

# **Management Board Report on Performance of mBank S.A. Group in 2021**

(including Management Board Report on Performance of mBank S.A.)



Official Management Board Report on Performance of mBank S.A. Group in 2021 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Management Board Report on Performance of mBank S.A. Group in 2021, but was prepared on the basis of the original prepared in the ESEF format and is a copy of it. This document was not the subject of the attestation procedures performed by the statutory auditor.

This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.






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## mBank Group in 2021

Universal financial services			
			
<b>Our clients</b>	<b>Our employees</b>	<b>Mobile application</b>	<b>Transactions</b>
<b>5,514 thou.</b> retail clients <b>31.3 thou.</b> corporate clients	<b>6,738 FTE</b> in mBank Group	<b>3.0</b> million users	<b>12.2%</b> market share in card transactions (9M 2021)
Mobile banking at its best			
<b>Monthly active users (MAU)</b>	<b>Growing importance of digital channel in daily banking</b>	<b>Paynow</b>	<b>mBank CompanyMobile</b>
Increasing number of monthly active users from 2,863 thou. in 2020 to <b>3,039 thou.</b> in 2021	<b>76%</b> of processes in retail banking area are initiated by the clients in digital channels	Online <b>payment gateway – platform</b> for e-commerce	<b>New version</b> of mBank CompanyMobile application for corporate and SME clients
Key results and indicators			
<b>Revenues</b>	<b>Cost to income ratio</b>	<b>Total assets growth</b>	<b>Total capital ratio</b>
PLN <b>6,111</b> million	<b>40.2%</b>	<b>+11.6%</b> year on year	<b>16.6%</b>
Basic facts for investors			
<b>Market capitalisation</b>	<b>Share price</b>	<b>Member of the WSE indices, including:</b>	<b>mBank ratings</b>
PLN <b>18.4</b> billion (EUR 4.0 billion)	<b>PLN 433.2</b> (as at 30.12.2021)		<b>Fitch:</b> BBB- <b>Standard &amp; Poor's:</b> BBB <b>Sustainalytics:</b> low risk <b>MSCI:</b> BBB (ESG rating)

**Executive summary**

- Total revenues at PLN 6 billion, at the highest level in history, despite challenging market conditions.
- Double-digit growth of net fee and commission income outpacing the sector's dynamics.
- Excellent efficiency supported by proven cost discipline – cost-to-income ratio at 40.2%.
- Prudent risk management reflected in portfolio quality – lower risk costs at the level of 76 bps.
- Superior core financial performance demonstrating the strength of mBank's franchise – increase in net profit of core business by 45% to PLN 1.6 billion and ROE to 11.9%.
- Expansion of loans driven by record-high sales of mortgages at the level of PLN 12.4 billion with a simultaneous increase in the sales of non-mortgage loans.
- Surge of deposits by 16%, backed by inflows to transactional accounts.
- Ample liquidity levels and diversified funding structure – safe loan-to-deposit ratio of 73.8% and LCR at 216%.
- High capital ratios well above regulatory requirements – Tier I ratio at 14.2%, Total Capital Ratio at 16.6%.
- mBank's organic growth fuelled by new and existing clients – nearly 3 million mobile clients in Poland, the Czech Republic and Slovakia.
- Issuance of green bonds in the non-preferred senior format worth a total of EUR 500 million.
- Adoption of a new strategy for 2021-2025 entitled "From an icon of mobility, to an icon of possibility".
- Innovations and products enhancing customer experience:
  - new mBank CompanyMobile application for corporates,
  - contactless BLIK payments and a mobile application for Junior account,
  - mBank account can now be linked with accounts of five other banks.
- ESG initiatives:
  - mBank adopted the UN's Principles for Responsible Banking;
  - mBank continues to support and cooperate with the Great Orchestra of Christmas Charity (WOŚP);
  - another edition of the social campaign "Digital Revolutions" ("Cyfrowe Rewolucje") supporting online businesses of SMEs.

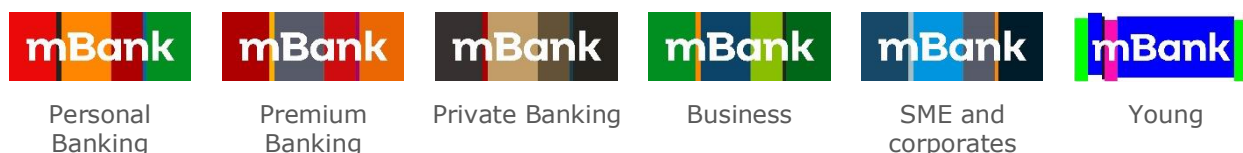
Covid-19 continued its worldwide spread in 2021. Thankfully, the effects of the new restrictions were not as severe for the global economy as in the previous years. Poland's pace of recovery from the Covid shock remains the fastest in the region, with GDP growth estimated at 5.8%. The rate of inflation went up rapidly in 2021 as well, mostly driven by food, energy and fuel price increases. Interest rates remained stable until October, when the Monetary Policy Council (RPP) decided to begin tightening the monetary policy, first by 40 bps and later by 75 bps and 50 bps, resulting in the NBP reference rate of 1.75% at the end of 2021. Economic growth caused an increase in client activity and lending, primarily in the retail segment, which had a positive impact on banks' results.

The results of banks continued to be negatively affected by the banking tax and contributions to the Bank Guarantee Fund (BFG) (however, in 2021 contributions to BFG were lower than in the previous year). Additionally, some banks continued to incur high costs of legal risk related to foreign currency loans. In 2021, mBank's results were affected by these costs amounting to nearly PLN 2.8 billion. In consequence, mBank Group reported a net loss of PLN 1.2 billion in 2021.

## 1. About mBank Group

### 1.1. Business model and history of mBank Group

mBank Group conducts business based on the universal banking model, specialising in servicing all client groups. It offers retail, corporate and investment banking as well as other financial services such as leasing, factoring, financing of commercial real property, brokerage operations, wealth management, corporate finance and advisory in the scope of capital markets. Services provided under mBank logo are marked with different colours, depending on the target group of the offer.



The bank was established in 1986 as **Bank Rozwoju Eksportu (BRE Bank)**, initially focusing on corporate clients. We have been operating in the segment of individual clients since 2000, i.e. from the moment of launching mBank, fully online bank. In 2001, we established MultiBank, which complemented the bank's business model with servicing clients in the outlet network in the largest Polish cities. Since the very beginning, mBank has relied on organic growth, which means that the current scale of its business has been achieved without takeovers of other banks and financial institutions. mBank is the only bank in Poland with successful track record of rolling out its online retail banking model into foreign markets. Since 2007, we have been operating in the Czech Republic and Slovakia. In 2013, we unified our brand under mBank name, which is the most powerful of our brands.

<b>1986</b>	<b>Establishment of Bank Rozwoju Eksportu as a joint-stock company</b>
<b>1992</b>	<b>Listing of BRE Bank on the Warsaw Stock Exchange</b>
<b>1994</b>	<b>Signing of a strategic partnership agreement with Commerzbank AG</b>
<b>1998</b>	<b>Acquisition and merger with Polski Bank Rozwoju SA</b>
<b>2000</b>	<b>Establishment of mBank – the first internet-only bank in Poland – completed in just one hundred days</b>
<b>2001</b>	<b>Launch of Multibank, the second retail arm of BRE Bank, targeting affluent customers</b>
<b>2007</b>	<b>Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia</b>
<b>2013</b>	<b>Rebranding – Replacing of three existing brands by one: mBank New mBank transactional platform is launched</b>
<b>2016</b>	<b>„mobile Bank” Strategy for 2016-2020 is announced</b>
<b>2017</b>	<b>Start of mAccelerator - fund aimed at the development and commercialisation of technology for financial institutions</b>
<b>2018</b>	<b>Strategic partnership with WOŚP, launch of e-commerce services via mElements</b>
<b>2019</b>	<b>New strategy for 2020-2023</b>
<b>2020</b>	<b>Adjustment of internal processes and client offer during the COVID-19 pandemic Systematic increase of Renewable Energy Sources funding</b>
<b>2021</b>	<b>New strategy for 2021-2025</b>

mBank Group's activities are based on the **model of values** focused on the benefit of customers, shareholders, employees and other stakeholders. We identify their real needs and implement appropriate solutions in order to meet the existing and future requirements.

## Authenticity

## Empathy

## Courage

## Responsibility

## Cooperation



mBank's widely recognised operational excellence is based on the state-of-the-art user interface for online banking, next-generation mobile application, video banking, as well as real-time, event-driven customer relationship management (CRM) based on client behaviour patterns. The whole product offer is centred around the current account with a broad spectrum of financial services accessible in just "one click", as the strategic aim of mBank is to be the most convenient transactional bank on the market. Our internet platform available to clients is modern, convenient, easy-to-access and user-friendly. We have also been systematically expanding our mobile application to provide customers with the possibility of managing their finances wherever they are.

Giving priority to users' comfort, mBank regularly improves its offer and thus remains at the forefront of institutions introducing new solutions, such as **BLIK, Google Pay, Apple Pay and Garmin Pay** payments. mBank has been accompanying its retail customers in their everyday lives for 20 years now, providing a wide range of additional services based on online or mobile banking. These involve, among others, the possibility to create a free-of-charge **trusted profile** in mBank's transactional platform in order to handle administrative matters online in the public administration services, and the possibility to submit an application for the "**Family 500+**" benefit online. Further benefits include additional services, such as **mOkazje** (mDiscounts).



mBank's offer includes products and services tailored to various customers' needs, including loans, savings, investment and insurance products as well as other solutions dedicated to enterprises. The comprehensive offer makes it possible to more effectively address specific requirements of particular groups of customers. At the same time, the coherent business model in all of the mentioned areas enables clients' to easily move between segments, which allows mBank to support their professional and personal development at all stages.

mBank Group aims to build a partnership with corporate customers, which is based on good relations and comprehensive advisory. Drawing on the BRE Bank S.A. experiences and competencies, we know how important it is to take individual approach to a customer and to adequately understand the specifics of their business. We support entrepreneurs from the very beginning of their professional path, enabling them to launch their business with mBank online or in the bank's branch and offering them a package of kick-off services such as **financing, accounting and currency services or terminals**. We introduce new products to our offer on a regular basis and pay special attention to providing remote access to our services. Large enterprises and international corporations successfully use the integrated range of commercial banking solutions, with particular focus on the advanced platform of **transactional banking**. This comprehensive product offer is complemented by **investment banking** services, such as equity capital markets (ECM), debt capital markets (DCM) and mergers & acquisitions (M&A) advisory services.



mBank's distribution concept combines the most technologically advanced solutions, which meet the market challenges and set new trends in the Polish banking sector. Internet and mobile-based tools as well as the extensive network of distribution outlets and call centre build a comprehensive contact platform for mBank's customers. The IT platform architecture allows the bank to develop and introduce new products, services and sales channels efficiently and with a low operational risk. Thanks to such a flexible infrastructure, mBank is able to effectively manage its business expansion strategy.

**Selected financial and business data of mBank Group**

<b>Selected financial data (PLN mln)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Total assets	131,424	145,781	158,353	178,872	199,539
Net loans	84,476	94,766	104,980	108,567	118,055
Deposits	91,496	102,009	116,661	137,699	159,935
Equity	14 292	15,171	16,153	16,675	13,718
Total income	4,454	5,080	5,524	5,867	6,111
Total costs	-2,043	-2,164	-2,329	-2,411	-2,457
Loan loss provisions	-508	-694	-794	-1,293	-879
Net profit	1,092	1,303	1,010	104	-1,179
<b>Selected financial ratios</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Net interest margin	2.5%	2.6%	2.7%	2.3%	2.1%
Cost / Income ratio	45.9%	42.6%	42.2%	41.1%	40.2%
Cost of risk	0.6%	0.8%	0.8%	1.2%	0.8%
Return on Equity (ROE)	8.3%	9.4%	6.6%	0.6%	-7.2%
Return on Assets (ROA)	0.8%	0.9%	0.7%	0.1%	-0.6%
Tier I capital ratio	18.3%	17.5%	16.5%	17.0%	14.2%
Total Capital Ratio (TCR)	21.0%	20.7%	19.5%	19.9%	16.6%
Loan-to-deposit ratio	92.3%	92.9%	90.3%	78.8%	73.8%
NPL ratio	5.2%	4.8%	4.5%	4.8%	3.9%
Coverage ratio	59.2%	62.5%	60.7%	58.3%	53.1%
<b>Selected business data</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Individual customers (thous.)	5,342	5,685	5,604	5,660	5,514
Corporate customers	22,048	23,706	26,476	29,083	31,315
Number of employees (FTEs)	6,455	6,524	6,771	6,688	6,738



## 1.2. Composition of mBank Group

### Composition of mBank Group and main areas of its activity

The subsidiaries of mBank Group offer a complex service for the customers and allow for processes optimisation and achieving various business targets. The structure of mBank Group from the perspective of segments and business areas as of end of 2021, is presented below:

Segment	Retail Banking		Corporate and Investment Banking	
Bank	<ul style="list-style-type: none"><li>■ Retail customers, Private Banking clients and microenterprises</li><li>■ Affluent retail customers (Private Banking and Wealth Management)</li></ul>		<ul style="list-style-type: none"><li>■ Corporations and non-banking financial institutions (K1)</li><li>■ Large Companies (K2)</li><li>■ Small and Medium Enterprises (K3)</li></ul>	<ul style="list-style-type: none"><li>■ Banks</li><li>■ Corporate clients in scope of trading and sales</li></ul>
Consolidated subsidiaries	<ul style="list-style-type: none"><li>■ mLeasing Sp. z o.o. – Retail</li><li>■ Asekum Sp. z o.o.<sup>1</sup> – Retail</li><li>■ LeaseLink Sp. z o.o.<sup>1</sup></li><li>■ mBank Hipoteczny S.A. - Retail</li><li>■ mFinanse S.A.</li><li>■ mElements S.A.</li></ul>		<ul style="list-style-type: none"><li>■ mLeasing Sp. z o.o. – Corporate</li><li>■ Asekum Sp. z o.o.<sup>1</sup> - Corporate</li><li>■ mBank Hipoteczny S.A. - Corporate</li><li>■ mFaktoring S.A.</li><li>■ G-INVEST Sp. z o.o.</li></ul>	
	<b>Other subsidiaries</b> <ul style="list-style-type: none"><li>■ Future Tech FIZ</li></ul>			

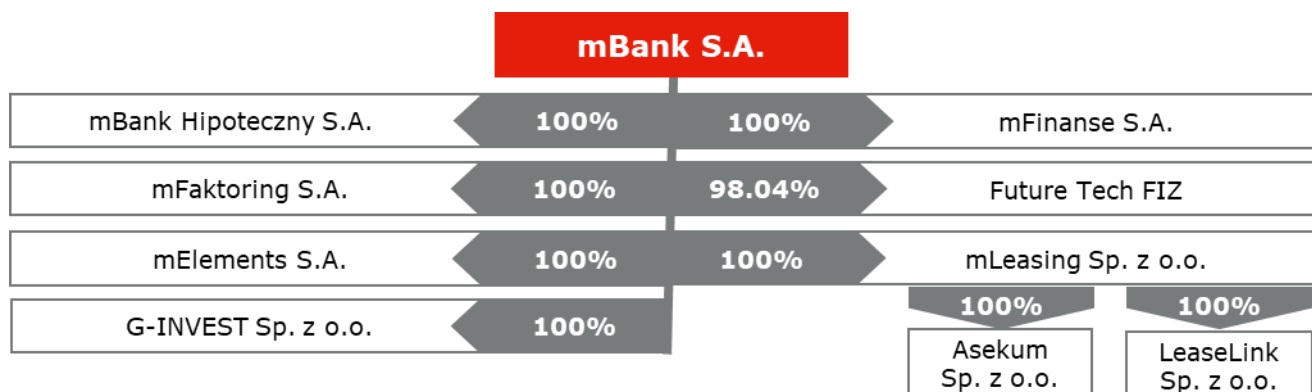
<sup>1</sup>mBank owns 100% shares in Asekum Sp. z o.o. and LeaseLink Sp. z o.o. indirectly, through mLeasing Sp. z o.o.

At the beginning of 2021, in order to present a genuine and undistorted performance of mBank Group, the new segmentation was introduced. The non-core part, comprising of FX mortgage loans, was separated from the total business. This change aimed to present separately results related to the product, which has been withdrawn from the offer for individual customers in 2011, and at the same time is significant from the point of view of the assigned assets and the impact on the Group's results. Additionally, part of the activity of the Group is the Treasury and Other segment.





In April 2021 the mTowarzystwo Funduszy Inwestycyjnych Spółka Akcyjna company has been established. mBank has taken up 100% shares of mTowarzystwo Funduszy Inwestycyjnych S.A., which equals 100% of votes on the General Meeting of mTowarzystwo Funduszy Inwestycyjnych S.A. In September, the company applied to the Polish Financial Supervision Authority for a permit to operate an investment fund company and is currently awaiting a decision.

Also in April 2021, the liquidation of mFinance France S.A. was concluded and in June the company was deleted from the French register of companies.

mBank Group (including consolidated subsidiaries) as at the end of 2021 was composed as presented on the diagram below.



## Key subsidiaries of mBank Group from the perspective of client offer

 <b>Bank Hipoteczny</b>	<ul style="list-style-type: none"> <li>■ the longest track record of issuing covered bonds on the Polish capital market</li> <li>■ ensuring the stable, long-term and safe funding of the Group with the use of pooling model in co-operation with mBank</li> <li>■ rating of Moody's Investor Services for mortgage covered bonds: Aa1 – long-term country ceiling for local and foreign currency bonds</li> </ul>
 <b>Leasing</b>	<ul style="list-style-type: none"> <li>■ the subsidiary offers leases and loans for any purpose, as well as car fleet rental and management services addressed to both corporate and retail clients</li> <li>■ various leasing products in the corporate segment, including the lease of private and commercial cars and heavy transport vehicles, car fleet management, lease of machines and equipment, and real property lease</li> <li>■ in the retail segment the subsidiary offers products for micro-enterprises and SMEs, which can conclude lease contracts using dedicated lease processes</li> <li>■ leasing in e-commerce online payments offered through LeaseLink</li> </ul>
 <b>Faktoring</b>	<ul style="list-style-type: none"> <li>■ the fifth largest player among the members of the Polish Factors Association – the same position as in 2020</li> <li>■ financing of ongoing business operations, receivables management, assumption of insolvency risk, maintenance of settlement accounts of clients and collection of receivables, domestic and export factoring with recourse (including factoring services covered by the guarantee of Bank Gospodarstwa Krajowego (BGK), and non-recourse domestic and export factoring), import guarantees</li> <li>■ products offered by mFaktoring are available in all mBank branches providing services to SMEs and corporates in Poland</li> <li>■ member of the biggest international network of factors, Factors Chain International (FCI), and the Polish Factors Association</li> <li>■ co-founder and member of Poland's first factoring consortium</li> </ul>
 <b>Finanse</b>	<ul style="list-style-type: none"> <li>■ the subsidiary is an open platform for selling financial products of various financial entities, including mBank</li> <li>■ its product range includes loans and advances, accounts, insurance as well as leasing for both individuals and companies</li> <li>■ it offers products of 14 active external financial entities in 189 points of sale located across Poland and 168 partner outlets</li> </ul>

## mBank's Authorities

### Supervisory Board of mBank

In 2021, there were two changes in the composition of the Supervisory Board.

On March 15, 2021, Sabine Schmittroth resigned from membership in the Bank's Supervisory Board with effect from March 25, 2021. On March 24, 2021, Arno Walter was elected as the member of the Supervisory Board of mBank as of March 25, 2021.

On August 27, 2021 Jörg Hessenmüller resigned from membership in the Bank's Supervisory Board with effect from 30 September 2021. On 25 October 2021 the Bank's Supervisory Board appointed Dr Armin Barthel as the member of the Supervisory Board of mBank until the end of the current term of the Supervisory Board.

As of December 31, 2021, the Supervisory Board of mBank S.A. was composed as follows:

1. Agnieszka Słomka-Gołębiowska - Chairwoman of the Supervisory Board
2. Bettina Orlopp – Deputy Chairwoman of the Supervisory Board
3. Armin Barthel - Member of the Supervisory Board
4. Tomasz Bieske - Member of the Supervisory Board
5. Marcus Chromik - Member of the Supervisory Board

6. Mirosław Godlewski - Member of the Supervisory Board
7. Aleksandra Gren - Member of the Supervisory Board
8. Arno Walter - Member of the Supervisory Board

There are four independent members in the Supervisory Board:

1. Agnieszka Słomka-Gołębiowska
2. Tomasz Bieske
3. Mirosław Godlewski
4. Aleksandra Gren

Five committees operate within the Supervisory Board: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Committee and the IT Committee. The latter one was established in Q1 2021. The composition and tasks of the Supervisory Board committees are described in chapter 13. "Statement of mBank on application of corporate governance principles in 2021".

### **Management Board of mBank**

There were no changes in the composition of the Management Board in 2021. On March 3, 2021, the Polish Financial Supervision Authority granted its consent to appointing Marek Lusztyn as the Member of the Management Board of the Bank supervising the management of material risk in the Bank's operations. Marek Lusztyn was appointed to the Management Board of mBank on October 22, 2020.

As of December 31, 2021, the composition of the Management Board was as follows:

1. Cezary Stypułkowski - President of the Management Board, Chief Executive Officer
2. Andreas Böger - Vice-President of the Management Board, Chief Financial Officer
3. Krzysztof Dąbrowski - Vice-president of the Management Board, Head of Operations and Information Technology
4. Cezary Kocik - Vice-president of the Management Board, Head of Retail Banking
5. Marek Lusztyn - Vice-president of the Management Board, Chief Risk Officer
6. Adam Pers - Vice-president of the Management Board, Head of Corporate and Investment Banking.

For more information on the Management Board and Supervisory Board of mBank, see chapter 13. "Statement of mBank on application of corporate governance principles in 2021". Detailed résumés of all members of mBank Supervisory Board and Management Board are available on our website: <https://www.mbank.pl/en/about-us/bank-authorities>

### **1.3. mBank Group geographical presence**

mBank offers its services not only in Poland, but also in the Czech Republic and Slovakia. The leading role of mobile and internet banking provider is supplemented by comprehensive service in the branches. Retail branches network covers 322 various outlets whereas corporate network comprises 43 points of service, additionally supplemented by branches of mBank Group subsidiaries. In 2021 the number of branches in Poland decreased by 23. At the same time we opened one mKiosk in Czech Republic as well as 2 mKiosks and one branch in Slovakia. When contacting the consultants in the branches, clients can not only use products and services of mBank Group, but also install and learn to use mobile and internet banking.

#### Retail network in Poland:

- 85 mBank branches
- 33 light branches
- 15 advisory centres
- 149 mKiosks
- 40 Financial centres and agency service points of mFinanse

#### Czech Republic

- 12 financial centres and light branches
- 19 mKiosks

Slovakia:

- 5 financial centres and light branches
- 9 mKiosks

Corporate branches:

- 29 corporate branches
- 14 corporate offices

Depending on their needs, our clients can take advantage of full product offering and cash services in traditional mBank's branches. Comprehensive portfolio of more sophisticated financial products, such as mortgage loans and corporate funding, is available also in financial centres and agency service points of mFinanse. In the advisory centres, both individual and corporate clients are served, who can also use the services of mBank Group's subsidiaries. The light branches are dedicated to distribute basic financial products and provide clients with cash services up to defined limits. mKiosks, located in the shopping malls, allow clients to familiarize with mBank's offer, open an account and draw non-mortgage loan.

In 2021, during the COVID-19 pandemic, we have been strongly encouraging our clients to use internet and mobile banking. More information on the facilitations we offered and availability of our branches under the sanitary regime is described in chapter 1.7. "Key events and projects of mBank Group in 2021".

#### 1.4. Information for investors

mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992.

As at December 31, 2021, mBank's registered share capital amounted to PLN 169,539,536 and was divided into 42,384,884 shares, including 42,373,884 ordinary bearer shares and 11,000 ordinary registered shares with a nominal value of PLN 4 each. Each share carries one voting right at the General Meeting.

In 2021, the total number of shares increased by 17,844. The new shares were issued pursuant to:

- Resolution No. 38 of the 31st Annual General Meeting of mBank S.A. dated May 9, 2018 on issuing subscription warrants, a conditional increase of the share capital with exclusion of the pre-emptive right of the existing shareholders to take up subscription warrants and shares, a change of the Company's by-laws and on applying for admission of shares to trading on the regulated market, and on dematerialisation of the shares (14,831 shares);
- Resolution No. 3 of the 16th Extraordinary General Meeting of the Bank dated October 27, 2008 on issuing bonds with the pre-emptive right to take up shares of mBank S.A., and on the conditional increase of the share capital through issue of shares with exclusion of the pre-emptive right of the existing shareholders in order to enable the participants of the Incentive Programme to take up shares of mBank S.A., and on applying for admission of the shares to trading on the regulated market, and on dematerialisation of the shares (1,411 shares; on November 30, 2021 the Incentive Programme implemented under Resolution No. 3 of the Extraordinary General Meeting of October 27, 2008 was completed; the amount of mBank's conditional share capital increase after the shares were credited to the securities accounts of eligible persons stands at PLN 2,334,676);
- Resolution No. 21 of the 21st Annual General Meeting of the Bank dated March 14, 2008 on issuing bonds with pre-emptive right to take up shares of mBank S.A., and on the conditional increase of the share capital through issue of shares with exclusion of the pre-emptive right of the existing shareholders in order to enable the participants of the Incentive Programme to take up the mBank S.A. shares, and on applying for admission of the shares to trading on the regulated market, and on dematerialisation of the shares (1,602 shares; on December 3, 2021 the Incentive Programme for members of the Management Board of mBank implemented under Resolution No. 21 of the Annual General Meeting was completed; the amount of mBank's conditional share capital increase after the shares were credited to the securities accounts of eligible persons stands at PLN 1,465,432). Moreover, in June 2020, 1,000 registered shares of mBank were converted into ordinary bearer shares and assimilated with the bank's shares traded on the stock exchange.

**mBank shares are included in the following indexes:**

WIG  
WIG-Poland  
WIG30  
WIG30TR  
mWIG40  
mWIG40TR  
WIG-Banks  
WIG-ESG  
CEEplus  
MSCI Poland

Information concerning mBank shares	2020	2021
Total number of shares	42,367,040	42,384,884
Nominal value per share (PLN)	4.00	4.00
Registered share capital (PLN)	169,468,160	169,539,536
Share price at closing of the year's last trading session (PLN)	179.20	433.20
P/E ratio	73.1	-15.6
P/BV ratio	0.5	1.3
Maximum share price (PLN)	400.00	575.00
Minimum share price (PLN)	115.50	186.00
Market capitalisation at the year-end (PLN billion)	7.6	18.4
Average traded volume (PLN million)	10.3	18.3
Dividend per share (paid out in the year, PLN)	0	0

mBank shares are included in the following indexes: WIG, WIG-Poland, WIG30, WIG 30TR, mWIG 40, mWIG 40TR, WIG-Banks, WIG-ESG and CEEplus. In addition, after the November 30, 2021 session, as part of the periodic revision of MSCI indexes, mBank was added to the main MSCI Poland index and simultaneously dropped from the MSCI small cap index. MSCI is a company that compiles indexes for institutional investors.

## mBank shareholders and share price on the WSE

### mBank shareholders

Commerzbank AG has been the majority shareholder of mBank since 1994. Its stake increased gradually from 21.0% in 1995 to 50.0% in 2000 and 72.2% in 2003. Starting from 2005, Commerzbank's stake has been gradually declining due to the implementation of the managerial options programmes.

As at the end of 2021, Commerzbank AG held 69.25% of shares and votes at the General Meeting of mBank (compared with 69.28% as at the end of 2020). The majority of the remaining 30.75% of shares, which are in free float, are held by financial investors. These are in particular Polish pension funds and Polish and foreign investment funds. As at December 31, 2021, no shareholder exceeded the 5% threshold of shares and votes at the General Meeting.

On November 25, 2021, Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. notified the bank about a decrease in the share of Nationale-Nederlanden Otwarty Fundusz Emerytalny in the total number of votes at the General Meeting of the bank to less than 5% as a result of selling the bank's shares in transactions on the WSE on November 23, 2021. Following the settlement of the above transactions, Nationale-Nederlanden Otwarty Fundusz Emerytalny held shares of the bank accounting for 4.968% of the share capital of the bank and entitling it to 4.968% of votes at the General Meeting. The share of all funds managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. in mBank's share capital and in the total number of votes at the General Meeting stood at 4.981%.

For more information about mBank's shareholders read the Statement of mBank on Application of Corporate Governance Principles in 2021 in chapter 13.3. "Significant blocks of shares".

### Performance of mBank shares on the WSE in 2021

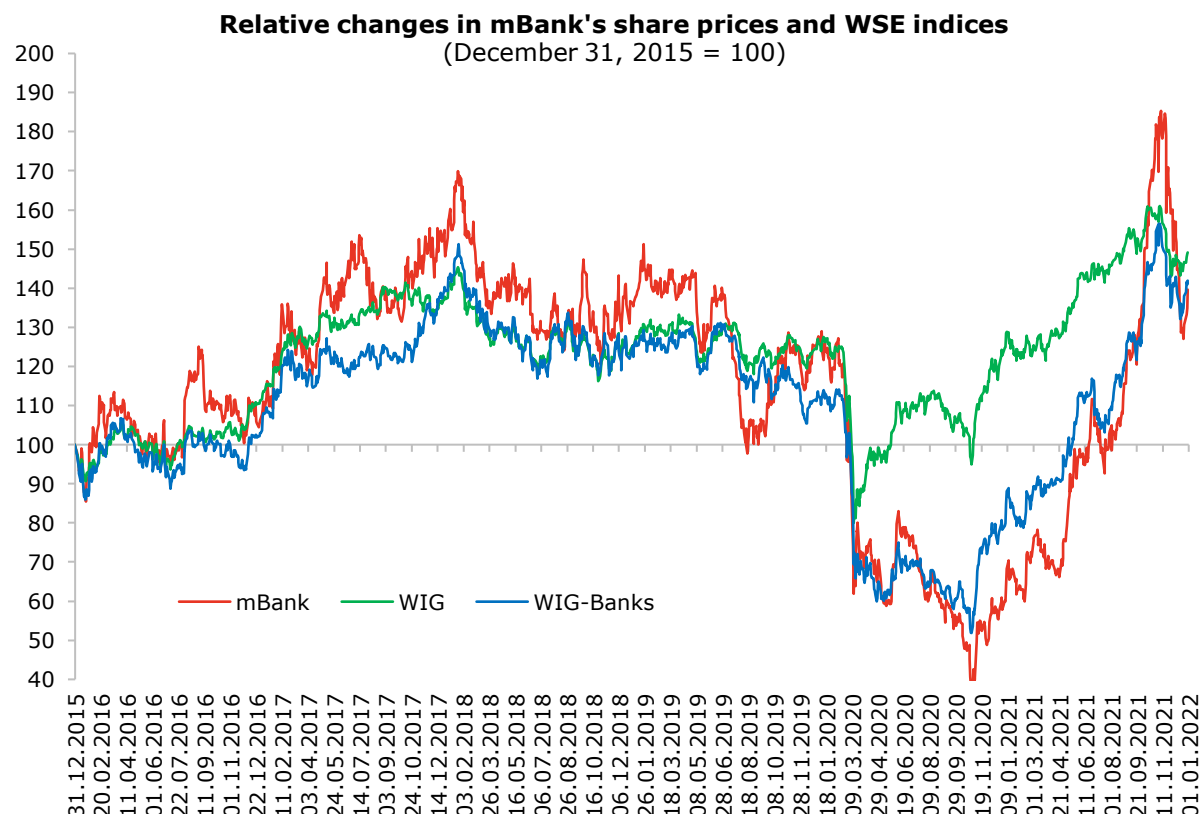


After being hit hard in 2020, in 2021 banks' shares were pushing the WSE indexes higher. In comparison with 2020, investor sentiments towards banks as well as the perception of the outlook for the banking sector improved.

