratings</i> | A3 | - | 27-05-2019 <i>rating assignment</i> |
| <i>Short-term Counterparty Risk Ratings</i> | Prime-2 | - | 27-05-2019 <i>rating assignment</i> |

In presenting these financial statements, I would like to thank all our Clients and Investors for the trust they put in us during the past year.

On the day I sign this letter, the scale and rate of spread of the SARS-CoV-2 coronavirus epidemic are not yet known, and the period in which the virus will affect the Bank's stakeholders is still unknown.

In the bank's operations, the following areas of the negative impact of the epidemic on business processes can be identified:

1. Credit risk.

We identify the credit risk associated with the deterioration of the possibility of generating commercial revenues for revenue properties (CRE). In the Bank's loan portfolio, the greatest risk is related to exposures to shopping centers, hotels and housing developers. If the SARS-CoV-2 virus threat persists, credit servicing problems may translate into other CRE exposures, followed by retail housing loans. The credit risk in the retail mortgage loan portfolio will also increase. Some retail borrowers who do not depend on their work, but their own business, may experience financial problems and apply for a grace period.

2. Liquidity risk.

Deterioration in the quality of loans will affect the value of the covered bond collateral register, which will translate into limiting or suspending the bank's issuing options, i.e. refinancing its operations by issuing mortgage covered bonds. There may be short-term disruptions in the primary market due to limited contact with investors working in an epidemic regime, but emergency procedures in individual institutions should eliminate these disruptions in the longer term.

3. Risk of financial stability. The consequences described above for the quality of the loan portfolio will consequently result in a decrease in the Bank's financial result and profitability caused by a decrease in interest income and an increase in write-offs. Finally, with the deepening and prolonged epidemiological crisis, we identify the risk of financial stability.

4. Operational risk. The Bank also identifies operational risk related to: - availability of human resources. It is likely, especially in the epidemic development scenario, that many employees will not work because of illness, childcare or quarantine. - availability of insourcer services due to their staffing problems. As at the date of publication of the financial statements, all critical processes of the bank are executed.

We expect the effects of market distortions to be eased by regulatory and fiscal-monetary solutions. In particular, the activities of central banks ensuring liquidity of financial institutions (reduction of reference rates, purchase programs and liquidity supply operations) and assistance programs for entrepreneurs should significantly mitigate the risks defined above. At present, however, the specific parameters of these activities are not known so that it is possible to estimate the impact on the bank's balance sheet and profit and loss account.

Yours faithfully,

Piotr Cyburt