

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

Dear Shareholders,

Under conditions of a demanding external environment, a competitive market, continued regulatory pressure and additional burdens imposed on the financial sector, 2017 was successful for mBank. Net profit attributable to the shareholders of mBank stood at PLN 1,092 million, representing an increase of 6.0% year on year on a comparative basis, i.e. excluding the one-off gain from the Visa transaction and an additional contribution to the Bank Guarantee Fund following the bankruptcy of Cooperative Bank in Nadarzynie in 2016. The improvement of the results was mainly owed to positive trends on the revenue side. In 2017, mBank Group generated historically high total income of PLN 4,454 million. The increase was driven mainly by continued business expansion and positive tendencies in volumes. As a consequence, the recurrent operating profit grew by 10.0% year on year.

In the flat interest rate environment, our net interest income rose by 10.7% year on year and reached PLN 3,136 million while the net interest margin improved by 18 basis points and stood at 2.48% owing to both the assets and the liabilities on our balance sheet. In 2017, we focused on higher-margin lending products, which made a strong contribution to interest income. However, the main growth driver of the margin was the cost of funding, reduced to a historically low level. This was achieved by changing the structure of amounts due to customers, with an increase in the volume and share of funds on no-interest-bearing transactional accounts.

After the difficult 2015 and 2016, when net fee and commission income of mBank and the entire banking sector was affected by reduced interchange fees on cashless transactions with payment cards, slowdown in lending, Recommendation U and weak capital markets, we reported positive trends in most categories of fees. Consequently, net fee and commission income stood at PLN 992 million, representing a year-on-year increase of 9.5%. Higher income was earned from credit activity, brokerage, trade finance, as well as maintenance of accounts, execution of money transfers, and sale of insurance products. At the same time, our price list was modified very selectively for a small range of services only.

Our effectiveness as measured by the cost/income ratio of 45.9% was well above the industry benchmark in 2017. Unlike in 2015 and 2016, we avoided additional expenses caused by bankruptcies of cooperative banks. The recurrent administrative costs of mBank Group including amortisation increased by 4.7% to PLN 2,043 million in 2017. The expenses were inflated by our contribution to the Bank Guarantee Fund, which rose by 19.4%. Starting from 2017, the contribution is calculated according to the new rules and includes payments towards deposit guarantee and bank resolution funds. We continued to invest in future growth, in particular in technology and security, in order to deliver innovative and secure digital banking solutions to our customers. We were engaged in a range of other projects, including a new head office in Łódź. The new building accommodates our employees who previously worked at six different locations across the town. The personnel cost grew by 3.0% year on year while the average headcount of the Group decreased modestly in 2017.

A prudent approach to risk management combined with a conservative credit policy ensure a high quality of our loan portfolio. Cost of risk in 2017 was at 61 basis points while net loan loss provisions increased by 39.0% to PLN 508 million. The high growth rate of LLPs was due to the low comparative base of 2016, when net provisions were helped by the sale of impaired corporate and retail receivables as well as the payment of claims by KUKE (Export Credit Insurance Corporation), which allowed us to release LLPs. Nevertheless, mBank Group's NPL ratio decreased modestly to 5.2% at 2017 year-end while the coverage ratio was 59.2%.

Last but not least, the profitability of mBank Group in 2017 was largely impacted by the tax on certain financial institutions, which deducted PLN 375.3 million from our profit, taking away 2.6 percentage points of return on equity. ROE dropped to 8.3% compared to 10.1% in 2016. However, the measure should be seen from the perspective of continued improvement of the Bank's capital

base, which is partly driven by regulatory requirements designed to support the stability of the Polish banking industry and to make it resilient to shocks. The Polish Financial Supervision Authority (KNF) requires mBank to maintain an add-on capital requirement to cover the risk related to FX retail mortgage loans. Following a revision in late 2017, it has amounted to 3.53 percentage points for total capital ratio (TCR) and 2.65 percentage points for Tier 1 capital ratio. The other systemically important institution buffer imposed on the Bank was raised to 0.75% from 0.5% of the total risk exposure amount. Despite these high requirements, our capital position is well above the regulatory minimum. mBank Group's Tier 1 ratio was at 18.3% and TCR equalled to 21.0% at the end of 2017.

The balance sheet structure of mBank Group improved in 2017. The volume of gross loans, net of the FX effect, grew by 7.4% year on year to PLN 87.4 billion. New non-mortgage loan production increased by 16% year on year and reached a record-high PLN 7.1 billion, which was more than double the sale of housing loans. Despite delayed recovery of investments, the corporate portfolio grew by 11.0% in 2017, mainly thanks to the contribution of the SME segment. The FX mortgage loan portfolio continued to shrink. In nominal terms, the portfolio decreased by CHF 376 million and its share in total loans dropped to 17.5% at the end of 2017.