Banks' stock market performance was also helped by economic revival, upbeat quarterly and semi-annual results reported by most banks, in particular high net fee and commission income, and loan loss provisions that turned out to be lower than expected at the beginning of the year. Moreover, banks' share prices were fuelled by expectations of an interest rate increase amid growing inflation, which materialised as the Monetary Policy Council raised interest rates in October (by 40 bps), November (by 75 bps), and December 2021 (by 50 bps).

Despite the unfavourable line of jurisprudence and increasing costs of legal risk related to fx loans, share prices of banks holding significant CHF loan portfolios grew sharply as a result of the Supreme Court's decision not to issue a resolution on CHF loans and the emerging possibility of solving the CHF loan problem by way of voluntary agreements concluded between banks and borrowers.

The chart below shows the relative changes in mBank's share price and stock market indexes starting from December 31, 2015.



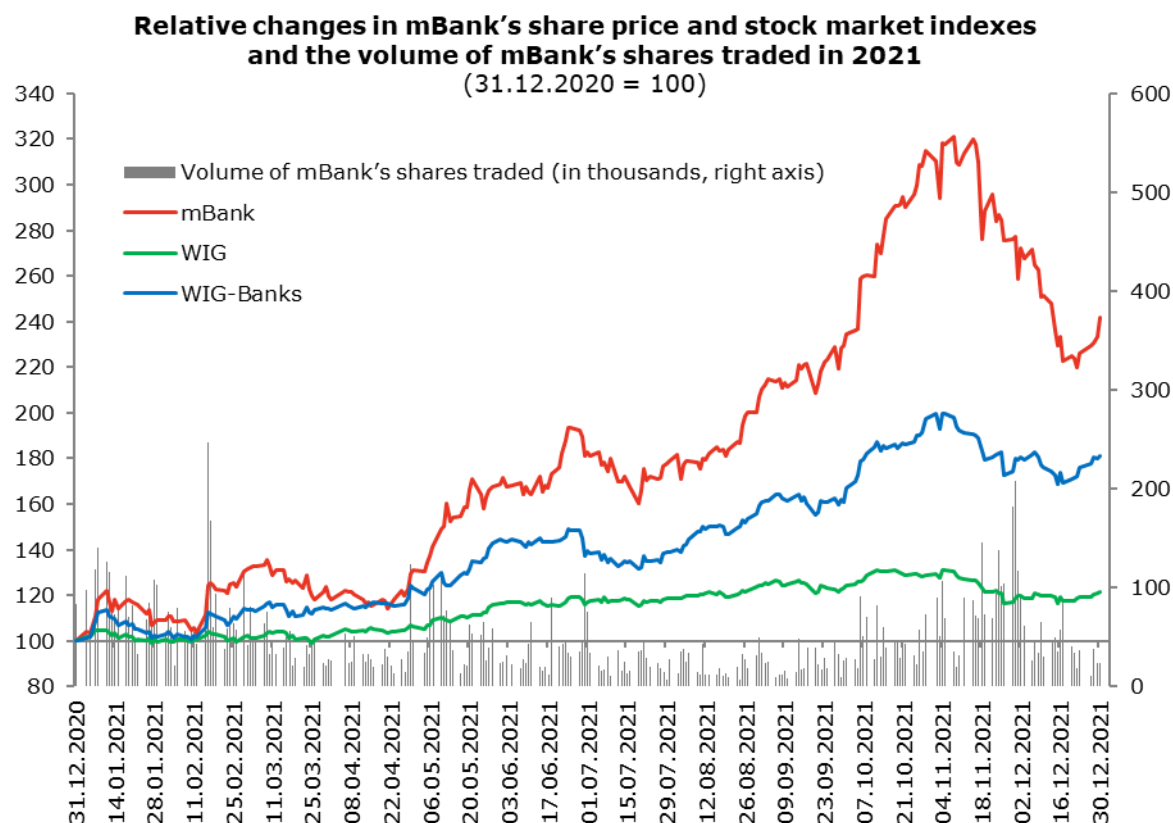
mBank share price vs. indices	2017	2018	2019	2020	2021
mBank	+38.7%	-8.8%	-8.2%	-54.0%	+141.7%
WIG-Banks Index	+35.4%	-12.1%	-9.2%	-29.6%	+81.3%
WIG	+23.2%	-9.5%	+0.2%	-1.4%	+21.5%
EURO STOXX Banks Index	+10.9%	-33.3%	+11.1%	-23.7%	+36.2%

At the beginning of November 2021, the WIG-Banks index hit a record high. Bank share prices were later adjusted due to new macroeconomic forecasts providing for a slightly slower than previously expected economic development in 2022 and because of strong inflationary pressure. This led to fears of a drop in consumption and demand for loans and of higher risk costs and banks' operating costs, which were coupled with persistent uncertainty about the costs of legal risk pertaining to the FX mortgage loan portfolio.

mBank's share price at close of trade in 2021 (on December 30) stood at PLN 433.20, which represents an increase by 141.7% compared with the last trading day of 2020 (on December 30). In 2021 mBank reported its lowest share price (PLN 186.00) on January 5 and February 12 and the highest share price (PLN 575.00) on November 8. Bank Millennium and Alior Bank were the only banks to have outpaced mBank's annual share price growth rate.

The chart below shows the relative changes in mBank's share price and stock market indexes (left axis) and the volume of mBank's shares traded in 2021 (right axis).





From among the bank analysts and brokers actively monitoring mBank's financial performance and issuing recommendations on mBank shares, eight analysts advised investors to sell their shares in mBank, one analyst issued a "buy" recommendation, and four issued "hold" recommendations at 2021 year end. For comparison, at the end of 2020 four analysts advised investors to buy, three to sell, and the remaining six to hold mBank shares.

The current consensus regarding mBank Group's expected results is available on mBank's website: <https://www.mbank.pl/en/investor-relations/shares/consensus.html>

### Investor Relations at mBank

Acting in cooperation with the Management Board and other organisational units of the bank, the Investor Relations Team provides analysts and investors with reliable and complete information about mBank Group, in compliance with the reporting obligations arising from mBank's operation on the regulated market. mBank applies the corporate governance principles described in detail in mBank's statement on application of corporate governance principles in 2021.

In December 2021 the Supervisory Board of mBank approved the Information Policy of mBank S.A. regarding communication with investors, media and clients. Underlying the Policy are the principles of open and transparent communication, which takes into account the needs of all stakeholders. We provide them with universal and equal access to information in accordance with the highest market standards and applicable laws. We spare no effort to ensure that the information provided by us is up to date, reliable, useful, coherent, and comparable with information provided by other banks. We present it in a clear and transparent manner.

Transparent communication with stakeholders and equal access to information help build confidence of the market. mBank has been actively communicating with capital market participants, which includes activities addressing and adjusted to the needs of individual groups, in accordance with the best market standards and practices.

The COVID-19 pandemic has changed trends in investor relations, accelerating the digitization of contacts. Face-to-face meetings with investors and analysts have been replaced with video- or tele-conferences. We also participated in online conferences, which were very popular. The importance of information provided by e-mail and regularly updated material available on mBank's website has increased.

**Investor relations website** (<https://www.mbank.pl/en/investor-relations/>) features information divided into categories, in particular periodic reports, financial results and selected business data, presentations

and video recordings of earnings conferences, data on shareholders and share price of mBank on the WSE, consensus of forecast results of the Group, compendium of knowledge for new investors, current reports, information on general meetings, ratings and debt instruments. The website gives investors access to historic results of the Group and the bank (periodic reports, presentations and video recordings of earnings conferences) and to an archive of general meetings. Analysts and mBank's investors are kept informed about major developments in mBank Group via a monthly **Newsletter** and ad-hoc messages sent by email.

In 2021 investors and stock market analysts participated in four **earnings conferences** which were held online due to safety reasons. All meetings with the Management Board accompanying the announcement of quarterly figures were posted on the bank's website. Our relations with analysts, shareholders and potential investors are also strengthened through meetings at **conferences organised by Polish and foreign brokerage houses**. In 2021 mBank attended six virtual conferences. In addition, after the announcement of the new strategy for 2021-2025, in cooperation with our Brokerage House, we organized a virtual roadshow, during which we had the opportunity to talk with foreign investors from various countries. In September, during the roadshow accompanying the green bonds issuance, we met with over 50 foreign investors. Throughout the year, in addition to meetings at conferences and roadshows, the Management Board representatives and the Investor Relations team held individual online meetings with investors and analysts.

During the meetings, investors were increasingly interested in ESG-related topics. This area is also the subject of numerous surveys and questionnaires.

In 2021, the Management Board representatives met online with the analysts from **rating agencies**. Moreover, the bank has been in regular contact with rating agencies through teleconferences and e-mails exchanged with analysts.

### **1.5. Credit ratings of mBank and mBank Hipoteczny**

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch). Moody's Investors Service (Moody's), Capital Intelligence Ratings (CI Ratings) and EuroRating assigned for mBank ratings based on publicly available information.

mBank Hipoteczny is rated by Moody's, including a rating for mortgage covered bonds issued by mBank Hipoteczny (a solicited rating).

#### **Ratings of mBank assigned by S&P Global Ratings**

On June 24, 2021, S&P Global Ratings affirmed mBank's ratings with a negative outlook.

On April 27, 2020, the agency changed the rating outlook of the long-term issuer credit rating from developing to negative. The negative outlook on mBank is based on S&P's view that the risks stemming from the CHF-legacy loans litigation costs could undermine mBank's capitalization profile. The decline in risk-adjusted capital, which is a key factor in maintaining the rating, may be a consequence of the impact of the Supreme Court's resolution on foreign currency housing loans, accelerated provisioning for legal risk or voluntary agreements with borrowers.

On September 20, 2021, S&P has assigned a "BBB-" rating for senior non-preferred notes issued by mBank. The "BBB-" rating is one notch below the bank's "bbb" stand-alone credit profile (SACP) and reflects the view that the senior non-preferred notes are contractually subordinated to preferred senior unsecured debt in the event of insolvency or a resolution scenario, in line with Poland's legal implementation of the EU Bank Recovery and Resolution Directive 2 (BRRD 2).



S&P Global Ratings	Ratings of mBank
Long-term issuer credit rating (foreign currency)	BBB (negative outlook)
Short-term issuer credit rating (foreign currency)	A-2
Stand-alone Credit Profile (SACP)	bbb
Long-term resolution counterparty ratings (long-term RCR)	BBB+
Short-term resolution counterparty rating (short-term RCR)	A-2
Ratings for unsecured issuances under Euro Medium Term Note Programme (EMTN)	
1. Senior Preferred Debt	
- Long-term rating	BBB
- Short-term rating	A-2
2. Senior Non-Preferred Debt	
- Long-term rating	BBB-
- Short-term rating	A-2

### Ratings of mBank assigned by Fitch Ratings

On March 16, 2021, Fitch Ratings placed mBank's ratings on Rating Watch Negative (RWN). The decision was based on the agency's conviction that the legal risk related to the portfolio of foreign currency mortgage loans would increase, the materialization of which could have a significant impact on the bank's capital position. Moreover, Fitch downgraded mBank's Support Rating (SR) to "5" from "3" and assigned a Support Rating Floor (SRF) of "No Floor". After the withdrawal of Fitch's ratings on mBank's parent company, Commerzbank AG on March 4, 2021, Fitch decided to assign a Support Rating for mBank on the basis of support available from the Polish sovereign.

On September 9, 2021, Fitch affirmed the long-term rating of mBank at BBB- and viability rating (individual rating) at "bbb-" and removed the ratings from Rating Watch Negative (RWN). A Negative Outlook has been assigned to the Long-term IDR.

The removal of the RWN reflects Fitch's view that downside risks to ratings have reduced in the short term, following a significant delay to the Supreme Court ruling that could be highly negative for banks with significant foreign-currency mortgage exposures. Additionally, the economic recovery and lower-than-expected pressure on asset quality stemming from the pandemic support mBank's underlying profitability. Litigation risk and uncertainty pertaining to the Supreme Court resolution underpins the decision to maintain a negative outlook.

Fitch has assigned a "BBB-" rating for senior non-preferred notes issued on September 20, 2021.

Moreover, on 21 September 2021, Fitch Ratings upgraded mBank's legacy senior unsecured debt to long-term "BBB" from "BBB-". The upgrade of rating was driven by the completion of Bank's first issuance of senior non-preferred debt and reflected Fitch's opinion regarding protection that could accrue to senior preferred debt holders from the Bank's junior resolution debt buffers.

Fitch Ratings	Ratings of mBank
Long-term IDR (foreign currencies)	BBB- (negative)
Short-term IDR (foreign currencies)	F3
Viability rating	bbb-
Support rating	5
Ratings for unsecured issuances under Euro Medium Term Note Programme (EMTN)	
3. Senior Preferred Debt	
- Long-term rating	BBB
- Short-term rating	F3
4. Senior Non-Preferred Debt	
- Long-term rating	BBB-
- Short-term rating	F3

## Ratings of mBank and mBank Hipoteczny assigned by Moody's Investors Service

In 2021, there were no changes in the ratings and rating outlook assigned by Moody's. The last change was announced on May 20, 2020. Moody's Investors Service affirmed then mBank's long-term deposit ratings at "A3" and changed the outlook to stable from negative. The bank's short-term deposit rating was affirmed at "Prime-2", Baseline Credit Assessment (BCA) at "baa3", Adjusted BCA at "baa2" and the Counterparty Risk Ratings (CRRs) at "A2/Prime-1".

Moody's Investors Service	Ratings of mBank <sup>1)</sup>	Ratings of mBank Hipoteczny
Long-term Deposit Rating (foreign currency)	A3 (stable outlook)	-
Short-term Deposit Rating (foreign currency)	Prime-2	-
Long-term Issuer Rating (foreign)	-	Baa1 (stable outlook)
Short-term Issuer Rating (foreign)	-	Prime-2
Long-term Counterparty Risk Rating (foreign currency)	A2	A2
Short-term Counterparty Risk Rating (foreign currency)	Prime-1	Prime-1
Baseline Credit Assessment (BCA)	baa3	-
Adjusted Baseline Credit Assessment	baa2	-
Rating of covered bonds issued by mBank Hipoteczny	-	Aa1

<sup>1)</sup> Ratings based solely on publicly available information

On July 13, 2021, Moody's upgraded long-term issuer ratings of mBank Hipoteczny from "Baa2" to "Baa1". The rating actions reflected the rating agency's methodology change and re-assessment of interlinkages between mBank Hipoteczny and mBank.

As a consequence of the upgrade of the long-term issuer rating, the long-term and short-term Counterparty Risk Rating was upgraded by one notch to "A2/Prime-1". The rating of mortgage covered bonds issued by mBank Hipoteczny was raised by one notch to the long-term country ceiling for local and foreign currency bonds, i.e. to "Aa1" from "Aa2".

## mBank's rating assigned by Capital Intelligence Ratings

On April 22, 2021, Capital Intelligence Ratings affirmed: mBank's long-term foreign currency rating and short-term foreign currency rating of "BBB+" and "A2" respectively, the bank standalone rating (BSR) of "bbb+" and the Core Financial Strength (CFS) at "bbb". The rating outlook remained stable.

According to CI Ratings, the key drivers for the affirmation of the credit ratings are the bank's strong capital ratios and resilient business model.

Capital Intelligence Ratings	Ratings of mBank <sup>1)</sup>
Long-term rating (foreign currency)	BBB+ (stable outlook)
Short-term rating (foreign currency)	A2
Bank Standalone Rating (BSR)	bbb+
Core Financial Strength (CFS)	bbb

<sup>1)</sup> Rating based solely on publicly available information

## mBank's rating by EuroRating

On November 16, 2021, EuroRating confirmed mBank's rating at "BBB (ip)" with a negative outlook.

## Summary of ratings for Poland, mBank and Commerzbank

The table below compares long-term ratings (foreign currency) for mBank, Commerzbank and Poland assigned by Fitch, S&P and Moody's as of December 31, 2021.

Rating agency	Poland	mBank S.A.	Commerzbank AG
S&P Global Ratings	A- (stab.)	BBB (neg.)	BBB+ (neg.)
Fitch Ratings	A- (stab.)	BBB- (neg.)	-
Moody's Investors Service	A2 (stab.)	A3 <sup>1)</sup> (stab.)	A1 <sup>1)</sup> (stab.)

<sup>1)</sup> Long-term deposit rating, for mBank based on publicly available information.  
Rating outlook in parentheses: stab. - stable, neg. - negative.

### 1.6. ESG ratings and indices of mBank

#### Rating of mBank assigned by Sustainalytics

On April 19, 2021, mBank Group received ESG Risk Rating from the research and rating agency Sustainalytics. Sustainalytics' ESG Risk Ratings measure exposure to industry-specific material ESG risks, and how well a company is managing those risks. ESG is a standard for sustainable business, comprising three areas: Environmental (E), Social (S) and Corporate Governance (G). A company's final ESG Risk Rating assigned by Sustainalytics is scored on material ESG issues such as human capital, business ethics, corporate governance, data privacy and security, ESG integration - financials and product governance.

Sustainalytics is a globally renowned independent research and rating agency, which analyses companies' sustainability for over 25 years. According to Sustainalytics, mBank has low ESG risk (the lower the score, the better the company's ESG performance). In its summary report Sustainalytics writes: the company is at low risk of experiencing material financial impacts from ESG factors (...) and has not experienced significant controversies.

Summary of ESG Risk Rating for mBank Group issued by Sustainalytics is available on our website: [www.mbank.pl/en/investor-relations/ratings-debt-instruments/](http://www.mbank.pl/en/investor-relations/ratings-debt-instruments/)

For more information on mBank's activities in scope of ESG please see: <https://www.mbank.pl/en/about-us/corporate-social-responsibility/>

#### Rating of mBank assigned by MSCI

In 2021, mBank received a rating of BBB (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment.

MSCI ESG Research provides MSCI ESG Ratings on global public and a few private companies on a scale of AAA (leader) to CCC (laggard), according to exposure to industry-specific ESG risks and the ability to manage those risks relative to peers. More information on the rating and the disclaimer are available on mBank's website: <https://www.mbank.pl/en/investor-relations/ratings-debt-instruments/ratings/>

#### WIG-ESG index on the WSE

mBank is a member of WIG-ESG index on the Warsaw Stock Exchange since the beginning of its quotation, meaning September 2019. We are one of the companies listed in WIG20 and mWIG40 recognised as sustainable, i.e. obeying rules for social responsibility in particular in scope of environment, social, economic and governance issues. In the previous years, we were a member of Respect Index, which was replaced by WIG-ESG. More information on the index is available on the website of Warsaw Stock Exchange: <https://gpwbenchmark.pl/karta-indeksu?isin=PL9999998955>

#### FTSE4Good Index Series

mBank is a member of an international, ethical index FTSE4Good, run since 2001 by FTSE Group. Citing after the FTSE: "FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that mBank S.A. has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products". More information on the index can be found on the website: <https://www.ftserussell.com/products/indices/ftse4good/>

## Bloomberg Gender-Equality Index 2022

In January 2022, mBank for the second time became a member of the Bloomberg Gender-Equality Index 2022. This index includes 418 companies from 45 countries and 11 economic sectors. It aims to track the performance of public companies committed to transparency in gender-data reporting. Companies are assessed in terms of actions for equality between women and men. mBank has been appreciated by the Bloomberg's experts for, among others, its commitment to transparency and setting a new standard in reporting on gender diversity. Actions for gender equality are an important part of mBank's ESG strategy. Today, women account for almost 59% of its employees. In the future, women will constitute at least 30% of the composition of the management board and the supervisory board. More information about the index can be found on the website: <https://www.bloomberg.com/gei/about/>

### 1.7. Key events and projects of mBank Group in 2021

#### COVID-19 pandemic impact on the mBank Group activities

In 2021, COVID-19 pandemic was still having a significant impact on the Polish and global economy. At the beginning of 2021, in order to contain the spread of the contagion, economic operations and social contacts were restricted to a great degree. After a rapid third wave of contagions in March and April, the epidemical situation had eased out and most of epidemic restrictions were lifted before the end of the first half of 2021. In the second half of the year, with another, fourth wave of cases, the situation in the country changed dramatically. Despite this, the Polish authorities did not tighten the restrictions related to the coronavirus for a long time. With the appearance of a new variant, the Omicron, the authorities introduced new restrictions on travelling outside the Schengen area and some African countries. They have also introduced new, lower limits for gatherings which exclude the vaccinated.

The activities which aimed to restrict social contacts were continued also in mBank Group. Most of the employees still work from home. The Group's business continuity went on uninterrupted and customer service was offered both at branches and remotely. Most of the branches remained open, while mKiosks were temporarily closed down due to the lockdown of shopping malls. The bank encouraged clients to take advantage of remote channels and introduced new solutions for the clients to enable them to use the services of mBank in that way.

The liquidity and capital position of the Group remains very strong. The Group's capital and liquidity ratios are high, exceeding the minimum thresholds set by the regulator. As at 31 December 2021, LCR (at the consolidated level) was 216% and mBank's NSFR was 152%, much above the required minima. The total capital ratio reached 16.58% compared to the regulatory requirement of 13.17%; the Tier 1 ratio was 14.16% against the regulatory requirement of 10.64%.

In 2021, the Group continued to offer its clients assistance tools aimed at supporting them in a difficult situation resulting from the ongoing COVID-19 epidemic. The purpose of these tools was to help maintain the financial liquidity of customers by reducing the financial burden in the short term. However in the year 2021, the scale of submitted support applications was significantly lower than in 2020. This was mainly due to stricter eligibility conditions for customers under non-legislative, sector solutions, as well as adjustment of the clients' business model to a new, pandemic economic environment. Detailed description of the support measures implemented in mBank Group as a result of the COVID-19 pandemic can be found in Note 4 of the IFRS Condensed Consolidated Financial Statements for 2021.

#### Additional mBank's measures taken due to the COVID-19 pandemic

##### mBank Crisis Command

We established mBank Crisis Command in February 2020 due to spreading coronavirus pandemic. Since that moment, the Crisis Command operates continuously and issues decisions on behalf of both mBank and mBank's subsidiaries. The Command is monitoring key indicators daily, including the number of employees working remotely, liquidity ratios and the functionality of IT systems. These indicators provide an operational overview and highlight areas for decision of particular importance.

The main aim of mBank Crisis Command is to mitigate the impact of the pandemic on the bank, protect employees and clients (including by mitigating the risk of infection), and secure all processes ensuring that the bank operates and provides services under any conditions. This is a top priority, especially for a financial institution, which is an essential component of the economic system. According to the mBank S.A. Business Continuity Management Policy, mBank Crisis Command is comprised of key employees responsible for on-going operation of the bank (including IT, Administration, HR, PR), headed by the Vice-President of the Management Board, Head of Operations and IT.

### Cybersecurity

To protect data of the bank's clients, we instructed our employees in the principles of remote work. We recommend that employees only work from home. They are allowed to use the bank's secured network only. It is forbidden to process clients' data beyond what is necessary for business purposes. The bank's security services continuously monitor the equipment and communication channels used by our employees.

### Remote work

We enabled remote work of most office staff from the outbreak of the pandemic. On average, 75% of our employees work remotely, including the call center staff.

The bank imposes a limit of persons working at any time in the office, which is no more than 30% of staff. Employees may only come to the office with the consent of the manager and only when their work cannot be done remotely.

We cancelled all major meetings and a vast majority of domestic and international business travel. Most meetings take place remotely on Skype, Teams, etc.

### Safety at mBank branches

Our top priority was safety and health at our branches. Employees were equipped with protection equipment: masks, gloves, disinfection agents. Customer service desks were separated by plastic barriers, while the visitors at branches were required to keep a safe distance. Employees were provided with detailed guidelines – in line with mBank's Crisis Command – concerning safety when meeting clients. We imposed limits on the number of clients allowed into a branch at the same time. We modified dress code.

We enabled all our employees to participate in the company vaccination program against COVID-19. We flexibly adjusted business hours of the branches to the availability of advisers in these locations. Some of them - especially those located in commuting routes in shopping centers - were temporarily closed due to government regulations. In justified cases, we allowed our advisers to work at home.

### Employee meetings with the mBank management board

We regularly organize meetings between employees and the management board. In 2021, we adapted the formula of the meetings to the needs of employees and the management board. The meetings are based on employees' questions. Employees submitted questions before the meeting and posted them on a live chat. The purpose of the meetings is to improve the communication between the management and employees. In 2021, we organized 4 virtual meetings (February, May, October, December). We answered about 550 questions. Between 2,000 and 3,000 employees took part live in each meeting. We uploaded recordings of the meetings in the intranet the next day. Additionally, we recorded interviews with management board members who answered employees' key questions.

### Campaigns addressed to employees

Throughout 2021, we conducted a number of activities for mBank Group employees (including external employees). Their primary purpose was to strengthen employees' attachment to the brand in the times of remote work. The activities were designed to support building relationships between employees and between employees and the employer, increasing the sense of making an impact among employees, building pride in the employer, access to knowledge, reducing uncertainty, and bolstering the impression that mBank cares about its employees. Since the beginning of the pandemic we have ensured regular communication of all issues connected with the decisions of the Crisis Command. In 2021 the activities continued. We organised a number of special events, such as Children's Day, Christmas, or Earth Week. As part of the #mBankJestEko project, we promoted the ESG strategy and popularised environmentally-friendly attitudes.

In 2021 we actively supported our employees by organising various campaigns for them, including:

- **Educational campaign promoting Covid-19 vaccines.** We organised an educational meeting during which a renowned expert shared his knowledge on Covid-19 vaccines with mBank Group employees. The meeting was attended by over 2,500 people.
- **The Enthusiasm for Healthy Life programme.** In April 2021 we launched a special programme in response to the need reported by our employees in the Pulse Check survey and an in-depth questionnaire that followed. We prepared a programme involving workshops, webinars and other activities, which help to take care of the most important things: mental health, eating, physical fitness and remote lifestyle. Since April 2021 we have organised 122 such events.
  - From April to October, 1,400 people participated in movement training and exercises.
  - Four sports events were attended by 442 people.

- We published over 40 informational and educational posts which promote changes in attitudes and habits.
- **The Autumn of Psychological Support programme.** We launched this programme at the beginning of October 2021. For three months our employees could take advantage of individual psychological consultations, workshops and meetings with specialists. We organised 180 psychological consultations, 28 diet consultations, movement training sessions for 618 participants and 21 workshops/webinars for 895 participants.

#### Activities and facilitations for clients

We actively communicated with clients from the start of the pandemic to update them about our services and branches in those trying times. We set up a special website with all key information: <https://www.mbank.pl/lp/zobacz-jak-wiele/>, <https://www.mbank.pl/lp/zobacz-jak-wiele-bc/>, <https://www.mbank.pl/lp/zobacz-jak-wiele-korpo/>.

Our communications stressed which operations were available remotely without visiting a branch to avoid unnecessary risks for clients and employees. We released information materials including a billboard and online campaign explaining which services are available as a self-service (including public services available with the bank login).

#### Remote customer service

During the pandemic, the bank and its subsidiaries offered many diverse initiatives to clients. We took part in the government's business support schemes (PFR Shield) and other crisis-mitigating measures. We offered a number of solutions to support clients' remote use of our services, as described in detail below in the sections "New features in mBank's services" and "Mobility".

#### **mBank Group's new strategy for 2021-2025 announced**

Our new strategy "From an icon of mobility to an icon of possibility", developed for 2021-2025, defines our aspirations, goals and initiatives aimed at establishing a bank that will continue to be ranked among top financial players in Poland, whilst reaching better valuation. It responds to changing world and evolving consumer behaviour as well as integrates the ESG agenda.

More information on mBank Group's new strategy is included in chapter 3. "Strategy of mBank Group".

#### **mBank issued Green Bonds worth EUR 500 million**

In September 2021, mBank launched its debut EUR 500 million Senior Non-Preferred Green Bonds under the Eurobond program (EMTN) updated in August 2021. The instruments with a maturity of 6 years, an early redemption option after 5 years and a coupon of 0.966% (125 basis points above the Mid Swap rate) were issued at par. The bonds were subscribed by institutional investors and are listed on the Luxembourg Stock Exchange. This is both the first non-preferred senior MREL issuance and the first EUR benchmark green bond issuance placed by a Polish financial institution.

mBank will use the proceeds of this green bond transaction to refinance part of the retail mortgage portfolio that is granted for energy efficient buildings, meeting the eligibility criteria defined in the mBank SA Group Green Bond Framework. A Second Party Opinion for the framework was delivered by Sustainalytics and a pre-issuance certification by Climate Bonds Initiative was also obtained.

#### **mBank – a strategic partner of the WOŚP**

In 2021, mBank prepared a special offer for the 29th Grand Finale of the Great Orchestra of Christmas Charity (WOŚP) as the main partner of the Foundation. Clients were offered the possibility of ordering personalised payment cards designed by Jurek Owsiak. mBank added extra funds to the donations to WOŚP made by its clients.

Moreover, in the difficult times of the pandemic, mBank's mobile services helped support the fundraiser. In mBank's mobile app available for Android and iOS, we added a heart icon, which enabled quick payments. Donators could also make card payments at terminals in our outlets and mKiosks. mBank employees collected and counted the money raised by WOŚP via all the channels. During the 29th Grand Finale of the Great Orchestra of Christmas Charity, mBank and its clients raised approx. PLN 20 million, i.e. 10% of all funds raised by WOŚP (PLN 200 million).

During the 29 Grand Finales which took place so far, WOŚP supported Polish medical initiatives with over PLN 1.5 billion and bought more than 67,000 medical devices. Over the last five years, mBank together with its clients donated nearly PLN 70 million for the initiatives supported by the Grand Finales of WOŚP. Over 4,000 mBank employees worked at the Grand Finales, while clients ordered ca. 111,000 collector's cards designed each year by Jurek Owsiak. Additionally, mBank donated a part of its art collection to WOŚP's charity actions.



On January 30, 2022 the Great Orchestra of Christmas Charity played for the 30th time; this year, it raised funds to ensure the highest standards of diagnostics and treatment of sight in children. In 2021, we launched eSkarbonka (eCollection Box) for the first time. In order to protect our employees' health, we decided to operate an online collection centre only.

### **Social campaign "Cyfrowe rewolucje" ("Digital Revolution")**

On 24 May 2021 mBank launched the second edition of Digital Revolutions. The focal point of the campaign is the new website [cyfrowerewolucje.pl](https://cyfrowerewolucje.pl), which is a comprehensive step-by-step guide on how to move a business online. The website offers entrepreneurs a free tutorial on effective sales and inspiring case studies of companies that are already successful on the Internet. Each tutorial ends with a knowledge check. All free materials have been prepared by e-commerce experts. Access to the materials is not restricted to mBank clients only; they are available to anyone who is interested in the topic.

Another component of our educational campaign is a digital revolution contest, in which the contestants can win prizes worth PLN 300,000 in total. The aim of the contest is to help the winner companies carry out a digital revolution. mBank's trusted partners will help the winners tackle legal, marketing and technological challenges associated with launching online business. MasterCard is the strategic partner of the contest. HOUSE TO GO and WObit were the winners of the second edition of Digital Revolutions. The projects of these companies were considered as the best out of 823 participants competing in the contest.

More information on how mBank supports digital transformation of the business clients can be found in chapter 6.3. "Retail Banking of mBank in Poland".

### **mBank has signed UN Principles for Responsible Banking**

Signing of the 6 principles, designed by UN initiative for sustainable finance, confirms mBank's engagement in social and environmental issues. mBank is the first Polish institution, which joined this initiative independently (without the support of its foreign investor).

Principles for Responsible Banking were designed by United Nations Environment Programme Finance Initiative (UNEP FI). They constitute a global standard, introduced by largest financial institutions in the world, who are leaders in terms of the sustainable development. Joining the initiative by mBank confirms that we implement the social and environmental objectives set out in the Sustainable Development Goals and the Paris Climate Agreement.

As a signatory of the Principles for Responsible Banking, mBank will measure its impact on the society and environment, set and execute ambitious targets in the areas where this impact is the largest, and regularly inform about the progress. Our membership in UNEP FI will also help us better understand the risk and leverage on opportunities related to the transformation of the economy towards more green and socially responsible business.

### **New mBank CompanyMobile app for corporates and SMEs**

In April 2021, mBank released a new version of the CompanyMobile app dedicated to SMEs and corporates. Its clear interface and intuitive navigation allow users to manage their company's finances and authorise transactions in a convenient manner. Changes can be noticed already at the login stage. To increase the user friendliness of the new app, users can log in using a PIN or biometrics. The interface of the app was designed from scratch, making navigation through the app highly intuitive. The dashboard displays the most important information and features right after logging in. The task manager reminds clients about orders pending authorisation, which can be done using a mobile phone. For user convenience, the most popular features can be accessed from the dashboard. They include transaction details and history, access to payment cards and the FX module designed for currency exchange and checking FX rates.

When developing the app, mBank employed cutting-edge technologies which enable quick development. This is why the app meets the typical needs of corporate clients such as convenient processing of large volumes of data or integration with internal processes in the company. The mobile platform ensures security and stability. The application was built in cooperation with mServices, an mBank Group subsidiary. This allowed us to take advantage of the mBank design system, a set of tools and principles which shorten the implementation time of desktop and mobile apps.

### **mBank supports sustainable development as an intermediary in the issue of green bonds by R.Power**

In June 2021, mBank was an intermediary in the issue of the first series of green bonds by R.Power, Poland's largest developer of solar farms, which launched a programme of issuing green bonds with a total nominal value of up to PLN 1 billion. The funds obtained from the issue of the first series of bonds with a total nominal value of PLN 150 million will be used for the purchase and development of photovoltaics projects. The aim of the issue is, among others, the financing or refinancing of development, purchase, construction and use of photovoltaic power station projects in Poland and other EU countries. The bonds

will be admitted to trading in an alternative trading system operated by the Warsaw Stock Exchange. The issued bonds meet the criteria for green bonds in line with the Green Bond Principles (GBP) developed by the International Capital Market Association (ICMA). The investments funded from funds raised in the issue have a beneficial impact on the environment, thus supporting sustainable development. Over the last several months, R.Power has obtained record-high project financing amounting to PLN 530 million, including PLN 350 million granted by mBank.

mBank supports projects aimed at limiting greenhouse gas emissions. For the same purpose mBank also implemented the rules for financing small photovoltaic installations under the Project Finance formula and the preferences for financing photovoltaic installations for enterprises' own needs in order to assist our SME clients in energy transition.

### New features of online banking

In 2021, we have been dynamically introducing changes to online banking. They covered not only the planned implementations, but also adjustments to the situation related to the COVID-19 pandemic. The selected most important changes implemented in 2021 in the internet banking service include, among others:



- **IB 3.0 at mBank CZ and SK.** We launched a new version of online banking in the Czech Republic and Slovakia. It features a personalised dashboard, convenient navigation, simplified execution of one-time transfers, new Finance section combined with a service market, self-service scenarios in the Help section and in product details, a categorised mailbox.
- **Online banking in the RWD version.** After logging in to online banking on a phone or tablet, the design of individual webpages, i.e. the dashboard, transfers or transaction history, adapts to the screen size to guarantee ultimate mobile experience.
- **Synerise analytics in IB 3.0.** We implemented a system analysing customer data and modelling their behavioural profiles in online banking. We ran this project together with Synerise.
- **Subscription filters.** Clients may view their payments for subscriptions on cards in one place thanks to new transaction history filters in online banking and in the mobile app.
- **Presentation of accounts with other banks.** The service enables clients to view the balance and transaction history in accounts held with other institutions. The solution was prepared based on the possibilities offered by PSD2 and the open banking concept.
- **I recommend the Bank 3.0.** We prepared a new version of the programme for recommending mBank's services to friends, which is now available in online banking and in the mobile app. We introduced a permanent ID for programme participants, a flexible model for changing and adding a broad range of attractive prizes, and convenient communication tools.
- **Model investment advisory service.** As part of this service, we recommend clients funds worth investing in. The recommendations are prepared by mBank's investment advisors. Clients can choose one of four strategies suitable for their individual investment profile with varying risk levels and investment horizons.
- **Investment goals.** Clients were offered a new investment method allowing them to estimate the amount needed, set cyclical automatic transfers and monitor investment progress on an ongoing basis.
- **Upcoming payments 3.0.** We changed the way in which we display the Payment Assistant and the list of planned transactions in online banking. The new version conforms to the new design and is tailored for mobile devices.
- **my ID.** We implemented a secure tool for confirming identity remotely when using various commercial and public services. The service makes it possible to complete all the formalities which, until now, required clients to visit the service provider, e.g. an energy provider, an insurance broker, or a healthcare facility, personally or conclude an agreement by courier.

### Mobility

2021 brought many changes in the digital approach to services. At mBank, this trend also continued, in particular in the mobile banking area. This was reflected in the level of sales and service ratios for the mobile app. In 2021, the share of the mobile app in the sale of non-mortgage loans increased to 42% (compared to 33% in the previous year). Currently, thanks to convenient KYC processes, we acquire as much as 10% of all new clients via this channel.





In order to keep up with business challenges and follow our clients' suggestions, we introduced several new functions and improvements last year.

- **BLIK-C.** mBank introduced the contactless payment service BLIK, which allows clients to pay with their smartphones. Our clients will be able to use this service all around the world in every terminal authorised by MasterCard. BLIK-C is an alternative to Google Pay and Apple Pay. It is particularly useful for users of Huawei devices, who cannot use Google payments. More than 2 million mBank clients use the BLIK service. They carry out an average of 7.7 million BLIK transactions weekly.
- **Biometric authorisation.** It is an answer to clients' suggestions regarding the manner of authorising mobile operations. Thanks to this change, clients can enable authorisation with a fingerprint or facial recognition. They can also use biometrics to log into the app.
- **Card details.** This function enables access to all card details (full card number, validity date, CVV2/CVC2 code). Clients can read these data without reaching for the physical card. This enables them to make card payments online.
- **Instructions.** A new module, "Your matters", has been added to the app. Clients can use it to submit various instructions relating to the handling of products, filing of complaints, change of personal data and submission of family benefits applications. In 2021, we handled 30% of such matters via the app.
- **Goals on the dashboard.** A new tile on the dashboard allows clients to check their savings. They can choose to have their savings account, savings goal or funds invested in investment funds displayed.

Currently, 3.0 million clients use the mobile app in Poland, Czech Republic and Slovakia. 1.1 million of users bank via the app only. This group constitutes about 40% of all active clients. Users log in to the mobile app 31 times a month on average. The app's rating in app stores is 4.7-4.8 (max: 5), and the NPS stood at 68 at the year end.

#### **mAccelerator - mBank's way to support start-ups**

mAccelerator is the investment fund supporting the development and commercialization of new technologies. It was equipped with a budget of EUR 50 million (an equivalent of over PLN 200 million). The fund invests in minority shares in technology startups, and also independently, as a venture builder, establishes and develops technological companies. In both cases, the investment aim is supporting companies which have the potential to become partners to financial institutions around the world over time. It focuses on InsurTech, FinTech, cybersecurity, Robotic Process Automation (RPA), artificial intelligence and digital marketing.

**Accelerator**

There are currently 8 companies in the fund's portfolio:

- Digital Fingerprints (a company offering a cyber-security solution based on passive biometrics);
- CyberRescue (a service supporting customers in terms of their network security);
- Digital Teammates (specializing in Robotic Process Automation);
- Digital Operations (specializing in digital process automation)
- ChatForce (communication platform allowing automatic exchange of information with customers from mobile communication platforms);
- Samito (formerly SaveCart, a company offering marketing automation tools for online shops);
- HCM Deck (a technological HR platform, which supports HR departments in managing, automating and analyzing processes related to employee development in larger organizations);
- Drobna Ratka (a digital lender whose goal is to increase affordability in the motor insurance market by ensuring fast and trouble-free installment financing of third party liability insurance).

## **1.8. Awards and distinctions**

### Euromoney award for the best banks providing private banking services

mBank has been distinguished as one of the ten best banks delivering private banking services in Central and Eastern Europe. Euromoney's experts appreciated the way of delivering services and the approach to asset management. Among the laureates, mBank was the only truly local player from the Polish market.

### Best Private Bank for Wealth Management services

International experts once again hailed mBank S.A. as the best bank on the market and awarded us the Best Private Bank title for our wealth management services. We won in the Digital Portfolio Management category in Central and Eastern Europe. The winners were selected in the prestigious contest organised by the Professional Wealth Management (PWM) magazine published by the Financial Times group. The jury appreciated, in particular, our solution improving customer experience and allowing for better adjustment of the risk posed by the investment portfolio to the investor profile, which takes full advantage of cutting-edge digital possibilities.

### The Best Treasury & Cash Management Banks and Providers 2021

*Global Finance* once again recognised mBank as a Polish leader in the Best Treasury & Cash Management Banks and Providers 2021 contest. Over the last few years *Global Finance* has been distinguishing mBank among transactional banking service providers. The assessment criteria included: profitability, market shares and ranges, customer service, price competitiveness, product innovation and the competitiveness of funds and cash management service providers compared to other contestants.

### The best digital bank for corporations in Poland

For the seventh time mBank has been announced the best digital bank for corporations in Poland by Global Finance. The jury of the contest awarded mBank the title of the Best Corporate Digital Bank in Poland 2021. mBank was awarded by Global Finance twice in 2021. In February Global Finance distinguished mBank as the Best Treasury & Cash Management Banks and Providers 2021 for the fourth time. The international jury appreciated the efforts to ensure customer satisfaction, a wide product range and the quality of the services.

### mBank's private banking was recognised as the best in Poland by *The Financial Times*

The organisers of the competition are the British magazine *The Banker* and the *Professional Wealth Management* (PWM) magazine from *The Financial Times* group. The jury, consisting of over a dozen of sector experts from, among others, Great Britain, Switzerland, Hong Kong and the United States, grants only one award per given country. Banks needed to answer many detailed questions regarding, among others, key performance indicators, portfolio management, asset allocations, due diligence, risk management, development strategies, customer service process, employees retention and innovative solutions.

### PSIK award

For the fourth time, mBank won the Polish Private Equity & Venture Capital Association's (PSIK) award in the Financing Bank of the Year category. The contest promotes the highest standards in the private equity/venture capital sector and PE/VC investor contribution to the development of Polish companies. The award is given by PSIK members, which reflects the market's recognition.

### Trustworthy Brand

For the fourth time, mBank won the title of a Trustworthy Brand in the Bank Offering Corporate Loans category. The survey was commissioned by *My Company Polska* monthly. Its goal was to find out which brands offering various products and services are most trusted among entrepreneurs.

### Stars of Banking 2021

mBank ranked among the top three in the Stars of Banking contest organised by *Dziennik Gazeta Prawna* in cooperation with PwC Polska, which highlights the best banks of 2021. We ranked third in the overall business category and second in the Star of Innovation and ESG Star categories. The awards were made by an independent jury composed of experts from *Dziennik Gazeta Prawna*, PwC Polska, Digital University and Polish Business Roundtable (PRB). Banks were assessed in seven categories: growth, stability, efficiency, innovation, customer relationships, sustainable development, and overall business. The final result was based on the 2020 financial ratios, surveys filled out by banks, as well as the votes of the customers.

### Golden Banker Ranking

We came third in the Social Media category and won a distinction for the best practices for a secure bank in the Golden Banker contest organised by *Puls Biznesu* and Bankier.pl. In the Social Media category, the winners were chosen by Internet users and expert committees. The winners in the Best Practices for a Secure Bank category were selected based on the results of a two-month audit of online and mobile banking system security. During the audit, cybersecurity experts tested security and stability of the bank's servers. The jury appreciated our efforts in the area of security, including our social campaign People Are Awesome, which has been running for many years.

### Banking Innovation of the Year 2021

mBank came second in the 2021 Banking Innovation of the Year league table organised by Forbes Polska. We were distinguished for our customer data analysis system and for modelling their behavioural profiles. We implemented this project together with Synerise.

### The Best Annual Report

In the 16th edition of The Best Annual Report mBank was awarded three prestigious distinctions:

- The Best of the Best, a special award for the best annual report in the financial institutions category,
- distinction for the best integrated report in the banks and financial institutions category,
- distinction for the best statement on application of corporate governance principles.

The Best of the Best award was granted to mBank for the ninth time in a row, while the distinction for statement on the application of corporate governance principles, which has been awarded by the Institute of Accountancy and Taxes (IRIP) since 2019, was given for the third time.

### CSR Silver Leaf awarded by Polityka

*Polityka* weekly in cooperation with the Responsible Business Forum and Deloitte awarded mBank the CSR Silver Leaf prize. Golden, Silver and White Leaves are awarded to companies which support sustainable development and social engagement. We also won a distinction for good practices in the tenth league table. Our two projects were recognised: Digital Revolution and Child's Play Maths. This year, the jury distinguished good practices that helped counteract economic and social consequences of the pandemic, i.e. supported UN Sustainable Development Goals no. 3 (good health and well-being), no. 8 (economic growth and decent work), and no. 10 (reduced inequalities). The distinction motivates us to keep up our efforts aimed at the implementation of mBank's sustainable development strategy.

### mBank's employer branding recognised in the Employer Branding Excellence Awards contest

The jury of the tenth edition of the Employer Branding Excellence Awards contest recognised mBank's efforts in employer branding during the pandemic. During the prestigious EB Summit 2021 conference mBank received distinctions in three categories:

- Online Campaign for the Bank's Talents campaign,
- EB Innovation for the CC45+ You suit us! campaign,
- Corporate image film for the production You suit us!.

### Best Employer Brand on LinkedIn

mBank placed first in the Best Employer Brand on LinkedIn category for companies employing more than 1,000 employees in the Talent Awards organised by LinkedIn. In this category the international jury recognises and awards companies which focus on building employer's strong brands with significant social engagement.

### 12th edition of the Golden Receiver (Złota Słuchawka) awards of the SMB Polish Marketing Association

During the 12th edition of the Golden Receiver awards, SMB Polish Marketing Association recognised mBank's Contact Centre in the following categories: Best Programme Improving the Image of a Contact Centre as a Workplace – award for the #YouSuitUs campaign, and Internal Improvement of Contact Centre Organisation – distinction for the implementation of the agile methodology.

### Distinction for #mBox from Gartner

Gartner, the analytical and research company specialising in the strategic use of technology and technology management, recognised our #mBox solutions in a group of most innovative ideas in the financial sector in the Eye on Innovation Award Initiatives in Financial Services 2020 report. Annual Gartner awards distinguish companies providing financial services for their innovative use of technology.

### mBank's Payment Gateway Paynow recognised as the best digital payment system 2020 in Poland

eTrade Awards named mBank's Payment Gateway Paynow the best digital payment system 2020 in Poland. The jury recognised the ease with which the system is implemented and purchased, its level of security, wide offer and the reliability of our solution. Paynow is a high-tech payment platform on the market. It incorporates an excellent knowledge of the specifics of the Polish e-commerce market with a cloud-native technology. The gate operates in the cloud and is connected with mBank's electronic banking systems. The API and plugins provide an easy connection with the client's online store.

### Gold for mBank's social campaign Digital Revolutions

The Digital Revolutions campaign was recognised by the industry. It was awarded gold in the Content Marketing\_Education category of the 13th edition of the Power of Content Marketing Awards contest organised by the Content Marketing Polska Association. The aim of Digital Revolution campaign is to support companies in the development of their online activities.

### Bronze statuette for My First Job, My First Account (Pierwsza praca na koncie, pierwsze konto do pracy) campaign

During this year's Effie Awards gala we received a bronze statuette for the My First Job, My First Account (Pierwsza praca na koncie, pierwsze konto do pracy) campaign. The campaign was created for young people and addressed one of the important moments in their lives – entering the job market for the first time. mBank decided to support them at the stage of searching for and starting a job (resume builder, free-of-charge foreign language, cash register or MS Excel courses) as well as during administrative procedures (contracts, arrangements).

### Mobile employee environment recognised by ICAN Institute and MIT Sloan Management Review

ICAN Institute and MIT Sloan Management Review Poland awarded mBank for a project regarding mobile employee environment. The project was granted a distinction in the Technology and Organisation category in a prestigious contest called Masters of Innovative Transformation. The aim of the contest is to choose the leaders of digital transformation in Poland. Projects based on new technologies, which significantly increase organisational and market efficiency or have a positive impact on the environment and life quality can compete for the prizes.

### Distinction in the Office Superstar contest

mBank received a distinction in a prestigious #OfficeSuperstar contest. The contest promotes organisations where offices are not only meant to be workplaces, but also serve as a friendly and comfortable space for their employees. This year the jury distinguished mBank for the use of state-of-the-art technology in our offices in Warsaw.

### Seventh edition of the HR Dream Team contest

mBank ranked first in the Effective and Friendly Candidate Recruitment category of the seventh edition of the HR Dream Team contest. The main prize in the L segment (1,001 and more employees) was granted to mBank's team for the image campaign You suit us! (Pasujesz do nas!) addressed to people with work experience and aged 45 years or older. The project's goal was to employ people over 45 in mBank's Contact Centre; it effectively broke stereotypes by proving that these people can successfully change their job.

### mBank receives Language Quality Certificate

The certificate has the form of a stamp. It was granted by the Polish Language Foundation (Fundacja Języka Polskiego), which examined the content published on our website with regard to language correctness. A page with a stamp signals that the text is simple, clear and comprehensible for everyone. The jury paid special attention to activities taken during the pandemic: proper customer care and digital process development. Innovativeness of investing solutions with emphasis on the ESG area and thematic investing were also recognised.

### Brokerage Bureau of mBank selected as the Brokerage House of 2020

During the Invest Cuffs 2021 conference, Brokerage Bureau of mBank was awarded the title of the Brokerage House of 2020. The award winners were chosen by individual investors during the seventh edition of the event. 80 thousand people voted in this edition.

### mLeasing among Forbes Diamonds

mLeasing, mBank's subsidiary, ranked among the prize winners of the prestigious Forbes Diamonds 2021 contest, which is an annual ranking of the most dynamically developing companies in Poland. The award is particularly important for mBank in view of the difficulties and challenges never seen before, which the Polish economy faced in 2020.

Cezary Stypułkowski in the Top 3 of the Forbes Polska's Banker of the Year

Cezary Stypułkowski, mBank's CEO, placed among Top 3 in the Banker of the Year ranking organised by Forbes Polska. The ranking is based on key indicators (effectiveness, security and growth) and jurors' opinions. mBank was recognised, among others, for its business model and mobile app, which saw a 20% increase in the number of users last year.

AD WO/MAN 2020

Rafał Jakubowski, director of the Retail Banking Marketing Department at mBank, was recognised in a prestigious contest AD WO/MAN 2020 in the Ad Marketer of the Year category. The jury recognised, among others, the communication addressed to individual clients, business clients and private banking coordinated by him, connected with the cooperation with the Great Orchestra of Christmas Charity (WOŚP) and the activities in the social media.

mBank employees announced as digital leaders

Krzysztof Dąbrowski, Vice-President of the Management Board, Head of Operations and Information Technology, was a finalist in the European Digital Leader of the Year 2021 contest for the financial and public sector. The contest aims at distinguishing leaders of digitalisation and their achievements in ensuring company's success by building a significant business value using state-of-the-art technology. Sebastian Sztajnert, CTO mElements S.A., received the first award in the IT Manager of Tomorrow Awards 2021 prestigious contest. Łukasz Tomasiak, mBank's IT senior manager, was among the top 10 of the contest. Cutting-edge technology has been present at mBank since its beginnings. The contest promotes the best IT managers in Poland responsible for transformations in their companies.

More information on awards and distinctions can be found on the bank's website in the Press Centre section: <https://pl.media.mbank.pl>

## 2. mBank Group's environment

### 2.1. Macroeconomic environment

#### Economy and the banking sector in Poland

Key macroeconomic indicators	2021	Banking sector parameters	2021
Real GDP growth rate	5.8%	Base interest rate	1.75%
Nominal GDP per capita (EUR)	13,650 <sup>1</sup>	Loan to Deposit ratio	76.5% <sup>2</sup>
GDP per capita in PPS (EU-27=100)	76% <sup>1</sup>	NPL ratio	5.7% <sup>2</sup>
Average annual inflation rate	5.1%	Total Capital Ratio (TCR) <sup>2</sup>	20.0% <sup>3</sup>
Average annual unemployment rate	5.9%	Net Return on Assets (ROA)	0.36% <sup>2</sup>
Population	38 mln	Net Return on Equity (ROE)	4.1% <sup>2</sup>

Source: Statistics Poland (GUS), Eurostat, Polish Financial Supervision Authority.

<sup>1</sup> Data as at the end of 2020

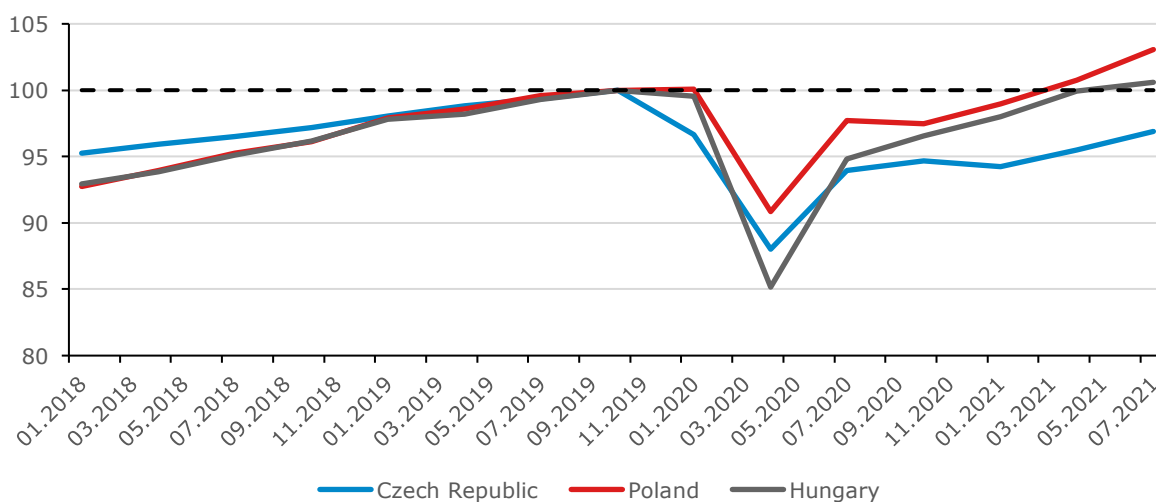
<sup>2</sup> Data as at December 2021 (as released on February 14, 2022)

<sup>3</sup> Data as at September 2021

#### Summary of developments

It can be safely estimated that Polish economy grew by 5.8% in 2021. The composition of growth assumes around 7% expansion of consumption and investment next to positive contribution of inventories' change and negative contribution of net exports. GDP surpassed the pre-pandemic levels. Even though the pre-pandemic trend has not yet been reached, the pace of recovery remains fastest in the region. It is worth to note that remarkable recovery occurred despite globally broken value chains and subsequent pandemic waves. Strong GDP growth allowed for tightening in the labor market manifested in employment increase, spectacular wage increases and falling unemployment rate.

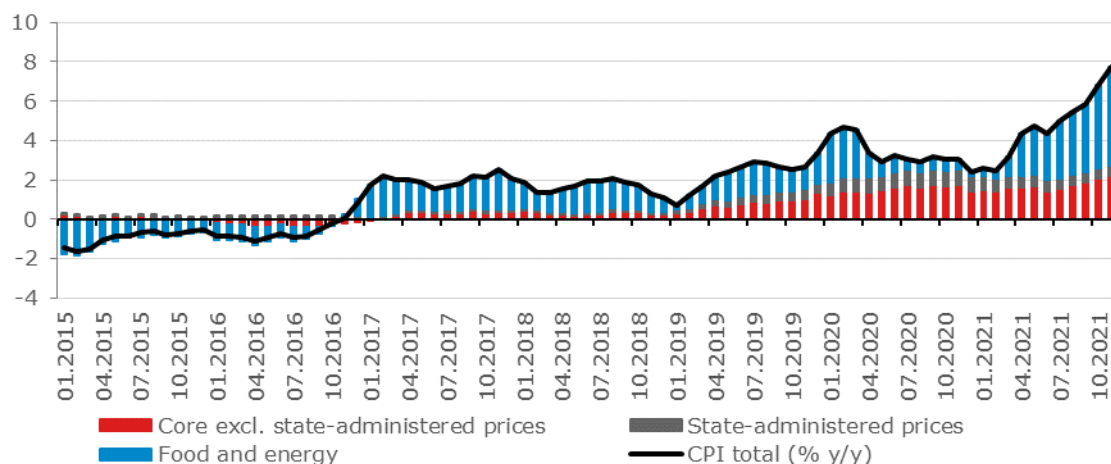
#### Depth of recession and pace of upswing in the region (Q4 2019 = 100)



Source: Own calculations based on Macrobond.

2021 was marked by acceleration of inflation. Its main driving force was food, energy and fuels. Core inflation (excluding food, energy and state-administered prices) accelerated only marginally in that period but it started the year at elevated levels. Average inflation in 2021 was 5.1%.

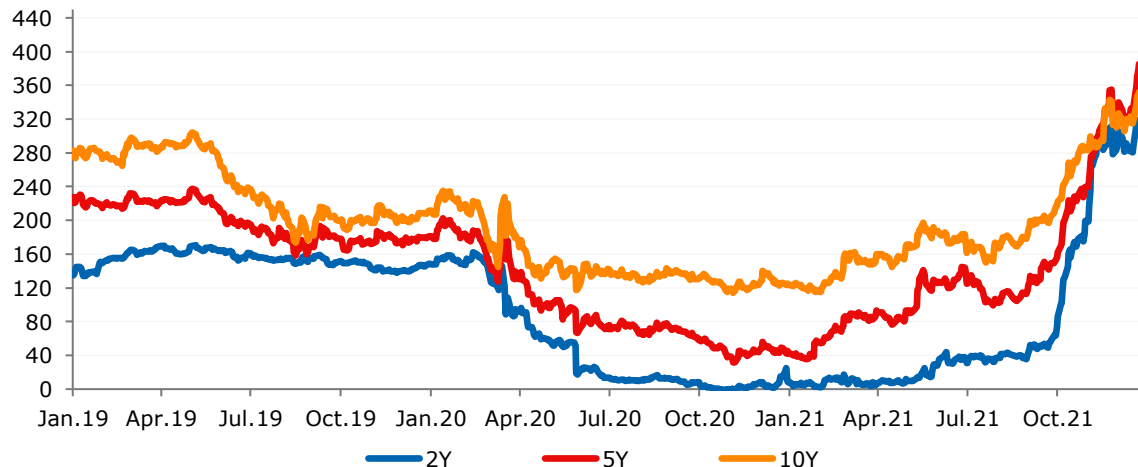
## Decomposition of CPI inflation



Source: Own calculations based on GUS.