The growth rate of deposits slowed down considerably in the last quarters at mBank and across the banking industry. While the value of amounts due to customers remained stable year on year, the maturity structure improved significantly to the advantage of the cost of funding. We are glad to report continued increase of retail current account balances, as combined with savings accounts, they increased by 14.9% year on year. This proves that customers appreciate our service of a convenient and user-friendly transactional bank. The dynamics of volumes ensured a loan-to-deposit ratio of 92.3%, which is comfortable for our liquidity position. Speaking of funding sources, we completed new debt issues in 2017. We placed CHF 200 million of six-year unsecured bonds with an attractive coupon of 1.005% p.a. under the EMTN programme. mBank Hipoteczny completed four public issues of covered bonds worth more than PLN 2.0 billion in aggregate, which support the maturity match of the Group's assets and liabilities. Furthermore, we repaid CHF 750 million of loans to Commerzbank and CHF 400 million of subordinated debt.

The key features which distinguish mBank from the consolidating Polish market include our capacity for organic growth, which represents our major competitive advantage. Customer acquisition in 2017 was very successful. We added 1,108 companies to our corporate customer base, which comprised 22,048 corporates at the year's end. We acquired 170 thousand retail customers in Poland as well as 36 thousand individuals in the Czech Republic and Slovakia. We added 84 thousand unique accounts to the Orange Finance base. All in all, mBank serves 5,342 thousand clients on three markets. The demographic profile of our customer base with a high share of young individuals makes for continued growth of the income potential of mBank customers year after year to the advantage of our future profitability.

Changes in the structure of mBank Group over the year as well as new strategic initiatives attest to our commitment to technological development and the opportunities it opens for even better, more efficient and innovative customer service. In February 2017, we announced the launch of mAccelerator – a fund which manages assets worth EUR 50 million. The fund invests in start-ups which develop ideas that could be used in the financial sector, including mainly cybersecurity, biometrics, process robotisation, AI and digital marketing. The fund portfolio includes two companies at this time. Their solutions will first be tested within mBank's infrastructure and customer base before they are commercialised on a large scale.

As proof of the high quality of our banking platform, the mBOX project closed its first deal. In June 2017, French La Banque Postale acquired a licence for mBank's online and mobile transactional service. The implementation of the project, arranged by Accenture, will create new quality in digital customer service based on tested IT solutions without years of transition. Global sale of Polish know-how and transfer of local banking ideas corroborate the innovative edge of our industry, now appreciated well beyond Poland.

Last year, acting in pursuit of our mission defined in the 2016 strategy "To help. Not to annoy. To delight... Anywhere.", we delivered products and services tailored to the needs of our clients. In April

2017, we launched the new version of mBank's mobile application inspired by opinions and habits of users. Its key new functionalities include Android Pay contactless payments, fingerprint login, and a spending counter which helps to manage personal finance. Importantly, July 2017 was the first month when the share of clients logging in their accounts on mobile devices exceeded online logins and reached 51% compared to 37% in 2016 and 28% in 2015. Our corporate customers use the thoroughly upgraded transactional system mBank CompanyNet, where key operations are executed with a limited number of clicks.

Our initiatives in the field of corporate social responsibility in 2017 included the continuation of the social campaign focused on online security #uwazniwsieci, which was launched two years ago. mBank Foundation offered a range of educational activities which support teaching of mathematics to kids and young people. Our CSR engagement was rewarded as the Bank was added to the RESPECT Index which groups 28 companies listed on the Warsaw Stock Exchange with the best track record of environmental, social and corporate governance.

mBank's stock price gained 38.7% in 2017, modestly outperforming the industry index. The rise was largely driven by a change of rhetoric in the public debate on the issue of FX mortgage loans, which has remained unresolved for more than three years. The pace of legislative works at the parliament suggests weakened determination to enact the most recent draft law tabled by the President in early August, postulating the introduction of statutory contributions to the conversion fund for foreign currency housing loans. Furthermore, the exchange rate of the Polish zloty against the Swiss franc bounced back to the level reported before the removal of the peg by the Swiss central bank. In view of rising awareness of the issues at stake in combination with the prevailing market parameters, it seems that the risk of a material impact on the results of banks has been mitigated. This does not mean that the profitability of the industry is no longer under pressure. We are still faced with a heavy regulatory and fiscal burden, as well as new challenges which force the banks to adapt.

The success of mBank and our financial and business performance depend on the trust and cooperation of many stakeholders, including mainly our clients. All our efforts are guided by the needs of clients because we know that customer satisfaction with our products and services is the key pillar of further growth of the Group. I believe that we have the qualities and skills necessary under any circumstances to continue the expansion of our strategic segments, ensuring a rising trajectory of profits.

I thank you, our Shareholders, for your trust. May I assure you that we will continue to deliver strong results rooted in the robust foundations of our business model.

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

Last but not least, I wish to thank our employees. Your constant engagement made the success of mBank Group possible throughout the year. I do believe that we stand prepared to leverage our competitive advantage and successfully face the challenges of 2018.

Respectfully yours,

Cezary Stypułkowski