Interest rates were stable until October when the Monetary Policy Council decided – quite unexpectedly – to increase them by 40 bp. Next meetings brought subsequent increases by 75 bp and 50 bp. The year ended with 1.75% reference rate level. In the same year NBP abandoned structural operations (bond buying). Their volume was initially very limited and finally brought to zero (they can be revived any time depending on the situation but regular auctions were abandoned). Accelerating inflation and low interest rates caused zloty to stay weak for most of the time. On top of this, there were also temporary factors that additionally fueled depreciation pressure: tensions on eastern border, PL-EU clashed over the rule of law, lack of European Commission's acceptance of Polish Development Plan. Bond yields rose significantly during the year. The bulk of repricing happened just after MPC unexpectedly hiked rates.

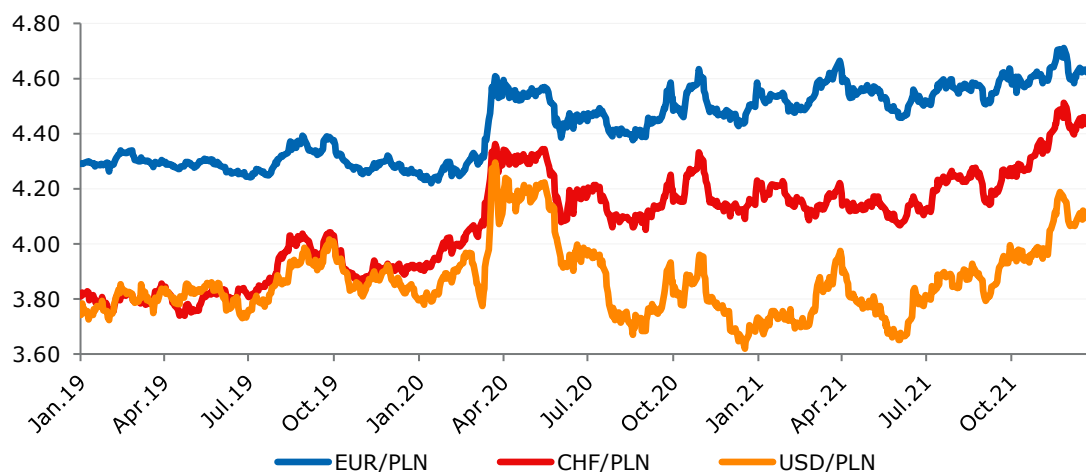
## Polish Treasury bond yields



Source: Bloomberg.



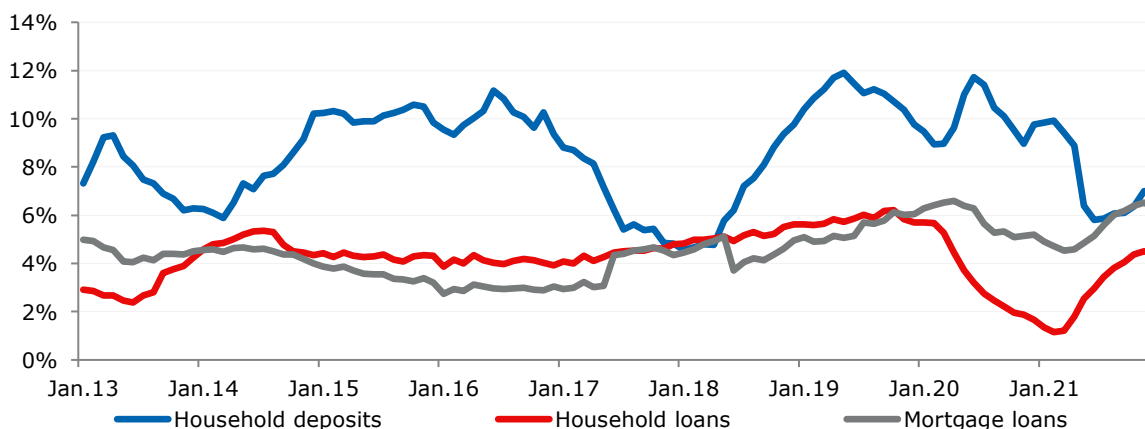
## Currency exchange rates



Source: Bloomberg

## Banking sector

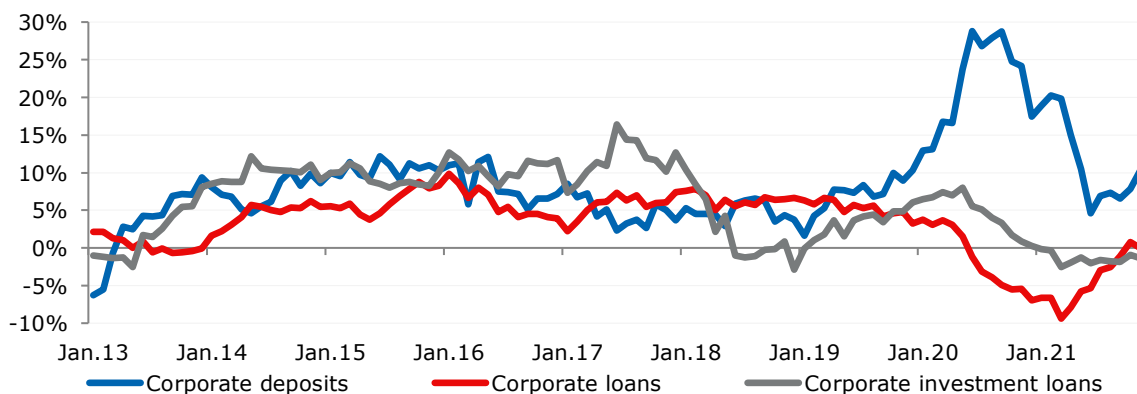
### Poland: Household loans and deposits (excl. FX effect)



Source: Own calculations based on NBP data.

Recent year brought deceleration of deposits volumes (sight and term) of firms and households. It is worth to note that the latter slowed down more visibly than the former. Their growth was much more normal than it used to be in 2020. As for firm deposits, their growth rates were very close to the ones we had witnessed before Poland's accession to the EU. Credit creation finally accelerated and this can be safely said about every household's credit category (mortgage, consumption). As for the firms, they were more reluctant to borrow and credit volumes are still below the pre-pandemic trend.

### Poland: Corporate loans and deposits (excl. FX effect)



Source: Own calculations based on NBP data.



## Economy and the banking sector in the Czech Republic

Key macroeconomic parameters	2021	Banking sector indicators	2021
Real GDP growth rate (forecast)	3.3%	Base interest rate	3.75%
Nominal GDP per capita (EUR)	20,120 <sup>1</sup>	Loan to Deposit ratio	69.9%
GDP per capita in PPS (EU-27=100)	93% <sup>1</sup>	NPL ratio	2.4%
Average annual inflation rate	3.8%	Total Capital Ratio (TCR)	23.9% <sup>2</sup>
Average annual unemployment rate	2.9%	Return on Assets (ROA)	0.8% <sup>2</sup>
Population	10.7 million	Return on Equity (ROE)	9.9% <sup>2</sup>

Source: Eurostat, Česká národní banka (CNB).

<sup>1</sup> Data as of end of 2020

<sup>2</sup> Cumulative data for 9 months (as at September 30, 2021)

### GDP, inflation, interest rates and FX rates

2021 was a year of recovery after a significant GDP decline in 2020 (-5.8% YoY). According to preliminary data, GDP in 2021 increased by 3.3% YoY and, like in most European economies, the growth rate was strongly differentiated between the quarters (negative dynamics in Q1 2020, high dynamics in Q2 2021 due to base effects). ČNB forecasts indicate that the largest contribution to GDP growth in 2021 came from inventories. Consumption, investment (smaller impact) and government spending also contributed positively, while net exports had a negative contribution. Consumption was supported by fiscal measures, deferred spending from earlier quarters and a strong labour market. In H2 2021, negative real effects related to the increase in inflation had significant impact on the consumption. But despite this effect, consumption reached its pre-pandemic level (in contrast to investments which are still below the level from Q4 2019). According to ČNB's forecasts, GDP growth in 2022 will be at 3% YoY. Households consumption and investments should have the highest contribution. Supply chain problems will still be present in the 2022 which will impact the level of inventories, but dynamical effects will result in its negative contribution to GDP.

It was also a year of accelerating inflation. The yearly average CPI reached 3.8% YoY, but in the end of the year (December) it was much higher at 6.6% YoY. The highest level of inflation will be achieved in Q1 2022 (according to ČNB's forecasts it will be around 10% YoY). Inflation growth is mostly the result of core inflation, which is driven by the housing costs. But it is not the only reason, headline inflation is driven by both foreign (e.g. supply chain disruptions, global prices of food and fuels) and domestic pressures (high growth, tight labour market). According to ČNB's forecasts, inflation should fall in H2 2022 and come back to the ČNB's target in Q3 2023. Part of this behaviour will be due to ČNB's monetary decisions.

In June 2021, ČNB started tightening monetary policy by raising the reference rate from 0.25% by 25 bps. Each subsequent decision of the ČNB also resulted in a rate hike - after the latest move from the beginning of February 2022 the 2W repo rate is at the level of 4.50%. The ČNB has ended or is close to the end of the rate hikes cycle. Statement after last decision indicated that the next steps will depend on incoming information and predictions. ČNB forecasts indicate interest rate cuts from H2 2022 - the current level of interest rates is above the neutral rate of the Czech central bank.

2021 was a year of stronger koruna, also due to hawkish central bank. ČNB forecasts suggest further appreciation of the currency with the EUR/CZK rate at 24.0 in the end of 2022.

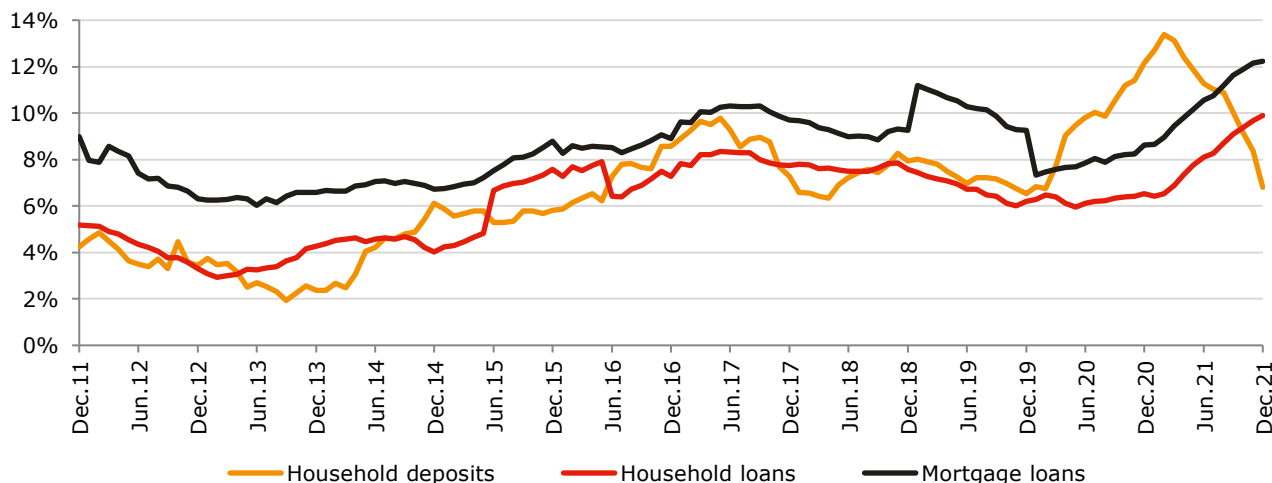
### Banking sector

A favourable development of the Czech financial sector in past years continued until Q1 2020. Asset growth and profitability of local banks remained high, with return on equity (ROE) exceeding 15% in 2019. Unknown implications of the pandemic-induced economic disruption caused banks to massively increase the provisions for expected credit losses in 2020. The sector suffered also from the reduction of monetary policy rates, which translated into worsening net interest margin. In addition, the revenues were negatively impacted by pressure on net fees and commissions due to decreased customer activity amid lockdowns and lower sales of banking products as well as competition in the relatively concentrated market. In 2021, the results improved strongly thanks to very low risk costs benefitting from the gradual releases of buffers created in the preceding year as well as rising interest rates that started boosting the income.

Despite the macroeconomic turbulences, asset quality remained very resilient in the Czech Republic as demonstrated by a decrease of NPL ratio to 2.4% at the end of 2021 from 2.8% observed a year earlier,

which is the second lowest level compared to other countries in the CEE region. Funding and liquidity profiles continued to be solid with the sector's loan-to-deposit ratio of 69.9%. Czech banks have also been very well-capitalized. In response to the pandemic, the ČNB lowered the countercyclical capital buffer (CCyB) to 0.5% in H1 2020. This supported an ability of banks to lend to non-financial corporations and households without interruption. Following an assessment of financial cycle indicators, banking sector vulnerability and other factors, the ČNB Bank Board decided in May 2021 to increase the CCyB rate to 1.0% with an effect from July 2022, while from October 2022 the rate of 1.5% will be applied.

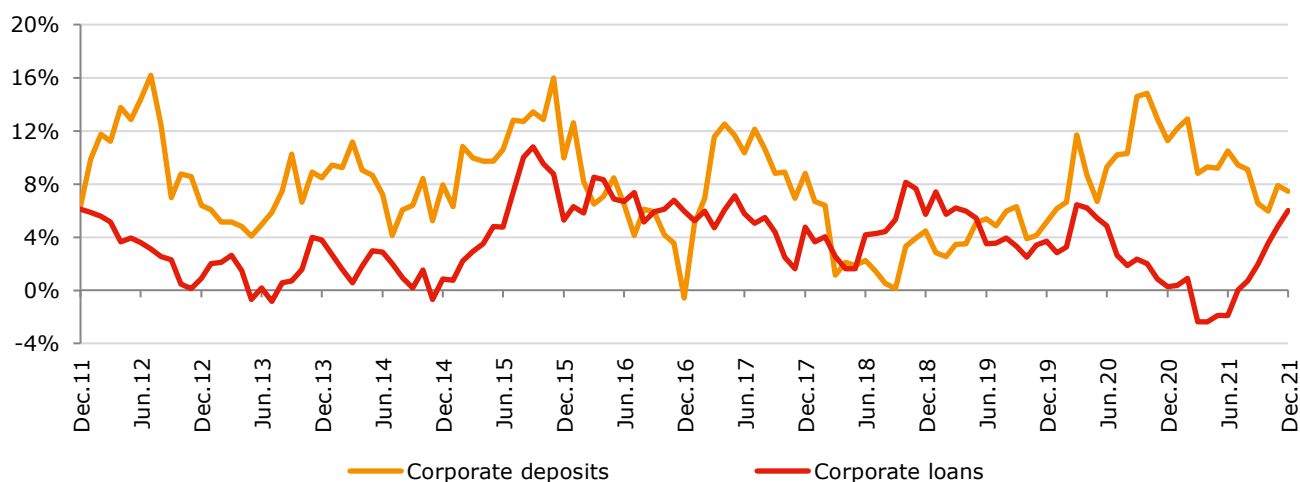
### The Czech Republic: Household Loans and Deposits (YoY dynamics)



Source: Own calculations based on Česká národní banka data.

The growth of total loans to households amounted to a stable 6% throughout the entire 2020, and accelerated markedly to nearly 10% in 2021. The drop in economic activity and the worse labour market situation did not cool the mortgage and residential property markets. On the contrary, the volumes of new and refinanced housing loans were reaching consecutive monthly records in H1 2021. After a considerable slowdown recorded in 2020, the consumer credit rebounded and its dynamics increased to 6% in December 2021 from close to zero level a year earlier. The ČNB Board decided to keep the LTV (loan-to-value) limit unchanged at 90%, with the option of applying a 5% exemption. At the same time, it did not for the time being deem it immediately necessary to set DTI (debt-to-income) and DSTI (debt service-to-income) thresholds or to tighten the other parameters of the existing recommendation. No deterioration of asset quality in the retail segment has been observed so far. The share of non-performing loans in the total volume of loans to households was at 1.5% in December 2021, compared to 1.8% at the end of 2020. Starting from March 2020, along with precautionary accumulation of money and reduced spending, retail deposits accelerated significantly to 12% in December. Due to interest rate cuts, the maturity structure was also evolving visibly, with demand deposits rising at double-digit rate and term deposits falling on average by 9% annually in H2 2020. These trends reversed in 2021, driven by the reflection of monetary policy tightening in the banking offer, while the total dynamics slowed down to below 7%.

### The Czech Republic: Corporate Loans and Deposits (YoY dynamics)



Source: Own calculations based on Česká národní banka data.

Development of the outstanding corporate loan volume has been noticeably affected by the Covid-19 pandemic. From a short-lasting uptick at the beginning of Q2 2020, financing granted to enterprises slowed down amid macroeconomic recession and the exposure ended the year almost at the same level as it was in December 2019. Having passed the contraction phase in H1 2021, corporate loans started rebounding to show the growth pace of 6% at the end of the year. The share of non-performing loans in the total volume of loans to non-financial corporations was constantly declining from 2011 to mid-2020. This trend reversed in Q4 2020 and the ratio increased to 4.2% at the end of year, compared to 3.2% in December 2019. In 2021, the quality improved again to NPL ratio of 3.8%. The dynamics of corporate deposits oscillated around 5% in H2 2019. Then, along with liquidity support for enterprises, their funds kept at banks were rising fast in 2020. High base effect resulted in decelerating growth pace, reaching around 8% at the end of 2021.

### Economy and the banking sector in Slovakia

Key macroeconomic parameters	2021	Banking sector indicators	2021
Real GDP growth rate (forecast)	3.2%	Base interest rate	0.00%
Nominal GDP per capita (EUR)	16,860 <sup>1</sup>	Loan to Deposit ratio	104.2%
GDP per capita in PPS (EU-27=100)	70% <sup>1</sup>	NPL ratio	1.7%
Average annual inflation rate	2.8%	Total Capital Ratio (TCR)	20.3% <sup>2</sup>
Average annual unemployment rate	7.5%	Return on Assets (ROA)	0.6% <sup>2</sup>
Population	5.4 million	Return on Equity (ROE)	6.7% <sup>2</sup>

Source: Eurostat, Národná banka Slovenska (NBS).

<sup>1</sup> Data as of end of 2020

<sup>2</sup> Cumulative data for 9 months (as at September 30, 2021)

#### GDP, inflation and interest rates

2021 was the year of recovery after the pandemic. In the first half of the year, restrictions were still significant which slowed down the rebound. In H2 2021, growth was halted by global problems in supply chains. According to the latest forecasts of the Slovak central bank, the pre-pandemic (Q4 2019) level of GDP will be achieved in Q1 2022. A return to the pre-pandemic trend is expected at the end of 2022. Persistence of global supply chain disruptions will still slow down the GDP in 2022 (one of the reasons is high share of car production in the overall economy in Slovakia). In 2021, GDP growth was driven by consumption (easing of restrictions helped, part of consumption was financed from savings) and government expenditure. Investments (mainly due to private investments) recorded a low annual dynamics. But investments should strongly rebound in 2022 (the Slovak central bank forecasts 13.4% YoY).

As in the entire euro area, 2021 was a year of accelerating inflation. Its growth was caused by global disruptions in the supply chains, which increased the prices of materials and transport. Average annual inflation was at 2.8% YoY, but during the year it was increasing significantly (HICP at 5.1% YoY in December). Growth of the headline inflation was mostly caused by core inflation. Compared to the rest of the eurozone, energy prices had a much lower impact on inflation (due to the Slovak regulatory environment). On the other hand, higher contributions were recorded in the case of food and service prices. Latest macroeconomic report of the Slovak central bank indicates that the increase in food prices is the fastest in Europe, due to the relatively low food price inflation in 2020.

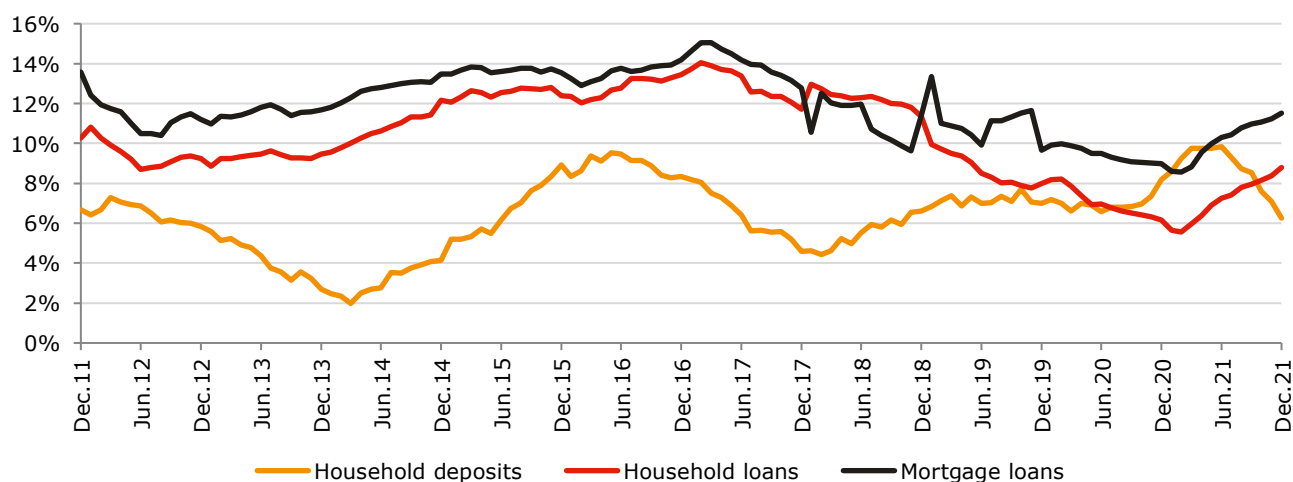
According to the forecasts of the Slovak central bank, inflation will remain elevated in 2022 (forecast of average annual HICP at 5.7% YoY), and will be driven by the persistent global problems in supply chains and food prices. Contrary to 2021, energy prices will also have a significant contribution to inflation (estimated at +10.9% YoY). Inflation is expected to decline starting from H2 2022 and remain around 2.5% YoY in 2023, based on NBS estimates.

### Banking sector

Although Slovak banks operated in a relatively supportive economic environment prior to the outburst of the Covid-19 pandemic, their profitability remained weaker than in many countries of the CEE region. The protracted period of ultra-low interest rates put pressure on their business model. In 2020 and 2021, the sector continued experiencing long-lasting gradual compression of net interest margin. To compensate for this income erosion, banks have been seeking to increase their operational efficiency, by reducing workforce and closing branches. However, the most prominent event translating into significant improvement in the profitability level of the Slovak sector was the abolition of the bank levy, originally introduced in 2012. The government agreed for this move effective from July 2020 in order to boost financing of the recovering economy. Also, a decrease of loan loss provisions contributed positively to the net result in 2021.

The improvement of asset quality was mainly the result of both dynamic expansion in loans and a decline in the stock of non-performing receivables. The NPL ratio for Slovakia is among lowest in the CEE region, reaching 1.7% at the end of 2021 and dropping from 2.2% a year earlier. The overall loan-to-deposit ratio continued to be above 100% in 2021, but did not materially change compared to the end of 2020 and 2019. The resilience of Slovak banking sector has been strengthened by its increasing capital adequacy. In response to the pandemic crisis and following the easing of requirements by other supervisory authorities, including the ECB, the Board of Slovak National Bank concluded in July 2020 to reduce the countercyclical capital buffer from 1.50% to 1.0%. The current rate is assessed to be sufficient to cover existing risks and does not at present need to be increased.

### Slovakia: Household Loans and Deposits (YoY dynamics)

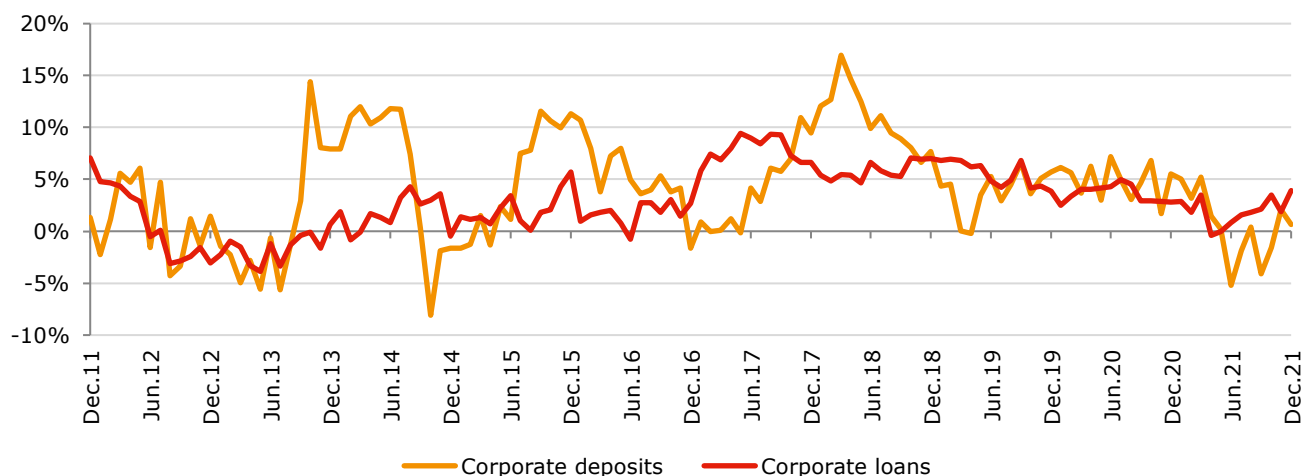


Source: Own calculations based on Národná banka Slovenska data.

After being on a decelerating path over recent years, total loans to households broke the trend in March 2021. The annual growth rate increased to almost 9% at the end of the year. The portfolio expansion was predominantly driven by mortgage loans, which rose by 11.5% compared to December 2020. In contrast, consumer credit continued shrinking in 2021, with still reduced spending opportunities amid the pandemic constraints, translating into lower demand from customers. The risks associated with potential increasing indebtedness have been mitigated by regulatory lending limits, as the Slovak National Bank tightened allowed DSTI (debt service-to-income) ratio in H1 2020. The share of non-performing loans in the total volume of loans to households declined visibly during 2021 to 2.0% from 2.4% at the end of 2020. Development of retail deposits followed a stable pace of around 7% in 2019-2020. Client inflows accelerated

to almost 10% in Q2 2021 and then returned to slower growth of 6% at the end of the year. Since 2013, the structure of household deposit base has been changing. The volume of term deposits has been mostly decreasing over the past years, what was more than compensated by strong increase of retail demand deposits, which continued to expand by more than 12% in 2021.

### Slovakia: Corporate Loans and Deposits (YoY dynamics)



Source: Own calculations based on Národná banka Slovenska data.

For most of 2020, the development of corporate credit volume remained decelerated to below mid-single digit pace, but seemed not to be much affected by the deterioration of economic situation in Slovakia. In April 2021, total lending to large enterprises declined sharply in year-on-year terms. This was because, in the early phase of the pandemic, many of these entities took the precautionary step of increasing their borrowing (mainly through credit lines and revolving credit), but after the second wave of Covid-19 had receded, and with the crisis having had less impact on their liquidity than originally expected, several companies made an unscheduled repayment of part of the borrowed funds, using accumulated excess cash. Lending to small enterprises contributed positively to total loan development until mid-2021, but the trend recorded a correction in Q3 2021. The slowdown stemmed partly from the gradual unwinding of public loan guarantee schemes, introduced as one of the pandemic relief measures in 2020. In parallel, overall credit growth has been supported by a recovery in the financing of investment activity, though firms remain cautious in this area. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 2.8% at the end of 2021 from 3.1% in 2020. In the period from mid-2019 to Q1 2021, the annual growth of corporate deposits oscillated around 5%. Then, the dynamics turned to negative and returned to above zero at year-end.

## 2.2. Market and regulatory environment



mBank Group is an active participant and often a leader of changes introduced in expectation of and in response to developments in its environment, including the area of regulations and technology. The employees of mBank Group spare no effort in proactively adjusting the offer and principles of operation to new challenges, always

with an eye on building top quality relationships with stakeholders. Some of the requirements imposed on mBank and the Group subsidiaries do not affect clients directly, but still involve a heavy workload connected with adjusting internal processes. Below we discuss selected key developments significantly affecting mBank Group observed in 2021 or anticipated in the nearest future. Capital requirements as well as regulations on accounting and reporting standards have been addressed in following, dedicated sections of this report.

### Legal and legislative amendments introduced in 2021 in connection with the COVID-19 pandemic, relevant to the bank

Legislators and regulators in Poland and the European Union took active steps to mitigate the impact of the COVID-19 pandemic. Such measures included actions preventing the spread of the contagion, such as temporary restrictions on the movement and assembly of people, border controls, and closing down of schools, shopping malls and other sectors of the economy. The scale of the lockdown depended on the spread of the pandemic, reaching its peak during the first and second wave of the contagion in the spring and in the autumn and winter 2020, respectively. The key measures taken by the Polish government in order to cushion and mitigate the adverse impact of the pandemic on the economy and society were

approved as a part of a legislative package known as the “anti-crisis shield”. Such measures have been detailed in the Annual Report of mBank SA Group for 2020. There was no material changes to the anti-crisis shield with regards to the bank.

More information concerning measures taken by the Group in connection with the COVID-19 pandemic is presented in other sections of this Report.

### **Regulations imposing business restrictions or lockdowns**

The Council of Ministers issued regulations which imposed certain restrictions, orders and prohibitions in connection with the outbreak of the pandemic, which limited to a certain extent economic activities and banned certain types of activities altogether. The first provisions concerning the operations of entrepreneurs came into force in March 2020.



### **Other laws and regulations**

#### Best Practice for GPW Listed Companies 2021

On March 29, 2021, the Supervisory Board of the Warsaw Stock Exchange (GPW) passed a resolution on adopting the Best Practice for GPW Listed Companies 2021 (DPSN 2021). It is a new version of the corporate governance rules that have been binding on companies listed on the GPW regulated market since 2002. As expected by the market, the new Best Practice covers ESG issues. These include, among others, climate protection, sustainable development, board diversity, and equal pay. The revised document covers also issues such as distribution of profits, issue of shares without preemptive right, and share buybacks. The new rules entered into force on July 1, 2021. Companies were obliged to publish the first information on their observance of DPSN 2021 by July 31, 2021.

The information on the status of the company’s compliance with the principles included in the Best Practice for GPW Listed Companies 2021 is available on mBank’s official website (<https://www.mbank.pl/pdf/relacje-inwestorskie/pozostale/informacja-na-temat-stanu-stosowania-przez-spolke-zawartych-w-zbiorze-dobre-praktyki-spolki-notowanych-na-gpw-2021.pdf>).

#### Recommendation R on Classification of Credit Exposures, Estimation and Recognition of Expected Credit Losses and Credit Risk Management

On April 15, 2021 the Polish Financial Supervision Authority issued Recommendation R. It is a collection of rules and guidelines regarding classification of credit exposures, estimation and recognition of expected credit losses in accordance with the accounting policy applicable at the bank, and credit risk management.

The recommendation stipulates that banks should have in place comprehensive risk management rules that are proportional to the nature, scale and complexity of their operations. These should include a clear organisational structure with precisely defined, transparent and coherent scopes of responsibility. In addition, the recommendation requires banks to have effective procedures for identifying credit risk to which banks are or may be exposed. Their purpose is to manage, review and report this risk and to have appropriate mechanisms of control, including internal control. These include proper administrative and accounting procedures, remuneration policy and respective practices. Recommendation R entered into force on January 1, 2022.

#### EBA Guidelines on Loan Origination and Monitoring

The EBA Guidelines on loan origination and monitoring set uniform standards improving the loan origination processes and mechanisms, and align them with consumer protection and fair treatment rules. Their introduction will allow greater resilience and stability of banks. The EBA Guidelines entered into force on June 30, 2021, but banks are allowed to apply transitional provisions. The guidelines set out, among others:

- Rules of ongoing monitoring of the financial situation of consumers, credit risk and credit exposures;
- Requirements for the creditworthiness assessment of borrowers during the credit-granting process and throughout the life cycle of loans, and for handling data for such assessments;
- Supervisory expectations for the risk-based pricing of loans;
- Guidance on the approaches to the valuation of collateral;
- ESG factors (E – environment, S – social, G – governance) and sustainable finance in the credit-granting processes.



### Sustainable Finance Disclosure Regulation (SFDR)

In 2021 Regulation (EU) of the European Parliament and of the Council of November 27, 2019 on sustainability-related disclosures in the financial services sector (SFDR) entered into force. The new rules will ensure greater transparency in analysing risks for sustainable development faced by financial market participants (sustainability risks). The regulation extends the scope of obligations of banks and other financial institutions regarding the disclosure of approach to sustainability risk management and investment decision-making. The first stage of SFDR implementation started on March 10, 2021. Under the new regulation, financial market participants are obliged to disclose additional information on their corporate websites. In the next stages they will be obliged to comply, among others, with the following obligations prior to signing a contract with a client:

- Explain to the client the manner in which sustainability risks are integrated into their investment decisions;
- Provide the client with the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available;
- In the case when information on adverse sustainability impacts (ASI) is provided, it should be taken into consideration at the stage of concluding a contract.

At the beginning of December 2021, the European Commission postponed the regulatory technical standards (RTS) to the regulation by another six months.

The information on sustainable development in the financial services sector is available on mBank's official website (<https://www.mbank.pl/pomoc/dokumenty/private-banking/wealth-management/uslugi-wealth-management/>).

### Act of February 25, 2021 on Amendments to the Banking Law Act and Certain Other Acts

The purpose of the act is to introduce the necessary amendments to Polish law in connection with the entry into force of EU regulations on capital requirements for financial institutions, i.e. CRD V/CRR II. The changes introduced under CRR II include: mandatory leverage ratio, mandatory net stable funding ratio (NSFR), more risk sensitive capital requirements for institutions that extensively trade in securities and derivatives, and new requirements such as total loss-absorbing capacity (TLAC) for global systemically important institutions (G-SIIs). The major changes arising from CRD V apply, among others, to: approval of financial holding companies and mixed financial holding companies that can be parent undertakings of banking groups, use of the standardised methodology and the simplified standardised methodology to evaluate interest rate risk (in addition to the risk management system used so far). Moreover, they specify the categories of institutions and employees exempted from the obligation to apply certain remuneration policy components and vest the power to remove a member of an institution's management body who does not fulfil the requirements necessary for the exercise of their respective function in competent authorities. The new regulations authorise supervisory authorities to impose additional or more frequent reporting requirements on supervised institutions. They also modify the systemic risk buffer, which so far could be introduced on the financial sector or one or more subsets of that sector; now, a systemic risk buffer can be introduced for all or a subset of exposures. Also the maximum buffer of other systemically important institutions (O-SIIs) was changed from 2% to 3%. The new regulations limit profit distributions where the leverage ratio buffer requirement is not met.

### EBA Guidelines on AML

On March 1, 2021 EBA published its new guidelines on money laundering and terrorist financing risk factors, which extend the ML/TF legal framework applicable in the European Union. The document is a response to the current threats connected with illegal financial transactions and complement the risk assessment solutions arising from the Act of March 1, 2018 on Combating Money Laundering and Terrorism Financing. The Guidelines strengthen the requirements applicable to individual and business-wide risk assessments, as well to customer due diligence (CDD) measures. The EBA Guidelines on AML enter into force three months after publication in all EU official languages.

### Act on Amendments to the Act on Combating Money Laundering and Terrorism Financing and Certain Other Acts

On April 8, 2021 the President signed into law the Act on Amendments to the Act on Combating Money Laundering and Terrorism Financing and Certain Other Acts. The key changes result from the implementation of a directive of the European Parliament and of the Council. The new regulations extend the catalogue of obligated institutions. In addition, they change certain definitions, e.g. of beneficial owner and politically exposed person, and modify the application of enhanced due diligence measures. The majority of new regulations require obligated institutions to comply within 14 days from their publication in the Journal of Laws.

### IBOR Reform

Financial markets, including banks, continued preparations for the discontinuation of IBORs and LIBOR-based indices starting from 2022 and for changing their methodologies of determining interest rates such as WIBOR. In Poland the PFSA authorised GPW Benchmark S.A. to act as the administrator of interest rate benchmarks, including the critical benchmark WIBOR. The Financial Market Institute (IRF) was approved by the PFSA as the administrator of the funding cost index (WKF). The manner of implementing the IBOR reform is being worked out, among others, by the Polish Financial Supervision Authority and the Financial Stability Committee. The currently used LIBOR-based rates will be replaced by risk free rates (RFRs), which are not vulnerable to market participants' manipulations.

In October 2021, the European Commission published the implementing regulation on the designation of a statutory replacement for CHF LIBOR. This regulation addresses the risk associated with the cessation of CHF LIBOR.

In accordance with BMR, a methodology of determining new benchmarks should be based first of all on data on real market transactions. Where transaction data are unavailable, benchmarks can be determined based on quotes (waterfall method).

### Regulation of the Minister of Finance, Development Funds and Regional Policy of December 23, 2020 Amending the Regulation on Principles of Creating Provisions for Risk Related to Banks' Activity

The regulation that entered into force on January 26, 2021 aims at facilitating the classification of credit exposures by banks in resolution entities as defined in the Act on the Bank Guarantee Fund (BFG). The purpose of this regulation is to ensure stability of entities subject to resolution.

### Amendments to the Act on the Bank Guarantee Fund

The amendments implement into the Polish law the EU regulations on facilitating the resilience of financial institutions to events threatening their stability and ensuring the continuity of the whole financial system with a minimum use of public funds. They set the minimum level of subordinated MREL:

- G-SIIs (global systematically important institutions) and subsidiaries of G-SIIs are obliged to maintain subordinated MREL at 18% of RWA (with a 3.5% exemption subject to approval of the resolution authority), while the resolution authority may impose an additional institution-specific MREL requirement;
- Top tier banks not identified as G-SIIs with total assets above EUR 100 billion are obliged to maintain subordinated MREL at 13.5% of RWA, while the resolution authority may impose an additional bank-specific MREL requirement;
- Other banks will not be obliged to comply with the subordinated MREL requirement under Pillar I. They will be subject to MREL requirement under Pillar II; however, subordination can be required.

### Bill Amending the Consumer Credit Act

On September 10, 2021 the Legislation Committee brought a bill amending the Consumer Credit Act before the Senate. In the explanatory memorandum the authors of the bill explain that the projected law aims at addressing the specific needs of clients of consumer credit providers. The purpose of the bill is to reduce the burden on consumers arising from consumer credit agreements by lowering the cap on non-interest costs related to consumer credit. In the Act of March 31, 2020 on Amending the Act on Special Solutions Aiming to Prevent, Counteract and Combat COVID-19, Other Contagious Diseases and Resulting Crises and Certain Other Acts, the legislator decided to significantly curb the costs incurred by consumers under consumer credit agreements. The solutions introduced under the Act were in force until the end of June 2021. The purpose of the bill is to make them applicable permanently. The bill proposes that non-interest costs of a consumer loan cannot exceed 30% of the total loan amount.

### Judgement of the Court of Justice of the European Union dated September 9, 2021

The CJEU passed a judgement with regard to consumer credit agreements. The Court ruled that a consumer credit agreement must specify the rate of late-payment interest applicable at the time of conclusion of the agreement and the arrangements for adjusting the rate of late-payment interest. In the case when the parties to a credit agreement have agreed that the rate of late-payment interest is to change in step with a change in the base rate set by the central bank of a Member State, a reference in that agreement to that base rate is sufficient, provided that the method of calculating the rate of late-payment interest relative to the base rate is set out in the credit agreement. In that regard, two conditions must be met. In the first place, that method of calculation must be set out in a way which is readily understood by an average consumer and must enable him or her to calculate the rate of late-payment interest based on the information provided in the credit agreement. In the second place, the frequency with which the base rate may be varied, which is determined by national provisions, must also be set out in the credit agreement.



### EU Taxonomy Delegated Acts

On April 21, 2021 the European Commission adopted a package of measures to help improve the flow of money towards sustainable activities. The package is comprised of the EU Taxonomy Climate Delegated Act; a proposal for a Corporate Sustainability Reporting Directive, which aims to improve the flow of sustainability information in the corporate world. Reporting based on a common methodology will enable financial firms, investors and the broader public to use comparable and reliable information; six amending Delegated Acts on fiduciary duties, investment and insurance advice.

The EU taxonomy aims at making it clearer for companies and investors which economic activities are considered environmentally sustainable. In addition, the Delegated Act introduces disclosure obligations on companies and financial market participants.

On July 6, 2021 the European Commission adopted a package of measures to help improve the flow of money earmarked for financing the EU's transition towards a sustainable economy and redirect private capital flows towards more environmentally sustainable investments.

The sustainable finance package covers three solutions:

- Reviewed sustainable finance strategy ("Strategy for financing the transition to a sustainable economy"),
- EC's proposal for a regulation on a voluntary European Green Bond Standard,
- Delegated Act supplementing Article 8 of the Taxonomy Regulation.

## 2.3. mBank Group's market position of segments

### Performance indicators<sup>1</sup>: mBank vs sector

Net interest margin **2.1%** vs 1.88%  
 Cost-to-income ratio **50.2%** vs 58.8% (including banking tax)

Return on Assets **-0.6%** vs 0.36%  
 Return on Equity **-7.2%** vs 4.1%  
 Loans to deposits **73.8%** vs 76.5%

Business category (# - market position)	Market share				
	2017	2018	2019	2020	2021
<b>Corporate Banking</b>					
Corporate loans	7.8%	7.9%	8.6%	8.5%	<b>8.2%</b>
Corporate deposits	9.6%	9.0%	9.9%	9.4%	<b>10.7%</b>
Leasing	7.4%	7.4%	6.8%	7.3%	<b>7.4%</b>
Factoring ( <b>#5 on the market</b> )	7.2%	7.9%	7.9%	8.2%	<b>8.2%</b>
<b>Retail Banking in Poland</b>					
Total loans	6.3%	6.5%	7.0%	7.4%	<b>7.9%</b>
of which mortgage loans	6.9%	6.9%	7.4%	7.9%	<b>8.4%</b>
Non-mortgage loans	5.4%	5.8%	6.5%	6.6%	<b>7.1%</b>
Deposits	5.9%	6.4%	7.0%	7.8%	<b>8.3%</b>
<b>Retail Banking in the Czech Republic</b>					
Total loans	1.4%	1.4%	1.3%	1.6%	<b>1.8%</b>
of which mortgage loans	1.7%	1.6%	1.4%	1.7%	<b>1.9%</b>
Non-mortgage loans	0.8%	0.9%	1.0%	1.2%	<b>1.4%</b>
Deposits	1.6%	1.7%	1.6%	1.8%	<b>1.8%</b>
<b>Retail Banking in Slovakia</b>					
Total loans	0.6%	0.6%	0.7%	1.0%	<b>1.4%</b>
of which mortgage loans	0.6%	0.6%	0.7%	1.1%	<b>1.3%</b>
Non-mortgage loans	0.6%	0.7%	0.8%	1.0%	<b>1.6%</b>
Deposits	1.7%	1.8%	1.9%	2.1%	<b>2.2%</b>
<b>Investment Banking</b>					
<b>Financial markets</b>					
Treasury bills and bonds	14.8%	14.3%	11.3%	10.6%	<b>11.0%</b>
IRS/FRA	12.5%	10.7%	15.1%	20.7%	<b>19.9%</b>
Non-Treasury securities (the value of debt) <sup>3</sup>					
Short-term debt securities ( <b>#5 on the market</b> )	7.4%	11.6%	9.2%	4.0%	<b>1.8%</b>
Corporate bonds ( <b>#4 on the market</b> )	12.9%	12.0%	12.1%	11.7%	<b>10.3%</b>
Bank debt securities <sup>4</sup> ( <b>#2 on the market</b> )	31.2%	23.4%	23.8%	20.6%	<b>19.5%</b>
<b>Brokerage</b>					
Equities trading ( <b>#6 on the market</b> )	5.3%	4.1%	3.4%	5.3%	<b>5.0%</b>
Futures ( <b>#1 on the market</b> )	11.9%	15.6%	13.0%	17.6%	<b>27.7%</b>
Options ( <b>#7 on the market</b> )	12.8%	12.0%	9.4%	4.4%	<b>3.1%</b>

Source: Own calculations based on data from mBank, NBP, WSE, Česká národní banka (ČNB), Národná banka Slovenska (NBS), Fitch Polska, Polish Factors Association, Polish Leasing Association, press reports.

<sup>1</sup> mBank Group ratios calculated as defined in chapter 4. "Financial position of mBank Group and mBank in 2021", except for Net Interest Margin which was adjusted to sector calculation (net interest income divided by average total assets).

Sector data as at December 31, 2021 (released on February 14, 2022). Sector ratios calculated based on the monthly data of banking sector published by PFSA (banking sector together with branches of credit institutions).

**Net interest margin:** net interest income divided by average total assets (calculated based on the end-of-month data)

**Cost/Income ratio** (incl. banking tax): total costs (sum of administration costs and depreciation) divided by net total operating income.

**Return on assets:** profit for the year divided by average total assets (calculated based on the end-of-month data)

**Return on equity:** profit for the year divided by average total equity (calculated based on the end-of-month data)

**Loan to deposit ratio:** sum of loans and advances at amortised cost, loans and advances/other receivables at fair value through other comprehensive income and loans and advances/other receivables designated at fair value through profit or loss divided by deposits (measured at amortised cost) as of the end of period.

<sup>2</sup> 2017 market share updated compared to value presented in the Management Board Report on Performance of mBank S.A. Group in 2017 due to update of data by the Polish Factors Association.

<sup>3</sup> Data as at November 30, 2021

<sup>4</sup> Excluding "road bonds" issued by Bank Gospodarstwa Krajowego (BGK).

## 2.4. Outlook for the banking sector and mBank for 2022

### What will 2022 be like for the Polish economy?

Key macroeconomic parameters	2020	2021	2022P
GDP growth (YoY)	-2.7%	5.8%	4.1%
Domestic demand (YoY)	-3.3%	8.2%	5.4%
Private consumption (YoY)	-3.0%	7.0%	4.8%
Investment (YoY)	-8.4%	6.8%	8.3%
Inflation (EOP)	2.4%	8.6%	4.3%
NBP reference rate (EOP)	0.1%	1.75%	4.00%
CHF/PLN (EOP)	4.22	4.42	4.17
EUR/PLN (EOP)	4.56	4.59	4.40

Source: mBank's estimates as at February 7, 2022. YoY – year on year, EOP – end of period.

Forecasts for 2022 are still favorable. However, lower GDP growth (4.1%) will be accompanied by higher inflation (around 7%). Consumption growth will be slower but it is expected that investment activity will increase. Since the start of the year, the new tax code is implemented (Polish Deal). The changes are beneficial for majority of tax-payers. It is not the only legislative change that will shape 2022. Due to high inflation, the government decided to implement means (so called anti-inflation shields) to arrest price increases of energy, fuels, food and fertilizers. Direct transfers to least wealthy households were introduced as well. Those measures increase real disposable income of consumers. As any tax decreases they generate additional, potential source of aggregate demand in the economy. If they are not going to be mostly saved by households (baseline scenario), they will constitute additional force making high inflation endemic. Baseline scenario assumes that we are going to see first effects of recent interest rate increases in GDP growth and inflation as well. However, it is most likely that interest rate cycle is going to be continued. It can be assumed, though, that the maximal interest rate is not going to exceed 4%. Zloty is set to gradually strengthen (4.40 at the end of the year).

### Banking sector and monetary aggregates

Banking sector - monetary aggregates	2020	2021	2022P
Corporate loans	-4.8%	3.9%	10.5%
Mortgage loans	7.3%	7.1%	4.2%
Non-mortgage loans	-3.8%	1.1%	5.6%
Corporate deposits	19.0%	10.4%	4.6%
Household deposits	10.7%	6.7%	9.0%

Source: mBank's estimates as at February 7, 2022.

As far as monetary aggregates are concerned, first half of the year will be beneficial for growth of household loan volumes. Thereafter the cooling effects of interest rate hikes are going to be felt. Also a decelerating economy has its part to play there. Credit volumes for firms are set to gradually accelerate, reflecting higher growth of investment activity. As far as deposits go, both firms and households are expected to build volumes further.

## Outlook for mBank

### Net interest income & NIM

(positive)



- Ongoing cycle of rate hikes translating into margin improvement and significant increase of interest income
- Low costs of deposits supported by overliquidity of the sector

### Net Fee & Commission income

(slightly positive)



- Uptrend anchored in growing customer base and transactionality, as well as extending investment product offering
- Selective adjustments of tariff of fees and commissions

### Total costs

(negative)



- Visible wage pressure, but overall operating costs under control
- Investments in future growth along with increasing revenues
- Expected increase of contribution to the Bank Guarantee Fund

### Loan Loss Provisions & FV change

(slightly negative)



- The overall asset quality should not deteriorate materially thanks to prudent approach in loan origination
- The financial standing of corporate and retail borrowers may be affected by the changing macroeconomic environment and geopolitical developments

### 3. Strategy of mBank Group

#### 3.1. From an icon of mobility, to an icon of possibility - strategy for 2021-2025

On October 29, 2021, the management board of mBank adopted and the company's supervisory board approved the new **Strategy of mBank Group for 2021-2025** titled "**From an icon of mobility, to an icon of possibility**". It was developed to leverage on our current competitive strengths, adapt to new environment, address the weaknesses and as a result establish a bank that will continue to be ranked among top financial players in Poland, whilst reaching better valuation.

Until Autumn 2021, we followed previous mBank Group's strategy for 2020-2023 titled "Growth fuelled by our clients". It used to organize our activities around 4 pillars, corresponding to the key components of our business model, including client (acquisition and long-term relationships), platform (ecosystem and user experience), efficiency (operational advantage) as well as employees and organisation culture. As that document was prepared prior to the outbreak of the Covid-19 pandemic, and we found it not fully reflecting the emerged challenges, the management board decided to replace it by the updated strategy.

Defining our new aspirations, goals and initiatives, we took into account, among others, expected economic and market prospects, regulatory requirements, technological progress, evolution of consumer behaviour, local constraints and internal conditions. In the increasingly competitive operating environment, attacking by new entrants, fintechs and internet giants, we believe that we can further build our advantage around fundamental banking values such as **stability, security** and **secrecy**. They are hard to be appropriated by non- or scarcely-regulated entities. Our clients should have strong conviction that they can trust our services because we comply with much more demanding rules and standards.

Our mission is: "**Convenient, secure, focused on your future... mBank – more than a mobile bank.**"

In mBank Group's strategy for 2021-2025, we focus on **5 areas**:

- **Retail banking:** We aspire to be a leading retail banking franchise integrated with client life cycle. Our successful organic growth will continue to be fuelled by the constant acquisition of new (primarily young) clients and maturing of the existing base. We will be organized around demographic segments to develop a complete offer and value proposition precisely responding to the needs arising at different phases of the customer life. We will focus on mortgage lending expansion (through revised underwriting process), comprehensive investment offering (via own newly-established TFI), personal financial management (PFM) tools and ecosystem of non-banking services. With a reinforced mobile-first approach, we will design mBank's contact channels aligned to a primacy of remote access and digital sales. We will support entrepreneurs and small firms by providing them with industry-customized expertise and integrated platform for managing their different business-related activities.
- **E-commerce:** Having already strong position in the e-commerce market in Poland and outstanding transactional capabilities, we aspire to be the preferred bank for merchants and online shops, as well as favourite platform for customers buying on the Internet. We see the growth opportunity in further enhancement of our offer and supplementing it with new components. We want our payment integrator Paynow to gain a significant share in processing transactional volumes. We will extend the range of value added services and financing tailored for online sellers to increase the importance of relationship with mBank and partner with them in main parts of their e-commerce activity. We also plan to modernize and extend our existing mDiscounts (mOkazje) platform.
- **Corporate banking:** We want to grow the corporate banking business, optimizing exposures towards higher profitability. We will initiate, develop and intensify the cooperation with companies from prospective industries and the fastest growing sectors of the economy, aligned with our ESG agenda. We will increase our focus on SME segment to benefit from its progressing e-commerce entry. To further improve customer satisfaction and internal efficiency, we will provide the best end-to-end digital banking experience for corporates in Poland. We will also redesign our credit process to make it supporting business development as well as ensuring prudent level of risk costs. In parallel, we intend to strengthen relationships with our clients through additional knowledge-based services, assistance of top-rated advisors and deep industry expertise.
- **Technology, security and data:** Our primary goal is to provide high quality, availability and security of mBank's services and solutions to customers. By being cloud-ready, we will strive to maintain the technological advantage of mBank in the financial sector. It will allow us to boost flexibility, foster innovation of business applications, shorten time-to-market, and enlarge the scalability of used technology. Continuous development of a multi-layer cybersecurity defence model and assuring data secrecy will remain our constant effort. We aim to offer the highest possible protection of our mobile application and deliver the most secure and client-friendly identity confirmation process in all digital channels. We will employ artificial intelligence and data science to support creation of innovative

customer products and better risk assessment, as well as increase effectiveness of internal systems and workflows.

- **Employees and organisation culture:** We will create a culture where cooperation is based on trust and positive intentions. This gives people a comfortable space to experiment, innovate and make bold decisions. We will develop a best-in-class hybrid work environment. mBank's managers will acquire practical skills in managing distributed teams, while our employees will take advantage of new communication and collaboration technology. We will make people capabilities a competitive advantage for the company through a strengths-based approach to leverage individual talents and focus on future skills needed for the organisation to succeed. We will amend the remuneration scheme to make it attractive from the employee perspective and supporting company objectives.

As an integral part of our activity, we have also developed a **new ESG agenda** for mBank Group. We want to remain a leader of sustainable banking in Poland. We are aware of our responsibility for climate, society, financial health of our clients and being in line with our declared ESG values. We intend to continuously reduce our environmental footprint, support energy transition of our clients and reach climate neutrality in scope 1 and 2 by 2030. Our ambition is to become a fully climate neutral organisation (scope 3) by 2050 at the latest. We will use Science Based Targets Initiative methods to calculate and limit the CO<sub>2</sub> emissions associated with our credit portfolio. Having integrated ESG standards into our business and risk processes, we will conduct responsible sale accompanied by clear and precise communication, transparently present the risks associated with specific financial products and continue educational campaigns on safe online banking and personal data protection. We want to build an ESG-oriented working environment and promote gender equality. We will contribute to social well-being through further cooperation with the Great Orchestra of Christmas Charity (WOŚP) and activities of mBank Foundation (mFundacja). We strive to enhance our ESG disclosure to be recognized by our shareholders and broader investment community as market leader and reference point among other financial institutions in the region.

### **3.2. Vision for mBank Group, pillars of the strategy, main directions of development**

Based on its superior payment capabilities, cash management and financing expertise, mBank will continue to attract individual and corporate customers who are seeking the easiest ways to move, manage and invest their money or address their liquidity needs. We will aspire to be not only the bank of first choice for our customers but the place where they will concentrate all their financial-related activities.

We will anchor the future of mBank on the following principles:

- understanding of customer needs in their life cycle and calibrating products adequately to support them in most effective way
- helping clients to keep their finances in order by providing them with advanced financial management capabilities
- mobile access being the core medium/channel for interaction with the client
- security of clients' payments and assets placed with mBank
- banking secrecy and firm promise to protect customer information, personal data and financial profile of their activities
- offering a premier experience for our clients in the e-commerce universe
- executing ESG agenda focused on our responsibility for climate, society and financial health of our clients

mBank will be further transformed into a digital champion that provides best payment solutions, frictionless e-commerce experience, easy access to premier asset management capabilities and service infrastructure available through open banking platform reflecting and pre-empting customers' needs and expectations. Our strong business performance leading to constant gaining of market shares, structural efficiency advantage and revenue growth need to be followed by improved profitability of our both business lines.

Key initiatives and business activities which we intend to undertake and execute in the horizon of this strategy have been grouped into 5 blocks:

#### **1. Leading retail banking franchise integrated with client life cycle**

We aspire to be a partner for a 100-year long life of our clients. We also want to provide a complete business management centre for entrepreneurs and small companies. Therefore, our efforts will be concentrated on a thorough and precise understanding of customer needs as well as their evolving

preferences and behaviours. Such in-depth knowledge will allow us to provide a holistic and well-calibrated value proposition, covering not only banking products, but also additional services, in order to increase the usage intensity and strengthen the relationships. Our success in the coming years will be measured by a dynamic acquisition of customers, with a particular focus on young segment. This will protect the existing unique demographic profile of our client base, which will continue to be a key factor driving further mBank's growth. We will invest in the development of client contact channels, reinforcing the leading role of mobile banking. All other channels are assumed to play a supportive role and supplement educational, service and sales functions until processes are successfully migrated to the mobile application without affecting customer experience and satisfaction as well as the bank's results.

Our main goals are:

- **to be further growing organically through the acquisition of new (primarily young) clients and accompany them throughout the whole life cycle, providing precisely calibrated value proposition.** Based on deep understanding of our customer base and demographic-anchored segmentation, we will prepare a list of needs and likely banking product purchases for each cohort, starting from today to decades ahead. Key components of the offer will include Payment Assistant 2.0 eliminating inconvenience of manual bill payments and subscription management, digital mortgage loan process for individual clients, convenient and secure payment tools in e-commerce and POS transactions, supplemented by one-click non-mortgage lending.
- **to develop a comprehensive investment offering suited to the needs of each client segment to contribute to their long-term asset growth and benefit from the revenue potential of this area.** We will implement digital-first approach in distribution of investments with personal services aligned to specifics of these groups. We will develop "one-click investment strategy" as the easiest way to invest with mBank and introduce online-only investment solutions in a partnership with a robo-advisory firm. We aspire to be the leader in modern and purposeful investment solutions.
- **to help our customers to wisely manage their current and future finances by providing well-structured information on their inflows, spending and assets.** We want to make personal financial management (PFM) a cornerstone of our offering. It will give clients an ultimate control over their budgets, savings and investments as well as will support them in preparation for life-cycle events (purchase of house, children education, retirement).
- **to boost digital sales and service by enabling to easily fulfil all needs on a mobile device with a support of premium contact center if needed.** We intend to consistently improve remote identity confirmation to offer the most intuitive account opening process. Our advisors in branches and contact center will assist, guide and support customers to primarily use self-service via digital channels. With enhanced CRM system, we will apply personalized approach in communication and sales, using contextual events and demographic characteristics.
- **to continue to develop an ecosystem of non-banking services to strengthen the intensity of relationship with customers through providing them with additional utility and convenience.** We will further integrate e-government services, dynamically reacting to all new public schemes accessible online, such as family benefits (Rodzina 500+, Dobry start 300+), state support for enterprises, and other. We will link our mobile application with a range of lifestyle services. We will evolve bancassurance area by offering standalone insurances tailored to the needs of particular demographic segments.
- **to support entrepreneurs and small firms to grow their business by providing them with both the industry-customized expertise and integrated platform for managing financial, accounting and administrative issues.** We want to relieve business owners of their daily routine tasks, so that they can focus on their core activity. We will launch a business command centre, constituting a single control panel instead of services dispersed across multiple applications.

Strategic targets:

- increase the number of active individual clients by an additional 1.05 million by the end of 2025 compared to 3.05 million at the end of December 2020 (in Poland)
- upgrade junior mobile banking application by adding next functionalities in order to acquire 300 thousand of youngest clients by the end of 2025
- achieve top-3 market position in new mortgage lending through development of an advanced digital process for sales and application processing by 2023
- maintain the growth of assets under management (AUM) at PLN 1.5-2.0 billion annually



- increase the share of clients in mBank's lower affluent and mass market segment having at least one investment product to 50% by 2025
- have 50% of customers actively using PFM functionalities on regular basis in 2025
- become a mobile-first bank with 50% of sales and service executed via mobile devices in 2025
- improve digital onboarding process and have 50% of retail customers acquired remotely in 2025
- reach digitalisation ratio (calculated as a proportion of applications/orders for products and services executed in digital channels compared to such actions in all channels) of 90% by 2025
- raise the share of cashless branches within mBank's network to 50% in 2025
- automate 30% of the traffic to contact center with voice/chat bots till 2025
- have 2.8 million of individual customers and 200 thousand firms in retail segment actively using at least one value-added service offered by mBank by 2025
- reach 20-30% market share in new acquisition of sole proprietors (self-employed) and limited liability companies by 2025

## 2. The first-choice bank for e-commerce market participants

The e-commerce market in Poland has been growing rapidly in recent years. It recorded especially strong expansion during the Covid-19 pandemic, with an increase of 30-40% in 2020 compared to 2019. The trend is expected to continue in the coming years. This sector in Poland is still visibly underpenetrated, with a share of online shopping at 14% compared to more than 20% in China, the United States or United Kingdom. It is expected that changes in consumer preferences and behaviour shall force almost all businesses to increasingly offer their products and services in digital channels. Entering e-commerce market is one of the ways for banks to diversify the income structure and build a new revenue stream that is not based on financial products. With 30% of all local e-commerce transactions done by mBank's clients, a customer base active in digital channels (including more than 2.5 million users of mobile application), and already wide recognition of mBank's shopping-related offering of mDiscounts (with 2.5 million of clients having given marketing consent), we are uniquely positioned to succeed on this market.

Our main goals are:

- **to modernize and extend our existing mDiscounts (mOkazje) platform to make it more attractive e-commerce solution for both online buyers and sellers.** We plan to reshape it into more modern marketplace, with both POS and online deals available, and more merchants added to broaden the offer. We will speed up money back to instant benefit during the purchase. In addition to attractive prices for items from selected categories, we will provide more secured online shopping, thanks to Buy Now, Pay Later (BNPL) as well as option of free shipping.
- **to develop Paynow to become a significant player in online payments, with market share reflecting the share of mBank's consumers in Polish e-commerce.** The organic growth path of Paynow will be based on: scalable and cost-efficient solution (thanks to the cloud architecture), superior payment processing capabilities (quickest settlements of a large number of simultaneous transactions), extended and integrated offering (all payment and financing options provided by mBank Group), and exclusive features to enrich merchants value chain (one-click payments, marketing automation).
- **to extend the offering of value-added services (VAS) designed for online sellers to increase the importance of relationship with mBank by partnering with them in main parts of their e-commerce activity.** Merchants will enjoy an integrated view of their bank account together with a full navigation of their e-commerce business in the form of a one-stop-shop solution. We will also focus on seamless configuration of all the components instead of complicated one-by-one connection of many elements. Our financing offer will be available at marketplaces, shopping platforms and merchants' sites to avoid disintermediation.

### 3. Best digital corporate banking for high-potential companies

mBank's aspiration is to provide the best corporate banking services in Poland. We will be distinguished by professionalism, expertise and quality of the service as well as a personalised and transparent offer, taking into account the needs of particular customer segments. It will be confirmed by industry benchmarks and high net promoter score (NPS). Corporate area of mBank will continue its thorough digital transformation. By moving the offering and all post-sales processes into remote channels, we will increase the range of products available via virtual branch integrated into mBank CompanyNet system. Comfortable digital communication should result in higher satisfaction rate from cooperation with us. We will promote self-service among our customers. However, human support still will be available if needed, as it remains critical for strengthening the relationship between the client and the bank.

Our main goals are:

- **to initiate, develop and intensify the cooperation with companies from prospective industries and the fastest growing sectors of the economy as well as continue to support socially responsible business and energy transformation.** We will create dedicated financing rules and apply adequate credit assessment policies. We want to be more involved in: renewable energy sources, e-commerce and businesses supporting it, automation and digitalization solutions, modern technologies and digital entertainment, healthcare and pharma industry as well as EU funds beneficiaries.
- **to contribute to the growth of SME segment in Poland and benefit from its progressing e-commerce entry and higher profitability.** We will focus on 3 main dimensions: digital journey (adequate service model, data analytics), operational effectiveness and excellence (pre-approved credit products and improved time-to-agreement), as well as business expansion (customer acquisition, higher cross-sell index, cooperation with mLeasing and mFactoring, a joint dedicated offer).
- **to amplify our leading position in investment banking on the Polish market and strengthen relationships with our corporate customers through additional knowledge-based services and assistance of top-rated advisors.** We will further enhance our consulting competences. We aspire to be a relevant player in IPO listings. In parallel, we want to remain very active in tender offers and share buy-backs and maintain a strong position in this less cyclical segment of the ECM market. We will continue to support our clients in acquisitions, disposals and other equity transactions with the full scope of services, including corporate and M&A advisory both on public and private side.
- **to provide the best end-to-end digital banking experience for corporate customers in Poland.** Customers will be able to sign an agreement, open and manage any product, and initiate any interaction with mBank without a need of personal meeting. Transactional platform mBank CompanyNet together with application mBank CompanyMobile will be the gateway to any product or service. Clients will gain an access to the accounts without any breaks (24/7/365). Customer Service Team will be equipped with digital tools enabling remote interaction via all contact channels, screen sharing functionality.
- **to redesign credit process for corporate clients to make it more predictable, supporting business development as well as ensuring safe and adequate level of risk costs.** We will launch ePlatform for paperless communication with the clients in end-to-end process, and integrate key systems (internet banking, internal and external databases with bank's internal credit workflow system). We will simplify and standardize information required from the client. We will automate decisions for smaller exposures, loan agreement preparation and monitoring of exposures.
- **to grow the profitable corporate banking business, taking care of capital and cost efficiency (both at the level of the business line and the individual customer relationships).** We will review the portfolio and continue the cooperation with companies for which the assumed AROR (adjusted revenues on risk weighted assets) threshold is fulfilled. Simplification and centralisation of internal processes, development of remote channels, and wider digital availability of products for customers will increase employment productivity.

Strategic targets:

- rise mBank's involvement into financing of the prospective industries (defined above) to PLN 13 billion in 2025 from PLN 4.3 billion at the end of 2020
- maintain a growth rate of mBank's SME segment (K3) at 10% per year in the area of client acquisition, credit volumes and revenues
- have mBank's customer advisors to be rated as the best on the market in initiating and offering solutions that create value for corporate customers

- make digital onboarding a dominant form of new account opening for corporate customers, achieving the level of 90% of digitally opened accounts in 2025
- boost mobile banking penetration and its usage among corporate customers, with an increase of companies having mBank CompanyMobile application to 80% of total base in 2025
- reduce the paper usage in corporate and investment banking area by 50% in 2022 compared to 2020 level, and further to 10% of starting volume in 2025
- have over 50% of K2 and most of K3 clients using simplified credit process after the completion of all project initiatives implementation
- improve the profitability of mBank's corporate and investment banking area through optimising risk weighed assets to reach the assumed AROR (adjusted revenues on risk weighted assets) level in 2025
- increase employment productivity measured as a relation of total revenues to staff (FTEs) of corporate and investment banking division by 40% to 2025 compared to 2020

#### 4. Technology, security and data as a source of advantage

Historically, mBank's success was achieved thanks to its technological prowess, reflected in advanced and innovative services (mobile applications, first 24/7 core banking system on the Polish market) and products. Now, when all banks claim their technological leadership, we aspire to simply keep ourselves a few steps ahead of competition, making sure all innovation enablers and technological advantages are available for our business leaders in their continuous pursuit in delivering the best digital offer and experience. We will keep our commitment to being a desired tech talent employer, giving access to most modern technologies and ways of work (e.g. DevOps, Microservice architectures, agile self-organising teams).

Our main goals are:

- **to provide high quality, availability, security and stability of mBank's solutions and services to customers on a continuous basis.** We will increase the level of maturity of the software development process through continuous monitoring and automation of security controls, implementation of multi-level quality gates and further automation of tests. We will redesign our current incident response model according to the best market practices including SRE (Site Reliability Engineering) and world class observability tools and practices.
- **to maintain the technological advantage of mBank in the financial sector by being cloud-ready, allowing for flexibility, scalability of technology and swift adaptation to business needs.** We will further re-architect our solutions as well as expand IaaS capabilities (infrastructure as a service, private cloud), migrate applications developed internally to hybrid cloud technology stack (containerisation), hone practical skills to leverage PaaS Cloud Services to accelerate time-to-market and innovations, and create principles of using standard third-party cloud applications (SaaS).
- **to address the full threat lifecycle and thus providing highest possible security to mBank's clients and employees by continuous development of a multi-layer cybersecurity defence model for both on-premise and cloud solutions.** We constantly search for weaknesses in our infrastructure and address vulnerabilities before they are exploited. We plan to strengthen 'security by design' paradigm in relation to regular tests of the code of created applications. In the area of anti-fraud and scams prevention, we will enhance our customer profiling solutions based on data from internal and external sources as well as use artificial intelligence in the processes of analysing customer behaviours.
- **to provide the highest possible protection of mobile application serving as a digital key to all mBank's channels with the state-of-the-art security solutions, and deliver the most secure and client-friendly identity confirmation process in all digital channels.** We want to introduce upgraded solutions that are able to learn customer behavioural patterns in order to detect possible anomalies on their mobile devices. We will implement RASP-like (Realtime Application Self-Protection) mechanism and behavioural biometrics as an additional technology supporting authorisation. We will promote digital identity services as allowing for convenient authentication.
- **to employ artificial intelligence and data science to support creation of innovative customer products, better risk assessment, increase effectiveness of internal systems and workflows as well as maintain mBank's image of the technological and digital leader.** We will utilise AI technologies to develop our offer and security solutions, including automated client support agents, detection of fraudulent banking transactions, prediction of churn in retail and corporate banking, process mining techniques for optimisation of internal business processes.

**Strategic targets:**

- make our client-facing services available 24/7/365 at ~99.9% by 2025
- have more than 70% of key systems developed internally to be cloud-ready and run on hybrid cloud (private or public) by 2025
- ensure 100% of newly developed systems to be cloud-ready and run on hybrid cloud starting by 2025
- monitor 80% of critical systems running in the cloud and processing protected data by 2025
- test 80% of new, critical applications developed at mBank in terms of security of its code
- conduct comprehensive Red Team's tests verifying the level of organisation's security and resistance to emerging cyber threats at least twice a year
- connect 80% of onboarding processes to the anti-fraud system by 2025
- have 80% of mobile clients protected by RASP-like mechanism by 2025
- provide 80% of clients who consented to behavioural biometrics with additional protection while authorising operations
- use digital identity solutions in major business process requiring onboarding by 2025
- create and deploy at least four products or services in both retail and corporate banking based on artificial intelligence (AI) engines by 2025
- launch at least one client-oriented product or service using external machine learning (ML) cloud-based systems with large repositories of data and pre-trained models by 2025

**5. Distinctive people and organisation culture**

Future workplace will be strongly diversified and more inclusive. Companies that will offer people greater flexibility will be better at attracting talent and retaining key employees. Due to concerns about negative effect of remote work on company culture, innovation and sense of belonging to the organisation, employers will most likely adopt hybrid work models aimed at combining advantages of working from the office and from home. Millennials and Generation Z seek purpose at work as well as want their employers to be socially and environmentally responsible. In the context of these challenges, mBank has a slight head start in terms of employee engagement, distinguishing culture and employer brand. We are helping our people to leverage their strengths and obtain future skills. Through strategic, long-term capability planning we are ready to facilitate learning in the direction which is beneficial for both individual and the organisation. Our aspiration is that mBank's employee will be a reference and role model of a digital-savvy person.

Our main goals are:

- **to create culture where cooperation is based on trust and positive intentions.** It is defined by 5 key values: authenticity, empathy, courage, responsibility and cooperation.
- **to develop best-in-class hybrid work environment.** Its key components at mBank will include: flexible and adaptive workplace model (productive and responding to employees' needs), smart working mindset combined with top skills and practices (management of distributed teams), as well as advanced workplace technology and digitized people processes (top communication and collaboration solutions).
- **to make people capabilities a competitive advantage for the bank.** It will be anchored in: strengths-based approach to leverage individual talents and foster innovation, focus on future skills needed for the organization to succeed, and T-shape philosophy combining high level of competence with curious mindset.

**Strategic targets:**

- reach the engagement score within the upper quartile for Europe (the Best Employers Zone, average from the last 3 years, currently at the level of 71%) in 2024-2025
- achieve hybrid workplace index at the level of 80% (measuring voice of employees on key workplace dimensions: collaboration, technology, health, sense of belonging)
- attain talent index at the level of 70% (reflecting the average of voice of employees and managers on 3 aspects: strengths-based approach to development, adoption of future skills and employability)

### 3.3. ESG strategy of mBank Group

Environmental, social and ethical aspects play a crucial role in the way we manage our company. We want to make a progress with our ESG agenda and stand out of our peer group. We will be more responsible and inclusive bank and expect it from our employees, clients and commercial partners. We will continue to contribute to the sustainable development and well-being of the society. We want to:

- reduce greenhouse emissions generated both directly by ourselves and by the credit portfolio we finance
- support sustainable growth for the financial and non-financial benefit of the society
- build credible relationships and strengthen the trust of our stakeholders by acting transparently and operating with highest standards
- unite around common values and be proud of working for mBank Group
- help our clients in active citizenship participation

We want ESG to become an embedded part of our corporate life, and also to pay attention to it in our private life. We will build a purpose-driven culture and business. We integrate ESG issues and standards into our business, risk, and management processes, assign responsibility, and set ESG goals to the top management (including board members, managing directors, and risk takers). Incorporation of ESG into risk management, including climate risk, is reflected in mBank's policies and procedures. We have set up and continuously develop an ESG Management System. The established Sustainable Development Committee of mBank Group, which is headed by a member of the management board (Chief Risk Officer), monitors ESG-related KPIs, oversees green bond issuances and the process of calculating our carbon footprint, facilitates implementation of the EU Taxonomy and enhances non-financial reporting.

As the first Polish bank, we have independently signed **the Principles for Responsible Banking**. They serve as framework to achieve the SDGs and the goals of the Paris Climate Agreement. Our intention is also to enter **the Net-Zero Banking Alliance of UNEP FI**, the United Nations Environment Programme Finance Initiative. mBank will use **Science Based Targets Initiative (SBTI) methods** to calculate and reduce the CO2 emissions associated with its credit portfolio (scope 3). As a partner to our clients, especially SME companies, we want to support their transformation into low-carbon businesses.

We will constantly enhance our ESG disclosure standards to be favourably viewed by our shareholders and broader investment community. We want to maintain and improve mBank's ratings and position in leading indices, including MSCI ESG Rating, Sustainalytics ESG Risk Rating, Bloomberg Gender Equality Index, FTSE4Good (FTSE Russell).

Our activities in the ESG area will be centred around 4 aspects:

#### 1. Responsibility for climate

**Our promise: By 2050 we will become a fully climate-neutral bank. By 2030 we will reach climate neutrality in scope 1 and 2.**

We will take part in a battle against climate change. We are committed to limit direct emissions from company-owned and controlled resources as well as reduce indirect emissions from the generation of energy purchased by mBank. We will continue to define particular goals every 5 years to reach net zero standards.

We will promote a green financing in both corporate and retail area. We intend to finance sustainable development, responsibly guide our clients in their energy transformation and encourage them to implement ESG standards in their business activity. We intend to sell more mortgage loans collateralized on residential buildings that meet low carbon trajectory requirements. In the coming years, we will also increasingly prefer real estates reaching Nearly Zero Energy Building (NZEB) standard. We will continue to provide ESG-compliant investment solutions for private banking customers and also to clients of the newly established investment fund company. We will introduce a special offer for small firms, favouring pro-ecological investments. By launching also other eco-friendly products, we want to be the first choice bank for customers looking for financing of eco-projects.

Our goal in terms of **direct impact** is to **reduce own environmental footprint of mBank Group** by:

- development of data aggregation system concerning direct emissions
- defining a timetable and milestones (2025, 2030, 2050) for reducing the carbon footprint and achieving climate neutrality in line with the Paris Agreement goals
- calculating our carbon footprint and subjecting our estimation to an external audit by 2022



- setting the example for sustainable cities and communities through resource-efficient new mBank's headquarters in Warsaw and Łódź
- using clean energy, with a minimum 80% of the volume of electric energy purchased for the needs of the bank coming from renewable sources by 2023
- replacing mBank's fleet with low-emission vehicles gradually, with no new diesel-powered cars starting from 2023
- diminishing our waste, with having 100% of no longer used, well-functioning equipment reused
- continuing elimination of paper from our processes and plastic cards, by having 100% of mBank's debit cards for individual clients with a digital equivalent (mobile card) by 2025

Our goal in terms of **indirect impact** is to **be a leading bank supporting energy transition of our clients** by:

- providing PLN 10 billion of funds for RES segment by the end of 2023, including:
  - PLN 5 billion of own funds dedicated for new financing of green energy, waste management, e-mobility, and similar projects,
  - PLN 5 billion from other sources such as consortia and green bonds issues for clients
- increasing the share of corporate clients with ESG products to 5% of total portfolio by 2023
- identifying carbon-intensive sectors within our portfolio and determining the level of CO2 pollution that may be attributed to them
- rising share of SME's investments backed by eco-compliant real estate to 10% by 2025
- granting PLN 25 billion of housing loans collateralized on residential buildings that meet CO2 emission reduction norms resulting from the low carbon trajectory in 2022-2025
- selling PLN 1 billion of eco-mortgage loans for real estates that meet the increased emission requirements confirmed by the Net Zero Energy Building Certification (NZEB) in 2022-2025
- financing PLN 1.7 billion of eco-investments of retail small firms by 2025
- achieving at least 50% of our clients' assets under mBank's management invested in products compliant with ESG guidelines by 2025
- having no new products with a low ESG rating among third-party investment funds offered by mBank

## 2. Responsibility for financial health of our clients

**Our promise: We support customers in safe and convenient banking as well as making conscious financial decisions.**

We want to be an ethical, fair and transparent organisation. We will educate and support our stakeholders in better understanding of our offer, policies and activity. We communicate our prices and tariffs in a legible, comprehensible manner. We transparently present the risks associated with specific financial products. We believe such an approach will allow clients to use mBank's offer in an optimal way. We will also continue to promote safe online banking and personal data protection.

Conducting inclusive banking, we will further adjust our services to the needs of people with various disabilities. We will provide solutions enabling them to take advantage of our facilities and efficiently manage their personal finances. In each city, where we operate, we will have at least one fully accessible branch, without any barriers. To ensure equal access to banking services for everyone, we have in our offer a free basic account for those in need.

Our goal is to **take care of good financial standing and future of our clients** by:

- developing the personal finance management (PFM) functionalities to give clients the control over their budgets, cash flows, savings and investments as well as support them in preparation for life-cycle events
- continuing educational campaigns on safe finances, including one cybersecurity campaign in each year of strategy implementation

- conducting responsible sale accompanied by extensive information and transparent presentation of the risks associated with specific financial products
- using clear communication and plain language
- having all newly opened branches accessible to people with disabilities
- certifying our buildings, customer service and internet websites by 2023

### 3. Responsibility for being an organisation in line with ESG values

**Our promise: We walk the talk. We first accomplish and then communicate. We build corporate culture based on values and incorporate ESG into our daily life.**

We want to build an ESG-oriented working environment. We will educate our employees in the area of ESG by launching programs that trigger a change of mindset. We will promote innovation, entrepreneurship, responsibility, cooperation, hybrid work system and diversity. We will introduce ESG factors into business and employee processes, such as recruitment and succession, onboarding, development activities, assessment of attitudes (feedback), methods of work and project management.

At mBank, we believe that diversity and inclusiveness are important parts of building a socially responsible company, while contributing to improved business performance in multiple dimensions. We are a merit-based organisation. We are committed to ensure equal chances and level playing field for all our employees. We create the same opportunities to both sexes and actively support women to account for their dual role in the society, combining career with motherhood.

We expect ethical conduct across the whole organisation. We require it also from our partners and suppliers. Therefore, will introduce a special code and incorporate ESG criteria in purchasing procedures. To promote justice and strong institutions, we have implemented anti-corruption measures, develop robust compliance function and take positions on relevant issues. We are engaged in the cooperation within the sector and with other organisations (e.g. trade associations, foreign aid banks), and take part in the initiatives supporting the achievement of Sustainable Development Goals on local, national and global level.

Our goal is to **introduce ESG factors into business and employee processes** by:

- setting 10% of TOP 100 managers' OKR (Objective and Key Results) goals related to ESG
- ensuring gender balance in the succession program, with a proportion of participants of a given gender at minimum 45%
- preserving a gender diversity of the candidates in the final stage of the recruitment process (for managerial positions)
- implementing a hybrid work system that will meet the needs of the employer and employees
- having 90% of employees with a possibility to fulfil their jobs in a flexible manner by 2023
- implementing Taxonomy in processes (including the credit process), procedures and products
- expanding responsible offer by launching at least one eco-product in every business line each year starting from 2021
- developing each new banking product along with its ESG evaluation from 2022
- cooperating only with partners and suppliers fulfilling ESG standards (in line with a code) by 2025
- proactively promoting the proper segregation of litter and organising a Clean Day event for employees once a year (a day dedicated for cleaning the Earth)

### 4. Responsibility for society

**Our promise: We will contribute to social well-being. We will be a responsible corporate citizen. We will take care of our employees and their families.**

As we believe that mathematical knowledge affects a high level of competence in adult life and facilitates a good start in professional career, we will continue to help develop mathematical skills of children and adolescents. We have also established a dedicated fund ("m jak malarstwo") to support and promote young painters. By buying their works, mBank will build a remarkable collection of contemporary art.



We cooperate with organisations that work for a healthy and dignified life of the society. We are a partner and sponsor of the Great Orchestra of Christmas Charity (WOŚP), and contribute to annual fundraisers.

By providing health packages and differentiated well-being support to our employees and optionally also their families, we take care of their good physical and mental condition.

Our goal is to **act for the financial and non-financial benefit of the society** by:

- supporting the development of mathematical education in Poland through the activities of mBank Foundation (mFundacja), including grant programmes and competitions of national range
- creating a collection of paintings by young artists, which will be open to the public, and extended thanks to an established fund ("m jak malarstwo")
- cooperating with the Great Orchestra of Christmas Charity (WOŚP), which for years, has been supplying the health service with modern medical equipment
- encouraging to active participatory citizenship by launching an option to easily support NGOs and foundations directly from mBank's mobile application, allowing our clients to contribute and promote the civil society

A summary of activities related to the corporate social responsibility and sustainable development strategy is included in chapters 11. "mBank and corporate social responsibility" and 12. "Non-financial information".

### **3.4. Strategic financial targets of mBank Group for 2025**

The strategic goal of mBank Group is to keep the position among top Polish banks not only in terms of business growth, but also key financial metrics. In the coming years, our profitability will be systematically improving thanks to rising revenues, decent cost discipline and prudent approach to risk management. Favourable changes in the balance sheet structure coupled with interest rate hikes are going to translate into better margin, while a growth of total income outpacing the dynamics of costs will ensure higher efficiency. Consequently, we assume to generate a return for the shareholders that will be attractive compared to other players in the Polish sector.

We aim to optimize the balance sheet of mBank Group from both profitability and structural perspective. In particular, we intend to systematically increase the share of higher yielding assets (retail and SME loans) and maintain diversification of funding sources (in terms of maturity, currency and products). Significant overliquidity, faced by mBank Group during the Covid-19 pandemic, is expected to persist, as evidenced by low loan-to-deposit ratio in the range of 79-80% over the strategic horizon. Consequently, we intend to remain an active participant of the international market of debt instruments, but limit our issuances to the level needed to fulfil the MREL requirement. We will focus on non-preferred senior debt in EUR (under green bond framework) and subordinated debt in PLN that are eligible funding from this perspective.

By 2025, we foresee that our business volumes in key strategic segments will be growing faster than for the sector, implying a constant improvement of our market shares. With materializing demographic effect, hidden within our retail customer base, mBank's financial results will gain additional boost, unrelated to the current acquisition. It will favourably affect our growth prospects compared to domestic competitors. In parallel, along with progressing decline of FX mortgage loan portfolio, our reported performance will be gradually converging to the profitability of core business, which already now is alluring in the local context.

The activities of mBank Group in 2021-2025 will be focused on achieving the following **strategic financial targets**, describing our aspirations in terms of efficiency, stability, growth and profitability:

Measure	Target level	Current level	Comment
<b>Efficiency</b>			
<b>Cost/Income ratio (C/I)</b>	<b>~40% in 2025</b>	40.2% in 2021	Despite challenging market conditions, revenues again grew faster than operating costs in 2021 in line with one of key principles for managing mBank Group's development from the financial perspective.
<b>Stability</b>			
<b>Tier 1 capital ratio</b>	<b>year-end level min 2.5 p.p. above the PFSA requirement</b>	+3.5 p.p. at the end of 2021	Capital position of mBank Group remained strong, with regulatory ratios safely exceeding internally-set buffers, despite a net loss reported for 2021.
<b>Cost of risk (COR)</b>	<b>~0.80% in the mid-term</b>	0.76% in 2021	Conservative approach to provisioning reflected prudent risk management amid persisting uncertainty of the economic situation.
<b>Growth</b>			
<b>Loans</b>	<b>CAGR 2021-2025: ~8%</b>	CAGR 2017-2021: 8.6%	After pandemic-induced slowdown in lending, new production of mortgage loans was at record high in 2021, while dynamics of corporate exposures remained subdued.
<b>Deposits</b>	<b>CAGR 2021-2025: ~8-9%</b>	CAGR 2017-2021: 16.0%	In 2020-2021, deposits grew at an accelerated pace driven by hefty inflows, fuelled by transfers of support funds from the PFR to corporates and precautionary accumulation of money by households.
<b>Total revenues</b>	<b>CAGR 2021-2025: ~9-10%</b>	CAGR 2017-2021: 8.2%	Development of total income over the last 2 years was affected by interest rate cuts, but double-digit growth of net fees and commissions contributed positively to the overall dynamics.
<b>Profitability</b>			
<b>Net interest margin (NIM)</b>	<b>~2.5% in 2025</b>	2.15% in 2021	Margin for most of 2021 was under pressure stemming from historically lowest level of interest rates in Poland.
<b>Return on equity (ROE)</b>	<b>above 10% in 2025</b>	-7.2% in 2021	Negative return for 2021 resulted from high costs of legal risk related to FX loans, while ROE achieved on Core Business amounted to 11.9%, already reaching the target level.

Note: Target level for capital ratios is valid under current regulatory regime and adopted assumptions.

The financial targets for 2025 reflect a base scenario for mBank Group's development and they may be affected both positively and negatively by a number of factors.

Upside potential to our revenue trajectory and profitability may stem from:

- faster and bigger interest rate hikes than assumed in the financial plan
- higher dynamics of fee and commission income resulting from better contribution from new business/services and more adjustments to the price lists
- considerably increased new mortgage loan production

On the negative side, our financial performance and capital position may deteriorate due to:

- adverse FX mortgage loan scenario and regulatory instability
- worsening macroeconomic conditions (lower GDP growth, high unemployment rate, lack of private investments) and unfavourable market development (PLN depreciation) impacting business volumes and risk profile
- persistent inflation and tightening labour market putting pressure on cost base

mBank's long-term goal is to pay 50% of net profit as a dividend. The adopted policy allows for keeping capital ratios at the safe levels.

## 4. Financial position of mBank Group and mBank in 2021

### 4.1. Financial position of mBank Group

All the growth rate figures presented in the analysis of financial results have been calculated on the basis of the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for 2021 (in PLN thousands). Differences in the tables, if any, result from rounding.

#### Profit and loss account of mBank Group

In 2021, operating profit of mBank Group amounted to PLN 17.6 million compared to PLN 1,141.1 million in 2020. mBank Group recorded a pre-tax loss of PLN 591.0 million, compared with a profit of PLN 609.7 million generated in 2020. Net loss attributable to the owners of mBank reached PLN 1,178.8 million, compared with a net profit of PLN 103.8 million in the previous year. Income tax paid by mBank Group amounted to PLN 587.8 million in 2021 v. PLN 506.0 million a year before. A summary of the financial results of mBank Group is presented in the table below.

PLN M	2020	2021	Change in PLN M	Change in %
Interest income	4,688.4	4,431.7	-256.6	-5.5%
Interest expense	-679.1	-327.7	351.4	-51.7%
<b>Net interest income</b>	<b>4,009.3</b>	<b>4,104.0</b>	<b>94.7</b>	<b>2.4%</b>
Fee and commission income	2,244.6	2,714.9	470.3	21.0%
Fee and commission expense	-736.3	-824.9	-88.6	12.0%
<b>Net fee and commission income</b>	<b>1,508.3</b>	<b>1,890.0</b>	<b>381.7</b>	<b>25.3%</b>
<b>Core income</b>	<b>5,517.6</b>	<b>5,994.1</b>	<b>476.5</b>	<b>8.6%</b>
Dividend income	4.9	5.0	0.1	2.4%
Net trading income	184.8	96.9	-87.9	-47.6%
Other income	176.3	103.6	-72.6	-41.2%
Other operating income	218.1	232.4	14.3	6.6%
Other operating expenses	-234.8	-320.9	-86.1	36.7%
<b>Total income</b>	<b>5,866.8</b>	<b>6,111.1</b>	<b>244.4</b>	<b>4.2%</b>
Net impairment losses and fair value change on loans and advances	-1,292.8	-878.6	414.2	-32.0%
Costs of legal risk related to foreign currency loans	-1,021.7	-2,758.1	-1,736.4	169.9%
Overhead costs and amortization	-2,411.1	-2,456.9	-45.8	1.9%
<b>Operating profit</b>	<b>1,141.1</b>	<b>17.6</b>	<b>-1,124</b>	<b>-98.5%</b>
Taxes on bank balance sheet items	-531.4	-608.6	-77.2	14.5%
<b>Profit before income tax</b>	<b>609.7</b>	<b>-591.0</b>	<b>-1,200.8</b>	<b>+/-</b>
Income tax expense	-506.0	-587.8	-81.8	16.2%
<b>Net profit attributable to:</b>	<b>103.8</b>	<b>-1,178.8</b>	<b>-1,282.6</b>	<b>+/-</b>
<b>- Owners of mBank S.A.</b>	<b>103.8</b>	<b>-1,178.8</b>	<b>-1,282.6</b>	<b>+/-</b>
- Non-controlling interests	-0.1	-0.1	0.0	-
ROA net	0.1%	-0.6%		
ROE gross	3.6%	-3.6%		
ROE net	0.6%	-7.2%		
Cost / Income ratio	41.1%	40.2%		
Net interest margin	2.3%	2.1%		
Common Equity Tier 1 ratio	17.0%	14.1%		
Total capital ratio	19.9%	16.6%		
Leverage ratio	7.8%	6.3%		

**Core income** – calculated as the sum of net interest income and net fee and commission income.

**Other income** – calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

**Total income** – calculated as the sum of net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expense.

**Overhead costs and depreciation** – calculated as the sum of total overhead costs and depreciation.

**Net impairment losses and fair value change on loans and advances** – calculated as the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss.

**Net ROA** – calculated by dividing net profit attributable to the owners of mBank by the average total assets. The average total assets are calculated on the basis of the balances as at the end of each month. Net profit attributable to the owners of mBank is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

**Gross ROE** – calculated by dividing profit before tax by the average equity (net of the year's results). The average equity is calculated on the basis of balances as at the end of each month. Profit before tax is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

**Net ROE** – calculated by dividing net profit attributable to the owners of mBank by the average equity (net of the year's results). The average equity is calculated on the basis of balances as at the end of each month. Net profit attributable to the owners of mBank is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

**Cost/Income ratio** – calculated by dividing overhead costs and depreciation by total income (excluding tax on balance sheet items of the Group).

**Net interest margin** – calculated by dividing net interest income by average interest earning assets. Interest earning assets are the sum of cash and balances with the Central Bank, amounts due from banks, securities (in all valuation methods) and loans and advances to clients (net; in all valuation methods). Average interest earning assets are calculated on the basis of balances as at the end of each month. Net interest income is annualised based on the number of days in the analysed period (the annualisation ratio is calculated as the quotient of the number of days in a year and the number of days in the analysed period).

The main drivers of the financial results of mBank Group in 2021 included:

- **Increase in total income**, which stood at PLN 6,111.1 million. Net interest income remained its main component. It reached PLN 4,104.0 million and increased year on year despite a low interest rate environment prevailing throughout most of the year. Net fee and commission income grew significantly to PLN 1,890.0 million.
- **Operating expenses** (including depreciation) **increased slightly** to PLN 2,456.9 million. In 2021, employees received an additional one-off award increasing the personnel costs, while material costs remained stable.
- **Improved efficiency** measured by the Cost/Income ratio, which stood at 40.2% in 2021 v. 41.1% in 2020.
- **Lower cost of risk** at 76 bps, compared with 119 bps in 2020, when the Covid-19 pandemic led the bank to adopt a particularly conservative approach to clients' situation.
- **Increase in** to PLN 2,758.1 million against PLN 1,021.7 million in 2020. **the costs of legal risk related to foreign currency loans**
- **Continued organic growth and business expansion** as demonstrated by:
  - **increase in the number of corporate clients** to 31,315 (+2,232 clients compared with the end of December 2020);
  - **increase in non-mortgage loan sales** by 39.9% to PLN 9,924.1 million in 2021 against PLN 7,094.6 million in the previous year;
  - **increase in mortgage loan sales** to PLN 12,367.3 million in 2021 compared with PLN 8,985.4 million in 2020, i.e. +37.6% thanks to an optimised sales process and increased demand.

**During this time, the number of retail clients dropped to 5,513,800** (-146,200 compared with the end of December 2020) due to the closure of inactive accounts with overdue fees.

**Profit before tax on core business** (mBank Group excluding the FX Mortgage Loans segment) reached PLN 2,190.5 million in 2021, up by 35.8% from PLN 1,613.2 million in 2020. Net profit increased by 44.7% to PLN 1,602.7 million in the analysed period. This was reflected by **net ROE, which stood at 11.9%** in 2021 v. 8.1% in 2020.

Capital ratios of mBank Group declined in 2021. The consolidated total capital ratio stood at 16.58% at the end of 2021, compared with 19.86% in 2020. The Common Equity Tier 1 capital ratio reached 14.16% v. 16.99% at the end of 2020. The leverage ratio stood at 6.3% at the end of December 2021, compared with 7.8% a year before.

## Income of mBank Group

Total income generated by mBank Group was PLN 6,111.1 million in 2021, compared with PLN 5,866.8 million in 2020, which represents an increase by PLN 244.4 million, i.e. 4.2%. The increase was mainly driven by improved net fee and commission income.

Similarly to 2020, net interest income remained mBank Group's largest income source in 2021 (67.2%). It reached PLN 4,104.0 million, compared with PLN 4,009.3 million in 2020 (+2.4%). The result was driven mainly by the environment of low interest rates that prevailed for the most part of the year (in 2020, interest rates were cut by a total of 140 basis points). The first interest rate rise took place in October 2021. Throughout 2021, interest rates were hiked by a total of 165 basis points.

Net interest margin, calculated as a relation between net interest income and average interest earning assets, stood at 2.15% compared with 2.33% in 2020.

Interest income dropped by PLN 256.6 million or -5.5% year on year to PLN 4,431.7 million. Loans and advances were the main source of the Group's interest income. Interest income from loans and advances deteriorated by PLN 145.3 million or -4.0% on the previous year. The decrease resulted from interest rate cuts, which was also the reason why interest income from investment securities decreased by PLN 165.8 million, i.e. -25.7%.

PLN million	2020	2021	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	3,648.9	3,503.6	-145.3	-4.0%
Investment securities	646.0	480.2	-165.8	-25.7%
Cash and short-term placements	20.5	19.0	-1.5	-7.4%
Trading debt securities	27.2	17.1	-10.1	-37.0%
Interest income on derivatives classified into banking book	126.1	94.5	-31.7	-25.1%
Interest income on derivatives concluded under the fair value hedge	85.7	113.1	27.4	32.0%
Interest income on derivatives concluded under the cash flow hedge	144.6	204.7	60.0	41.5%
Other	-10.7	-0.4	10.3	-96.3%
<b>Total interest income</b>	<b>4,688.4</b>	<b>4,431.7</b>	<b>-256.6</b>	<b>-5.5%</b>

**Interest income from loans and advances** includes interest income from loans and advances on the following items: assets held for trading, non-trading financial assets measured mandatorily at fair value through profit or loss and financial assets measured at amortised cost.

**Interest income from investment securities** includes interest income on the following items: non-trading financial assets measured mandatorily at fair value through profit or loss, including debt securities, financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, including debt securities.

In the period under review, interest expense dropped significantly by PLN 351.4 million or -51.7%, which was mainly attributable to lower deposit costs (down by PLN 280.5 million or -81.0%). Despite a substantial inflow of clients' deposits, interest rates on deposits dropped after interest rate cuts, which reduced deposit costs. Moreover, 2021 saw a decrease in expenses arising from the issue of debt securities by PLN 72.6 million or -31.9%, which was due to a lower average balance of these assets in 2021.

Net fee and commission income, accounting for 30.9% of mBank Group's total income, increased significantly year on year. It reached PLN 1,890.0 million in the analysed period, representing an increase by PLN 381.7 million, i.e. 25.3%. This was mainly driven by an increase in fee and commission income.

PLN million	2020	2021	Change in PLN M	Change in %
Payment cards-related fees	430.2	485.8	55.5	12.9%
Credit-related fees and commissions	462.8	539.3	76.5	16.5%
Commissions from currency transactions	339.6	408.1	68.5	20.2%
Commissions for agency service regarding sale of insurance products of external financial entities	109.8	131.4	21.6	19.6%
Fees from brokerage activity and debt securities issue	222.3	240.1	17.8	8.0%
Commissions from bank accounts	222.3	361.8	139.5	62.8%
Commissions from money transfers	147.8	191.5	43.8	29.6%
Commissions due to guarantees granted and trade finance commissions	94.3	98.8	4.4	4.7%
Commissions for agency service regarding sale of other products of external financial entities	74.5	103.1	28.6	38.4%
Commissions on trust and fiduciary activities	31.5	33.2	1.8	5.6%
Fees from portfolio management services and other management-related fees	23.2	27.8	4.6	19.7%
Fees from cash services	42.6	45.2	2.6	6.1%
Other	43.7	48.8	5.2	11.9%
<b>Total fee and commission income</b>	<b>2,244.6</b>	<b>2,714.9</b>	<b>470.3</b>	<b>21.0%</b>

Fee and commission income increased by PLN 470.3 million or 21.0% year on year. The largest growth was observed in commissions from bank accounts (+PLN 139.5 million or +62.8%), which is attributable to an earlier adjustment of the table of fees and commissions and an additional fee charged in January from corporate clients for keeping funds in accounts in excess of a predefined limit. A significant growth was observed in the credit-related fees and commissions (up by PLN 76.5 million or 16.5%) due to a higher volume of loans sold. Commissions from currency transactions went up by PLN 68.5 million (+20.2%) due to higher volatility on the FX market. An increase in the number and activity of clients resulted in a rise in payment cards-related fees (by PLN 55.5 million or 12.9%) and in commissions from money transfers (PLN 43.8 million or 29.6%).

Commission expenses grew in the analysed period by PLN 88.6 million or 12.0% to PLN 824.9 million. The largest growth was observed in other discarded fees (+PLN 36.8 million or +18.3%) and payment card-related costs (+36.7 million or +16.2%).

Dividend income amounted to PLN 5.0 million in 2021, compared with PLN 4.9 million in 2020.

Net trading income stood at PLN 96.9 million in 2021 and was lower by PLN 87.9 million, i.e. -47.6%, than in 2020. The decrease was mainly attributable to lower gains or losses from financial assets and liabilities held for trading (-PLN 200.4 million) and was related to lower valuation of interest rate derivatives due to interest rate cuts. At the same time, foreign exchange result increased by PLN 119.1 million, i.e. 164.0%, due to market volatility.

Other income, calculated as gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity and debt securities mandatorily measured at fair value through profit or loss, dropped by PLN 72.6 million or -41.2%. The amount of other income arises primarily from the revaluation of Visa Inc. shares and shares in other companies (among others, Polski Standard Płatności Sp. z o.o., Krajowa Izba Rozliczeniowa Sp. z o.o., Biuro Informacji Kredytowej S.A.) and result on sale of treasury bonds.

Similarly to 2020, net other operating income (the balance of other operating income and expense) was negative at -PLN 88.5 million in 2021 v. -PLN 16.7 million in 2020. The decrease resulted from higher other operating expenses, which resulted from provisions created for future liabilities, including legal risk.



## Costs of legal risk related to foreign currency loans

Total costs of legal risk related to foreign currency loans recognised in the income statement for 2021 amounted to PLN 2,758.1 million (in 2020: PLN 1,021.7 million). The most important element of these costs in 2021 was the increase of the impact of the legal risk related to individual court cases in the amount of PLN 1,298.7 million, which mainly resulted from (i) higher than expected inflow of cases in 2021, (ii) changes in level of loss on loan exposure in case of losing the case by the Bank including an increase in the probability of the occurrence of a negative scenario for the bank of cancellation of loan agreements without the possibility of an effective claim for payment of the cost of using the capital made available to the borrower.

In addition, significant components of the amount recognized in the income statement in 2021 are costs of the potential settlement program in the amount of PLN 1,009.8 million, costs of the class action case concerning indexation clauses contained in CHF mortgage and housing loan agreements in the amount of PLN 363.0 million as well as cost of counterclaims related to securing the Bank's claims in indexation cases in the amount of PLN 86.1 million.

The methodology is described in detail in note 34 to the mBank S.A. Group IFRS Consolidated Financial Statements 2021.

## Costs of mBank Group

In 2021, mBank Group continued to implement measures aimed at improving efficiency measured by the Cost/Income ratio. The total overhead costs (including depreciation) of mBank Group stood at PLN 2,456.9 million, which represents a 1.9% increase on the previous year. The hike was attributable to higher staff-related expenses, whereas material costs remained stable.

PLN million	2020	2021	Change in PLN M	Change in %
Staff-related expenses	-974.7	-1,070.9	-96.2	9.9%
Material costs	-671.3	-676.4	-5.1	0.8%
Taxes and charges	-27.3	-33.4	-6.1	22.4%
Contributions and transfers to the Bank Guarantee Fund	-298.1	-227.4	70.6	-23.7%
Contributions to the Social Benefits Fund	-9.2	-12.5	-3.4	36.6%
Depreciation	-430.6	-436.3	-5.6	1.3%
<b>Costs of mBank Group</b>	<b>-2,411.1</b>	<b>-2,456.9</b>	<b>-45.8</b>	<b>1.9%</b>
Cost/Income ratio	41.1%	40.2%	-	-
Employment (FTE)	6,688	6,738	50	0.8%

In 2021, staff-related expenses grew by PLN 96.2 million or 9.9%. In the analysed period, remuneration costs increased, among others, due to additional remuneration paid to selected employees in the form of a one-off award in Q3 2021. Additionally, 50 FTEs were added.

Material costs increased insignificantly by PLN 5.1 million (0.8%) in the period under review, in particular, as a result of higher IT costs, whereas costs of administration and real estate services and consulting costs went down. Depreciation increased in the reported period by PLN 5.6 million. Contributions and transfers to the Bank Guarantee Fund decreased by PLN 70.6 million year on year.

The above-mentioned development of income and expenses resulted in an improvement of the Cost/Income ratio, which stood at 40.2% (41.1% in 2020).

## Net impairment losses and fair value change on loans and advances

In 2021, net impairment losses and fair value change on loans and advances of mBank Group (calculated as the sum of two items: impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) stood at -PLN 878.6 million. Compared with 2020, it decreased by PLN 414.2 million or -32.0%.

Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss is related to the part of the portfolio of loans and advances measured at amortised cost. The item "gains

or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss" is related to the credit risk of the portfolio of loans and advances measured with the use of that method.

As a result, the cost of risk in 2021 stood at 76 bps, compared with 119 bps in 2020.

PLN million	2020	2021	Change in PLN M	Change in %
Retail Banking	-630.4	-451.4	179.0	-28.4%
Corporate and Investment Banking	-609.9	-409.7	200.2	-32.8%
Other	-52.5	-17.4	35.1	-66.8%
<b>Net impairment losses and fair value change on loans and advances</b>	<b>-1,292.8</b>	<b>-878.6</b>	<b>414.2</b>	<b>-32.0%</b>

Cost of risk in Retail Banking decreased in comparison with 2020, when additional loss allowances for expected credit losses were recognised due to the Covid-19 pandemic. In 2021, the bank released some of these allowances as a result of adjustment to the current pandemic situation. Due to an improving macroeconomic situation, the financial situation of clients made it possible to create lower provisions.

A decrease in cost of risk was also reported in Corporate and Investment Banking due to improvements in the macroeconomic environment and financial standing of corporate clients.

### Contribution of business segments and business lines to the financial results

A summary of financial results of individual business lines of mBank Group is presented in the table below.

PLN M	2020	2021	Change in PLN M	Change in %	Share in revenues
Retail Banking	3,399.9	3,758.8	358.9	10.6%	61.5%
Corporates and Investment Banking	2,127.4	2,307.4	180.0	8.5%	37.8%
Treasury and Other business	187.7	-19.1	-206.8	-110.2%	-0.3%
<b>Total income of the core business</b>	<b>5,715.0</b>	<b>6,047.1</b>	<b>332.2</b>	<b>5.8%</b>	<b>99.0%</b>
FX Mortgage Loans	151.8	64.0	-87.8	-57.8%	1.0%
<b>Total income of mBank Group</b>	<b>5,866.8</b>	<b>6,111.1</b>	<b>244.4</b>	<b>4.2%</b>	<b>100.0%</b>

## 4.2. Changes in the consolidated statement of financial position of mBank Group

### Changes in the assets of mBank Group

In 2021 the total assets of mBank Group increased by PLN 20,667.3 million (+11.6%). Assets stood at PLN 199,538.9 million as at December 31, 2021.

The table below presents changes in particular items of mBank Group assets.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Cash and balances with the central bank	3,968.7	12,202.3	8,233.6	207.5%
Loans and advances to banks	7,354.3	7,229.7	-124.6	-1.7%
Financial assets held for trading and derivatives held for hedges	2,398.8	2,548.7	149.8	6.2%
Net loans and advances to customers	108,567.4	118,054.9	9,487.5	8.7%
Investment securities	51,728.9	52,675.7	946.7	1.8%
Intangible assets	1,178.7	1,284.0	105.3	8.9%
Tangible assets	1,514.6	1,542.3	27.7	1.8%
Other assets	2,160.3	4,001.6	1,841.3	85.2%
<b>Assets of mBank Group</b>	<b>178,871.6</b>	<b>199,538.9</b>	<b>20,667.3</b>	<b>11.6%</b>

**Net loans and advances to customers** – the sum of loans and advances to customers measured at amortised cost, non-trading loans and advances mandatorily measured at fair value through profit or loss, and loans and advances classified as trading assets.

**Investment securities** – the sum of financial assets measured at fair value through other comprehensive income, debt securities measured at amortised cost, and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

Loans and advances to customers remained the largest asset category of mBank Group at the end of 2021. As at December 31, 2021, they accounted for 59.2% of the balance sheet total compared with 60.7% at the end of 2020. The net volume of loans and advances to customers increased by PLN 9,487.5 million (+8.7%) compared with the end of 2020.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Loans and advances to individuals	65,951.6	73,244.0	7,292.4	11.1%
Loans and advances to corporate entities	46,025.4	47,836.0	1,810.5	3.9%
Loans and advances to public sector	231.2	153.0	-78.2	-33.8%
<b>Total (gross) loans and advances to customers</b>	<b>112,208.2</b>	<b>121,233.0</b>	<b>9,024.8</b>	<b>8.0%</b>
Provisions for loans and advances to customers	-3,640.8	-3,178.1	462.7	-12.7%
<b>Total (net) loans and advances to customers</b>	<b>108,567.4</b>	<b>118,054.9</b>	<b>9,487.5</b>	<b>8.7%</b>

In 2021 gross loans and advances to individuals increased by PLN 7,292.4 million (+11.1%). Net of the FX effect, loans and advances to individuals also grew by 9.9% in 2021. The sales of mortgage loans increased by 37.6% (in 2021 it stood at PLN 12,367.3 million against PLN 8,985.4 million a year before), enabling mBank Group to increase its market share in new sales of mortgage loans compared with the previous year (11.6% in 2021 against 11.1% in 2020). In addition, in 2021 mBank Group sold PLN 9,924.1 million worth of non-mortgage loans, which represents an upturn by 39.9% year on year.

In 2021 the volume of gross loans and advances to corporate entities increased by PLN 1,810.5 million (+3.9%) compared with the end of 2020. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans and advances to corporate entities increased by 3.7% compared with the end of 2020.

The volume of gross loans and advances to the public sector decreased by PLN 78.2 million (-33.8%) in 2021.

Investment securities constituted mBank Group's second largest asset category (26.4%). Their value increased insignificantly by PLN 946.7 million (+1.8%) throughout 2021. The figure was affected by a rise in the portfolio of debt securities issued by the central bank, which increased by PLN 8,310.2 million (more

than four times) year on year. At the same time, the portfolio of treasury and municipal bonds decreased by PLN 7,713.0 million (-17.3%).

Throughout 2021, cash and balances with the central bank grew by PLN 8,233.6 million (+207.5%) due to an increase in funds in the current account of NBP.

### Changes in liabilities and equity

The table below presents changes in liabilities and equity of mBank Group in 2021:

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Amounts due to banks	2,399.7	3,359.6	959.8	40.0%
Financial liabilities held for trading and derivatives held for hedges	1,338.6	2,011.2	672.6	50.2%
Amounts due to customers	137,698.7	159,935.1	22,236.5	16.1%
Debt securities issued	13,996.3	13,429.8	-566.5	-4.0%
Subordinated liabilities	2,578.3	2,624.5	46.1	1.8%
Other liabilities	4,184.9	4,460.9	275.9	6.6%
<b>Total liabilities</b>	<b>162,196.6</b>	<b>185,821.0</b>	<b>23,624.4</b>	<b>14.6%</b>
<b>Total Equity</b>	<b>16,675.1</b>	<b>13,717.9</b>	<b>-2,957.2</b>	<b>-17.7%</b>
<b>Liabilities and equity of mBank Group</b>	<b>178,871.6</b>	<b>199,538.9</b>	<b>20,667.3</b>	<b>11.6%</b>

Amounts due to customers are the principal source of funding of mBank Group. Their share in the Group's funding structure has been increasing systematically. They accounted for 80.2% of the Group's equity and liabilities at the end of 2021, compared with 77.0% at the end of 2020.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Individual customers	97,976.4	112,446.1	14,469.8	14.8%
Corporate entities	39,236.1	46,848.7	7,612.6	19.4%
Public sector customers	486.2	640.3	154.1	31.7%
<b>Total amounts due to customers</b>	<b>137,698.7</b>	<b>159,935.1</b>	<b>22,236.5</b>	<b>16.1%</b>

Amounts due to customers grew significantly in 2021 to reach PLN 159,935.1 million at the end of the year compared with PLN 137,698.7 million at the end of 2020, representing an increase by 16.1% year on year. The positive trend in funding cost continued throughout 2021, which was reflected in inflows to current accounts exceeding inflows to term accounts, which was helped by the environment of low interest rates that prevailed for the most part of the year.

Amounts due to individual customers increased by PLN 14,469.8 million (+14.8%) compared with the end of 2020. The changes in the structure of deposits of individual customers continued. Deposits in current and savings accounts increased by 18.6% with term deposits down by 19.0%.

Throughout 2021 amounts due to corporate entities grew by PLN 7,612.6 million (+19.4%), pushed up by a 26.0% rise in current account deposits. Term deposits of corporate entities shrank by 23.8% annually.

Amounts due to other banks increased by PLN 959.8 million (+40.0%) compared with the end of 2020, reaching PLN 3,359.6 million. The growth was triggered mainly by the value of term deposits (PLN 770.3 million in 2021) and liabilities arising from cash collateral (+PLN 589.8 million or +120.9%). Funds in current accounts fell by PLN 373.0 million or -36.3%.

The share of debt securities in issue in mBank Group's funding structure slid from 7.8% at the end of 2020 to 6.7% at the end of 2021. This change is attributable to the maturity and redemption of covered bonds issued by mBank Hipoteczny.

Subordinated liabilities grew by 1.8% year on year.

In 2021 total equity decreased by PLN 2,957.2 million or 17.7% as a consequence of the net loss for 2021, negative valuation of debt securities measured at fair value through other comprehensive income, and

unrealised losses in cash flow hedges. Its share in equity and liabilities of mBank Group accounted for 6.9% at the end of 2021 (against 9.3% at the end of 2020.)

### **Movements in off-balance sheet items and guarantees granted to mBank Group subsidiaries and other agreements**

More information on significant off-balance sheet items of mBank Group can be found in Note 35 to the mBank S.A. Group IFRS Consolidated Financial Statements 2021.

As at December 31, 2021 mBank S.A. did not have any agreements referred to in Article 141t.1 of the Banking Law Act.

### **Investment spending in 2021**

As in previous years, mBank investments in 2021 were aimed at supporting organic growth and focused on satisfying customers' needs and improving customers' experience. The COVID-19 pandemic underlined the importance of digitalisation in processes as well increasing role of clients' self-service, which were in the foreground of mBank's investments. With PLN 493.4 million spent in 2021 (vs. PLN 526.9 million in 2020) the Group's investment spending was slightly lower than in the past year.

Similarly to previous years, the majority of investment spending (PLN 357.0 million) concerned the IT area. The most important developments for customers were: implementation of automatic customer contact channel (voice assistant), improvements in mobile onboarding with the usage of eDowód (eID), introduction of a secure and convenient way of payments for customers (contactless BLIK payments via smartphone), taking advantage of a real-time marketing of non-mortgage loan products in internet banking and mobile service, launching the mobile application for Junior account (for kids up to 13 years old).

Corporate banking continued to invest in: corporate credit process digitization and optimization (process automation in K3 segment, implementation of simplified credit path for K2 segment, unauthorized debit balance and account closing processes). The new electronic document repository migration – DOXIS is at the final stage. Investments also included implementation of BMR regulations regarding interest rate benchmarks (in 2021 the fallback clauses were introduced to agreements with clients and product solutions were developed based on alternative benchmarks). Moreover the new mobile application for corporate banking clients was launched.

mBank also takes part in BankID venture, being one of the so far biggest digitalisation projects on the Czech market. Main aim of the activity is to support development of eGovernment and assist mBank clients in the Czech Republic with administrative procedures (e.g. connecting to tax offices, land registers and similar), as well as to become a standard in terms of KYC verification and electronic signature for private sector.

Investment spending concerning the real property area amounted to PLN 65.1 million. The most significant investment in the Real Estate area in 2021 was "mBank Tower". Project's completion provided headquarters workspace and consolidated existing Warsaw locations. Additionally, sale network review included investments in some mKiosks in order to create a convenient space for assisted customer service.

mBank's strong commitment to regulatory compliance is proven by the number of realised or ongoing initiatives focused on adjusting processes and systems to regulatory requirements, regulations and guidelines, eg.: in the area of compliance for fighting financial crime and money laundering, in risk area (new default definition, DPD calculation on the Group level), benchmarks area (new rules for reference rates according to the Benchmark Market Regulation), payment area (Payment Services Directive) or data protection (GDPR).

### **Investment plans for 2022**

In 2022 mBank is planning to continue investments focused on strengthening its competitive position as well as fostering the ongoing optimization and automation of customer-related and internal processes.

Developments in retail area will be concentrated mainly on: improvement of end-to-end mobile onboarding process, Personal Financial Management (PFM) tools in order to help our customers to wisely manage their finances and enhance relationship with mBank, further improvement of mobile application, development of a fully digital and automated mortgage sale process for individual customers. When the newly established investment company – mTFI – starts operating, the dynamic development of investment offer will be enabled. Moreover, investments will be focused on assuring access of private banking customers to their wealth management functionalities via digital channels, as well as digital platform for automated financial planning services for retail clients on all markets.

Taking into account the perspective of e-commerce development in Poland, the goal of investments would also be supplementing the offer and strengthening Paynow's (solution developed in cooperation with mBank subsidiary – mElements) position in the market of internet payments. We intend to add new functions,

facilitate integration with Paynow, automatize e-commerce customers onboarding and transform mOkazje (mDiscounts) platform into a modern marketplace.

mBank CompanyMobile application for corporate customers will be upgraded (e.g. a payment cards module will be introduced) as well as CRM platform. We will continue our automation and simplification of credit processes and introduce a fully digital credit motion in mCompanyNet electronic banking Virtual branch.

Simultaneously, mBank will invest resources to assure high quality, availability and security of services for clients. Adopting cloud technologies shall provide technological advantage by reducing the time-to-market for business solutions as well as improving the scalability of technological solutions.



### 4.3. Financial position of mBank in 2021

#### Profit and loss account of mBank

mBank closed 2021 with a loss before tax of PLN -680.2 million compared with a profit before tax of PLN 573.0 million a year before (down by PLN 1,253.2 million). The net loss amounted to PLN -1,215.4 million against the net profit of PLN 93.0 million in 2020 (down by PLN 1,308.4 million). Income tax paid by mBank amounted to PLN 535.1 million in 2021 v. PLN 479.9 million a year before (up by 11.5%).

A summary of the financial results of mBank is presented in the table below.

PLN million	2020	2021	Change in PLN M	Change in %
Interest income	4,109.2	3,879.2	-230.0	-5.6%
Interest expense	-568.1	-257.1	311.0	-54.7%
<b>Net interest income</b>	<b>3,541.2</b>	<b>3,622.2</b>	<b>81.0</b>	<b>2.3%</b>
Fee and commission income	2,095.3	2,532.3	437.1	20.9%
Fee and commission expense	-636.3	-712.7	-76.4	12.0%
<b>Net fee and commission income</b>	<b>1,459.0</b>	<b>1,819.7</b>	<b>360.7</b>	<b>24.7%</b>
<b>Core income</b>	<b>5,000.1</b>	<b>5,441.8</b>	<b>441.7</b>	<b>8.8%</b>
Dividend income	31.3	30.1	-1.2	-3.8%
Net trading income	183.7	78.3	-105.4	-57.4%
Other income	177.9	86.6	-91.3	-51.3%
Other operating income	45.3	44.3	-1.0	-2.3%
Other operating expense	-126.0	-212.6	-86.7	68.8%
<b>Total income</b>	<b>5,312.4</b>	<b>5,468.5</b>	<b>156.1</b>	<b>2.9%</b>
Net impairment losses and fair value change on loans and advances	-1,096.3	-789.1	307.2	-28.0%
Costs of legal risk related to foreign currency loans	-1,021.7	-2,758.1	-1,736.4	169.9%
Overhead costs and depreciation	-2,151.2	-2,194.7	-43.5	2.0%
Taxes on bank balance sheet items	-500.0	-577.6	-77.5	15.5%
Share of profits (losses) of subordinated entities valued using the equity method	29.9	170.7	140.8	471.1%
<b>Profit before income tax</b>	<b>573.0</b>	<b>-680.2</b>	<b>-1,253.2</b>	<b>+/-</b>
Income tax	-479.9	-535.1	-55.2	11.5%
<b>Net profit</b>	<b>93.0</b>	<b>-1,215.4</b>	<b>-1,308.4</b>	<b>+/-</b>
Net ROA	0.1%	-0.6%		
Gross ROE	3.4%	-4.2%		
Net ROE	0.6%	-7.6%		
Cost/Income ratio	40.6%	40.2%		
Net interest margin	2.2%	2.0%		
Common Equity Tier 1 ratio	19.6%	16.2%		
Total capital ratio	23.0%	19.0%		
Leverage ratio	8.2%	6.5%		

## Income of mBank

Total income generated by mBank amounted to PLN 5,468.5 million in 2021, compared with PLN 5,312.4 million in 2020, representing an increase by PLN 156.1 million, i.e. 2.9%. The increase was mainly driven by improved net fee and commission income.

Similarly to 2020, net interest income remained mBank's largest income source in 2021 (accounting for 66.2% of total income). It stood at PLN 3,622.2 million, compared with PLN 3,541.2 million in 2020 (+2.3%).

Net interest margin, calculated as the relation between net interest income and average interest-earning assets, stood at 2.0%, down from 2.2% in 2020.

The average interest rates on deposits and loans with mBank are presented in the table below.

Average interest rate (mBank)										
		Retail Banking <sup>1</sup> (Poland and foreign branches)			Corporate and Investment Banking			mBank total		
		2019	2020	2021	2019	2020	2021	2019	2020	2021
Deposits	PLN	0.55%	0.33%	0.04%	0.85%	0.22%	0.02%	0.66%	0.29%	0.04%
	FX	0.22%	0.14%	0.05%	0.11%	0.02%	0.01%	0.19%	0.10%	0.04%
Total loans	PLN	6.40%	5.15%	4.37%	3.37%	2.61%	2.40%	5.07%	4.14%	3.68%
	FX	1.47%	1.48%	1.44%	2.42%	2.51%	2.27%	1.70%	1.75%	1.66%
Mortgage loans	PLN	3.90%	3.33%	2.75%						
	FX	1.20%	1.20%	1.12%						

<sup>1</sup> The Retail Banking data include the data of the FX mortgage loans segment.

Interest income fell by PLN 230.0 million or -5.6% year on year. With a share of 76.2%, loans and advances were the main source of interest income. Income from loans and advances decreased by PLN 133.8 million or 4.3% in comparison with 2020 due to a reduction of interest rates by 140 bps in 2021.

PLN million	2020	2021	Change in PLN M	Change in %
Loans and advances including the unwind of the impairment provision discount	3,091.3	2,957.5	-133.8	-4.3%
Investment securities	638.0	482.7	-155.3	-24.3%
Cash and short-term placements	20.0	18.8	-1.2	-6.0%
Trading debt securities	28.7	18.0	-10.6	-37.1%
Interest income on derivatives classified into banking book	122.8	103.8	-19.1	-15.5%
Interest income on derivatives concluded under the fair value hedge	52.7	80.1	27.4	51.9%
Interest income on derivatives concluded under the cash flow hedge	164.3	216.8	52.5	32.0%
Other	-8.6	1.6	10.2	+/-
<b>Total interest income</b>	<b>4,109.2</b>	<b>3,879.2</b>	<b>-230.0</b>	<b>-5.6%</b>

**Loans and advances** – the sum of interest income from loans and advances to customers recognised in: financial assets measured at amortised cost, non-trading financial assets mandatorily measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

**Investment securities** – the sum of interest income from debt securities included in financial assets measured at fair value through other comprehensive income, debt securities included in assets measured at amortised cost and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

The decrease in interest expenses in 2021 by PLN 311.0 million or -54.7% was mainly driven by lower deposit costs (down by PLN 282.9 million, i.e. -81.1%) due to lower interest rates on deposits after interest rate cuts.

Net fee and commission income, accounting for 33.3% of mBank's total income, increased significantly year on year. It reached PLN 1,819.7 million in the analysed period, representing an increase by PLN 360.7 million, i.e. 24.7% compared with the previous year.

PLN million	2020	2021	Change in PLN M	Change in %
Payment cards-related fees	430.2	485.8	55.5	12.9%
Credit-related fees and commissions	388.3	451.3	63.0	16.2%
Commissions from currency transactions	339.6	408.1	68.5	20.2%
Commissions for agency service regarding sale of insurance products of external financial entities	68.0	87.6	19.6	28.9%
Fees from brokerage activity and debt securities issue	224.9	242.1	17.2	7.6%
Commissions from bank accounts	222.3	361.8	139.5	62.8%
Commissions from money transfers	147.3	191.1	43.8	29.7%
Commissions due to guarantees granted and trade finance commissions	86.0	91.1	5.1	5.9%
Commissions for agency service regarding sale of products of external financial entities	46.8	59.6	12.8	27.3%
Commissions on trust and fiduciary activities	31.5	33.2	1.8	5.6%
Fees from portfolio management services and other management-related fees	23.2	27.8	4.6	19.7%
Fees from cash services	42.6	45.2	2.6	6.1%
Other	44.4	47.6	3.2	7.1%
<b>Total fee and commission income</b>	<b>2,095.3</b>	<b>2,532.3</b>	<b>437.1</b>	<b>20.9%</b>

Fee and commission income went up by PLN 437.1 million (20.9%) year on year. The largest growth was observed in commissions from bank accounts (+PLN 139.5 million or +62.8%), which is attributable to an earlier adjustment of the table of fees and commissions and an additional fee charged in January from corporate clients for keeping funds in accounts in excess of a predefined limit. Commissions from currency transactions increased by PLN 68.5 million (+20.2%) due to higher volatility on the FX market. A significant growth was observed in the credit-related fees and commissions (up by PLN 63.0 million or 16.2%) due to a higher volume of loans sold. An increase in the number and activity of clients resulted in a rise in handling payment cards-related fees (by PLN 55.5 million or 12.9%) and in commissions from money transfers (PLN 43.8 million or 29.7%).

Commission expenses grew in the analysed period by PLN 76.4 million or 12.0% to PLN 712.7 million. The largest growth was observed in the payment cards-related costs (+PLN 36.7 million or 16.2%).

Dividend income amounted to PLN 30.1 million in 2021, compared with PLN 31.3 million in 2020.

Net trading income stood at PLN 78.3 million in 2021, down by PLN 105.4 million (-57.4%) compared with the previous year. The decrease was primarily attributable to lower gains or losses from financial assets and liabilities held for trading.

Other income, including gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss and gains or losses from non-trading equity instruments and debt securities mandatorily measured at fair value through profit or loss, amounted to PLN 86.6 million compared with PLN 177.9 million in 2020. The income arises from, among others, the revaluation of Visa Inc. shares and shares in other companies (among others, Polski Standard Płatności Sp. z o.o., Krajowa Izba Rozliczeniowa Sp. z o.o., Biuro Informacji Kredytowej S.A.) and sale of treasury bonds.

Net other operating income (other operating income net of other operating expenses) was negative at PLN -168.3 million, mainly due to the creation of provisions for future liabilities.

## Costs of legal risk related to foreign currency loans

In 2021, costs of legal risk related to foreign currency loans grew year on year and stood at PLN 2,758.1 million, including PLN 1,009.8 million earmarked for potential settlements with CHF borrowers. The methodology is described in detail in note 34 to the mBank S.A. Group IFRS Consolidated Financial Statements 2021.

## Costs of mBank

The total overhead costs of mBank (including depreciation) stood at PLN 2,194.7 million, up by 2.0% on the previous year.

PLN million	2020	2021	Change in PLN M	Change in %
Staff-related expenses	-863.4	-960.4	-97.0	11.2%
Material costs	-591.8	-597.4	-5.7	1.0%
Taxes and charges	-24.2	-30.1	-5.9	24.5%
Contributions and transfers to the Bank Guarantee Fund	-287.2	-218.2	68.9	-24.0%
Contributions to the Social Benefits Fund	-8.4	-11.7	-3.4	40.5%
Depreciation	-376.4	-376.8	-0.4	0.1%
<b>Costs of mBank</b>	<b>-2,151.2</b>	<b>-2,194.7</b>	<b>-43.5</b>	<b>2.0%</b>
Cost/Income ratio	40.6%	40.2%	-	-
Employment (FTE)	6,034	6,075	41	0.7%

In 2021, staff-related expenses increased by PLN 97.0 million or 11.2%. In the analysed period, remuneration costs increased, among others, due to additional remuneration paid to selected employees in the form of a one-off award in Q3 2021. Additionally, 41 FTEs were added.

Material costs increased insignificantly by PLN 5.7 million (+1.0%) in the period under review, in particular, as a result of higher IT costs, while costs of administration and real estate services and consulting costs declined.

Contributions and transfers to the Bank Guarantee Fund decreased by PLN 68.9 million year on year.

Changes in the income and costs of mBank translated into a slight decrease in the cost/income ratio. It stood at 40.2% at the end of 2021, down from 40.6% in the prior year.

## Net impairment losses and fair value change on loans and advances

In 2021, net impairment losses and fair value change on loans and advances of mBank (being the sum of impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss) amounted to PLN -789.1 million, down by PLN 307.2 million or 28.0% against the prior year. The decrease was reported both in Retail Banking and Corporate and Investment Banking due to improvements in the macroeconomic environment and financial standing of clients.

#### 4.4. Changes in the statement of financial position of mBank

##### Changes in assets

In 2021 mBank's total assets increased by PLN 21,128.8 million (+12.4%) to PLN 191,873.8 million as at December 31, 2021.

The table below presents changes in particular items of mBank assets.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Cash and balances with Central Bank	3,939.3	12,087.6	8,148.3	206.8%
Loans and advances to banks	10,845.8	11,194.9	349.1	3.2%
Financial assets held for trading and derivatives held for hedges	2,305.6	2,540.7	235.1	10.2%
Net loans and advances to customers	96,804.4	105,722.3	8,917.9	9.2%
Investment securities	51,381.6	52,833.9	1,452.3	2.8%
Intangible assets	1,013.7	1,111.5	97.7	9.6%
Tangible assets	1,246.5	1,204.7	-41.8	-3.4%
Other assets	3,207.9	5,178.2	1,970.3	61.4%
<b>Total assets of mBank</b>	<b>170,745.0</b>	<b>191,873.8</b>	<b>21,128.8</b>	<b>12.4%</b>

**Loans and advances to customers** - the sum of loans and advances to customers recognised in: financial assets measured at amortised cost, non-trading financial assets mandatorily measured at fair value through profit or loss, financial assets held for trading and in financial assets measured at fair value through other comprehensive income.

**Investment securities** - the sum of debt securities included in financial assets measured at fair value through other comprehensive income, debt securities included in assets measured at amortised cost and non-trading equity and debt securities mandatorily measured at fair value through profit or loss.

Loans and advances to customers remained the largest asset category of mBank at the end of 2021. Their share has been systematically decreasing in recent years. As at December 31, 2021, they accounted for 55.1% of total assets compared with 56.7% at the end of 2020.

The net volume of loans and advances to customers increased by PLN 8,917.9 million (+9.2%) year on year.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Loans and advances to individuals	57,845.2	64,348.1	6,502.8	11.2%
Loans and advances to corporate entities	41,862.0	43,909.4	2,047.5	4.9%
Loans and advances to public sector	144.8	81.0	-63.8	-44.1%
<b>Total (gross) loans and advances to customers</b>	<b>99,852.0</b>	<b>108,338.5</b>	<b>8,486.5</b>	<b>8.5%</b>
Provisions for loans and advances to customers	-3,047.6	-2,616.2	431.4	-14.2%
<b>Total (net) loans and advances to customers</b>	<b>96,804.4</b>	<b>105,722.3</b>	<b>8,917.9</b>	<b>9.2%</b>

Gross loans and advances to individual customers increased by PLN 6,502.8 million (+11.2%) compared with 2020.

At the same time, gross loans and advances to corporate customers increased by PLN 2,047.5 million (+4.9%). The volume of gross loans and advances to the public sector fell by PLN 63.8 million (-44.1%).

Investment securities constituted mBank's second largest asset category (27.5%). During 2021 their value grew by PLN 1,452.3 million (+2.8%).

Other assets made up 17.4% of the bank's balance sheet total.

## Changes in equity and liabilities

The table below presents changes in mBank's equity and liabilities in 2021.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Amounts due to other banks	2,624.3	3,420.0	795.7	30.3%
Financial liabilities held for trading and derivatives held for hedges	1,414.4	2,044.6	630.2	44.6%
Amounts due to customers	137,778.0	159,906.0	22,128.0	16.1%
Debt securities in issue	6,335.2	6,683.6	348.5	5.5%
Subordinated liabilities	2,578.3	2,624.5	46.1	1.8%
Other liabilities	3,547.1	3,813.3	266.2	7.5%
<b>Total liabilities</b>	<b>154,277.3</b>	<b>178,492.0</b>	24,214.7	15.7%
<b>Total equity</b>	<b>16,467.7</b>	<b>13,381.8</b>	<b>-3,085.9</b>	<b>-18.7%</b>
<b>Total liabilities and equity of mBank</b>	<b>170,745.0</b>	<b>191,873.8</b>	<b>21,128.8</b>	<b>12.4%</b>

Amounts due to customers remained the dominant funding source of mBank. Their share in equity and liabilities increased slightly compared with the end of 2020 and accounted for 83.3% (80.7% a year before).

Amounts due to customers rose by PLN 22,128.0 million (+16.1%) to PLN 159,906.0 million in 2021, driven by amounts due to individual customers, which increased by 14.8%. At the same time, amounts due to corporate customers increased by 19.1%, with amounts due to the public sector up by 31.7%.

PLN million	31.12.2020	31.12.2021	Change in PLN M	Change in %
Individual customers	97,976.2	112,446.1	14,469.8	14.8%
Corporate customers	39,315.6	46,819.6	7,504.1	19.1%
Public sector customers	486.2	640.3	154.1	31.7%
<b>Total amounts due to customers</b>	<b>137,778.0</b>	<b>159,906.0</b>	<b>22,128.0</b>	<b>16.1%</b>

Amounts due to other banks increased by PLN 795.7 million (+30.3%) compared with the end of 2020 to reach PLN 3,420.0 million.

The value of financial liabilities held for trading and derivatives held for hedges rose by PLN 630.2 million (+44.6%).

In 2021, equity decreased by PLN 3,085.9 million or -18.7% as a consequence of the net loss for 2021, negative valuation of debt securities measured at fair value through other comprehensive income, and unrealised losses in cash flow hedges. Its share in total equity and liabilities of mBank accounted for 7.0% at the end of 2021 (9.6% in 2020).



## 5. mBank Group capital and funding

### 5.1. mBank Group capital base

#### Structure of own funds including Tier 1 and Tier 2 capital

The amount of capital maintained by mBank Group and mBank meets the regulatory requirements and allows for the planned business expansion at the defined risk appetite level. This is reflected in the Common Equity Tier 1 capital ratio (16.23% at the stand-alone level and 14.16% at the consolidated level at the end of 2021) and the total capital ratio (19.01% at the stand-alone level and 16.58% at the consolidated level at the end of 2021), which are above the levels recommended by the Polish Financial Supervision Authority (KNF). A detailed description of capital requirements for the Group and the Bank as well as the factors influencing their change in 2021 is presented in Chapter 9.3. "Capital adequacy". Capital requirements for mBank Group fell in November 2021 thanks to lowering the additional capital requirement of mBank Group by KNF in order to cover the risk resulting from FX household mortgage loans (from 2.82% to 2.12% for the total capital ratio and from 2.11% to 1.59% for the Tier 1 capital ratio).

Regulatory capital requirements for mBank Group as of December 31, 2021, are presented below.

**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 January 1, 2018; it replaced the previous PFSA add-on; for mBank it applies only to domestic exposures. Since March 2020, due to COVID-19 pandemic, this buffer amounts to 0% along with the decision issued by the Minister of Finance.

**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.

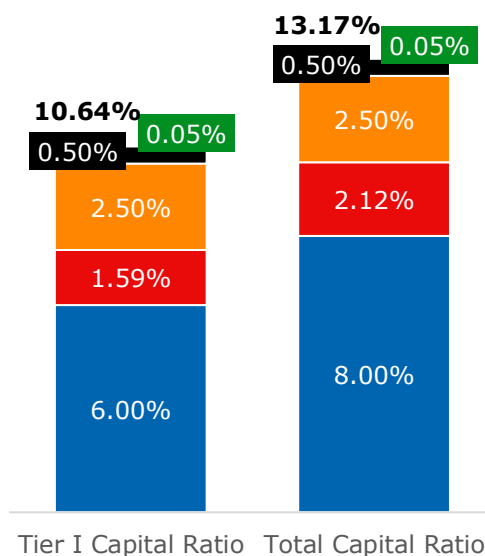
**Conservation Capital Buffer** is equal for all banks in Poland as introduced by the Act on Macroprudential Supervision Over the Financial System and Crisis Management in the Financial System. Its implementation has been gradual. Since January 1, 2019 it has risen to 2.5% and was binding at this level in 2021.

**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 June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Consolidated own funds stood at PLN 15.9 billion at the end of 2021, out of which PLN 13.5 billion was **Tier 1** capital. The main components of Tier 1 include: share capital, share premium, other supplementary and reserve capital, retained earnings from previous years, funds for general banking risk, current loss, and accumulated other comprehensive income. The main source of increase of Tier 1 capital are retained earnings.

**Tier 2** capital stood at PLN 2.3 billion at the end of 2021, which represents a year-on-year decrease by PLN 221 million resulting from partial amortisation of one of the subordinated bond tranches in accordance with Article 64 of CRR (subordinated debt with a fixed maturity included in own funds is amortised on a daily basis for the last five years).



The table below presents the balances of mBank Group's subordinated debt as at December 31, 2021.

Type	Nominal value	Currency	Maturity date	Tier 2 Capital
Loan	250 M	CHF	21.03.2028	Yes
Bond	750 M	PLN	17.01.2025	Yes, but recognised in own funds in the amount of PLN 457,6 million due to the amortisation period
Bond	550 M	PLN	10.10.2028	Yes
Bond	200 M	PLN	10.10.2030	Yes

The current structure of the bank's capital base has been shaped by prior decisions regarding retained earnings and additional capital increases. Between 2002 and 2011, mBank retained all of its earnings by decision of the Annual General Meeting, while the dividend payments for 2012 and 2013 made up 35% and 67% of mBank's net profit, respectively. The profit for 2014, 2015 and 2016 was kept. In April 2018, the Annual General Meeting of mBank decided to pay PLN 217.9 million in dividends, which accounted for 20% of the net profit generated in 2017. Undistributed retained profit in the amount of PLN 1.2 billion was allocated to the bank's supplementary capital. In March 2019, the Annual General Meeting decided not to pay out the dividend for 2018. The amount of PLN 248.2 million was earmarked for the coverage of loss carried forward, while the amount of PLN 1,069.3 million remained undistributed. In March 2020, in accordance with the KNF's recommendation to suspend dividend payouts in connection with the pandemic, the Annual General Meeting decided not to distribute the net profit of mBank S.A. generated in 2019 totalling PLN 981.0 million. Similarly, the Annual General Meeting decided not to distribute the 2020 net profit, which is described in more detail in the next chapter "Dividend".

The bank expects to conduct a securitization transaction in 2022.

More information on capital adequacy can be found in Note 47 to mBank S.A. Group IFRS Consolidated Financial Statements for 2021, whereas detailed information on the dividend policy are provided below.

### Dividend

The bank's long-term goal is to pay 50% of its net profit in dividends. However, when issuing recommendation on dividend payouts, the Management Board of mBank is guided, first and foremost, by the current recommendations of the KNF in this regard.

In December 2020, due to significant uncertainty about the further development of the Covid-19 pandemic, transitory character of the solutions used by banks to improve their capital situation during the pandemic period, prudential stances of EU's supervisory bodies regarding dividend restrictions and other forms of reduction of capital resources, and the amendment of EBA guidelines extending moratoria, the KNF deemed it necessary for commercial banks to suspend dividend payouts in H1 2021. In view of the above, on March 24, 2021, the Annual General Meeting decided not to distribute the 2020 profit. At the same time, following an analysis of the banking sector's financial situation and environment in H1 2021, on June 24, 2021 the KNF published its stance on the dividend payout for 2020, whereby it recommended mBank not to pay dividends from the profit generated between January 1, 2020 and December 31, 2020. The main reason why mBank S.A. was not able to pay out dividends are the additional criteria on account of the bank's significant portfolio of FX housing loans for households.

Moreover, on December 9, 2021, the KNF presented its stance on the dividend policy of banks in 2022 pertaining to the profit generated in 2021, which is available on the KNF's website. The criteria provided for in the KNF's stance were determined based on factors similar to those included in its stance dated June 2021.

### Minimum requirement for own funds and eligible liabilities (MREL)

The BRRD and the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution ("the BFG Act"), implementing regulations concerning resolution to the Polish law, introduced the Minimum Requirement for Eligible Liabilities and Own Funds ("MREL") for banks. The MREL responds to the need to ensure an adequate level of liabilities that can be converted to capital (or written down) in the event of material financial distress and that the resolution can be carried out without involving public funds.

In connection with the amendment of the so-called Banking Package (including BRRD2) and the resulting amendments to the BFG Act, which came into force on 15 September 2021, the Bank Guarantee Fund ("BFG") has modified its existing approach to determination of the MREL requirement. The new methodology was published by the BFG in September 2021. The changes to the methodology are related to, among other things, the determination of the MREL requirement, which is now determined in relation to the Total Risk Exposure Amount ("TREA") and the Total Exposure Measure ("TEM") and the exclusion of

the combined buffer requirement from MREL, which has to be met on top of the MREL requirement. The changes are also related to the deadline for complying with the target MREL, which is now set at 31 December 2023, as well as the interim goals.

The individual MREL targets were communicated to banks by the BFG as part of the process of updating the resolution plans and differ, among others, in terms of the resolution strategy adopted for the bank. According to information received from the BFG on 3 December 2021 the target MREL requirement in relation to the TREA, which mBank has to meet by the end of 2023 at a consolidated level has been set at the level of 20.47%, including 19.96% of TREA in respect to own funds and subordinated liabilities. In relation to the TEM, the MREL has been set at the level of 5.91%, while for own funds and subordinated liabilities at the level of 5.74% TEM. The MREL has been set taking into account the resolution strategy of the Commerzbank Group AG, i.e. the Multiple Point of Entry („MPE”).

Furthermore, mBank also received information concerning the path designated by the BFG to meet the above requirement. The interim MREL for the end of 2021 and 2022 in relation to TREA has been set at 15.64% and 18.06% respectively, including in respect to own funds and subordinated liabilities at 15.39% and 17.68%. Combined Buffer Requirement at 3.05% is imposed on top of MREL (TREA). In relation to TEM the interim MREL goals are 3.00% for the end of 2021 and 4.46% for the end of 2022, including in respect to own funds and subordinated liabilities 3.00% and 4.37% respectively.

According to the BFG Act mBank Hipoteczny, which is exempt from maintaining the MREL requirement, is not part of the consolidation for the purpose of the MREL determination on consolidated level.

mBank already meets its MREL requirement as set by the BFG for 31 December 2021.

The MREL requirement and the subordination level will be updated in each subsequent year.

The criteria for classifying liabilities as eligible to MREL are set out in the CRR2. In addition, in the case of the requirement determined for own funds and subordinated liabilities, the BFG expects that this requirement is maintained in the form of own funds and subordinated liabilities, which according to the Bankruptcy Law are subject to satisfaction, in the event of bank failure, after the liabilities classified to the fifth category. As of January 2019, a new category of subordinated debt - Non-Preferred Senior ("NPS") is included in the catalog of instruments that meet these conditions and are eligible for MREL. In addition, in order to protect retail clients, the BFG introduced a rule that concluding an agreement or intermediating in concluding an agreement for an instrument included in the MREL requirement (other than CET 1 instruments), to which a retail client is a party, is allowed, provided that the nominal amount of this liability or instrument is not lower than PLN 400,000 or its equivalent.

In September 2021 mBank has placed its first green bond issue in the form of Non-Preferred Senior format in a total amount of EUR 500 million. The proceeds from the bond issuance will be used for refinancing part of the retail mortgage portfolio that is granted for energy efficient buildings. The bonds were subscribed by institutional investors and are listed on the Luxembourg Stock Exchange. This is both the first Non-Preferred Senior issue and the first green issue placed by a Polish financial institution in EUR benchmark format.

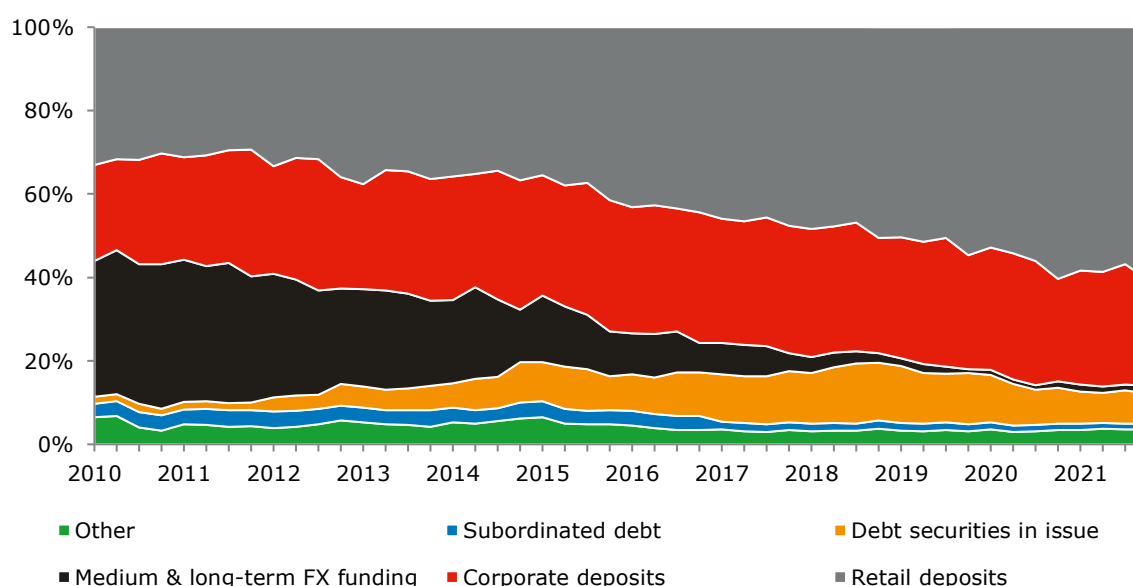
## **5.2. mBank Group funding**

Customer deposits represent the main funding source of the Group. Their share in the Group's funding structure has been growing systematically and as at December 31, 2021 stood at 86% (compared to 84% at the end of 2020). Retail deposits are the main growth driver. The loans to deposits ratio for the Group as at December 31, 2021 reached 73.8% compared to 78.8% in the previous year. The share of the amounts due to other banks in the funding structure has been decreasing for many years. In the past, loans from our strategic shareholder constituted a funding source for foreign currency mortgage loans. The last loan from Commerzbank taken to finance the portfolio of foreign currency mortgage loans was repaid in 2018.

We currently use medium-term and long-term instruments for the Group's funding in foreign currencies, including issuance of unsecured bonds, bilateral loans, subordinated loans as well as FX swap and CIRS transactions.

Bond issuances under the EMTN Program and mortgage covered bonds issued by mBank Hipoteczny remain an important funding source. However, the share of these sources decreased in 2021 as a result of repayments.

### Changes in mBank Group's funding structure



The Group will maintain a diversified financing structure taking into account the principles of profitability. The funding structure of mBank Group is aimed at ensuring stable sources of financing for lending activities and maintaining the liquidity ratios at the appropriate level. One of the goals is to comply with the MREL requirement, i.e. to achieve the level of eligible and convertible liabilities required by the Bank Guarantee Fund.

#### Bond issued under the EMTN Programme

The Euro Medium Term Note Programme (EMTN) enables the issuance of debt securities in many tranches and currencies, with a different interest and maturity structure. Under the 2012 Programme, mBank's subsidiary based in Paris - mFinance France was the issuer of the bonds and mBank acted as the guarantor. Between 2012 and 2017, mFinance France completed six issues of bonds in CHF, EUR and CZK.

In April 2018, a new EMTN Programme with a maximum value of EUR 3 billion was established by updating the previous debt issuance programme. The Programme provides for the issuance of debt securities directly by mBank. mBank issued four tranches under this Programme: two tranches in 2018 (CHF 180 million of 4-year bonds and EUR 500 million of 4-year bonds), one tranche in 2019 (CHF 125 million of 5.5-year bonds) and one tranche in 2021.

In September 2021 mBank placed its debut EUR 500 million Senior Non-Preferred Green Bonds with maturity on September 21, 2027 (with an option of early redemption at the request of the issuer on September 21, 2026). More information on the issuance is included in chapter 1.7 „Key events and projects of mBank Group in 2021”.

The following table presents a summary of outstanding tranches:

Issue date	Nominal value	Maturity date	Coupon
28.03.2017	CHF 200,000,000	28.03.2023	1.005%
07.06.2018	CHF 180,000,000	07.06.2022	0.565%
05.09.2018	EUR 460,030,000	05.09.2022	1.058%
05.04.2019	CHF 125,000,000	04.10.2024	1.0183%
20.09.2021	EUR 500,000,000	21.09.2027	0.966%

#### Activity on the covered bond market

mBank Hipoteczny (mBH) is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market. As of December 31, 2021, the value of issued mortgage covered bonds amounted to PLN 6.76 billion. This accounts for 30.17% of the total market, the value of which reached approximately

PLN 22.39 billion (based on the EUR/PLN exchange rate published by the NBP on December 31, 2021: 4.5994).

Covered bonds of mBank Hipoteczny are characterized by low investment risk. It results from the statutory obligation to comply with several strictly specified requirements described in the Act of 29 August 1997 on covered bonds and mortgage banks. Covered bonds issued by mBank Hipoteczny were assigned Aa1 rating by Moody's Investors Service. More information on ratings is included in chapter 1.5. "Credit ratings of mBank and mBank Hipoteczny".

In 2021 mBank Hipoteczny issued two series of covered bonds within the non-prospect offer for the total amount of PLN 600 million.

Moreover, mBank Hipoteczny continues to issue unsecured bonds. As of December 31, 2021, there were three issued series of bonds for a total amount of PLN 160 million. The offer of mBH includes zero-coupon and coupon bonds denominated in Polish zloty, with maturities from 1 year.

## 6. Retail Banking Area

mBank's Retail Banking segment serves 5,514 thousand individual clients and microenterprises in Poland, the Czech Republic and Slovakia online, directly through the call centre, via mobile banking and other state-of-the-art technological solutions, as well as in a wide network of branches. The bank offers a broad range of products and services including current and savings accounts, accounts for microenterprises, credit products, deposit products, payment cards, investment products, insurance products, brokerage services, and leasing for microenterprises.



Key financial data (at the end of 2021):

<b>Share in total income</b>	<b>Pre-tax profit</b>	<b>Total income</b>
<b>61.5%</b> ↑	<b>PLN 1,505.1 M</b> ↑	<b>PLN 3,758.8 M</b> ↑

Key business data:

	2017	2018	2019	2020	2021
Number of customers ('000) <sup>1</sup>	5,342	5,685	5,604	5,660	5,514
Distribution network (pcs.) <sup>2</sup>	333	358	390	383	367
Loans to retail clients (PLN M)	48,143	52,925	59,993	65,952	73,244
Deposits of retail clients (PLN M)	55,694	65,924	77,664	97,976	112,446

<sup>1</sup> The number of retail clients in 2017 has been adjusted due to obligatory closing of inactive accounts and excluding micro-company representatives, without individual products.

<sup>2</sup> Including 322 outlets in Poland and 45 in the Czech Republic and Slovakia as at 31.12.2021.

### Key highlights

- Increase of income by 10.6% and profit before tax by 40.2% year on year.
- Record high sales of mortgage loans at the level of PLN 12.4 billion, accompanied by recovery of sales of non-mortgage loans.
- Increase in the number of active users of mobile application by 14.8%, up to 2,959.8 thousand in Poland, Czech Republic and Slovakia.
- Increase of retail deposits by 14.8% in 2021, mainly driven by growing current accounts (+18.6% year on year).
- Increase of the value of transactions carried out with mBank's payment cards by 24.6% as well as in the number of card transactions by +22.0% on annual basis, along with rising activity of clients.
- Further development of the offer: mobile application to Junior Account designed for children below 13 years old; contactless BLIK for convenient payments in service and commercial points of sales; fast and secure confirmation of transactions with biometric data; foreign investment funds included in the offer.
- We take into account ESG and the best customer experience: development of products which promote ESG – eco-mortgage loans for financing the purchase or construction of an energy-saving real estate; faster and facilitated call-center consultations with voice-bot; another edition of special campaign "Digital Revolutions" supporting SME and micro-companies with e-commerce transformation.
- The number of brokerage accounts of the Brokerage Bureau's clients amounted to over 390 thou. at the end of 2021 (+60 thou. new accounts). This is the best result on the Polish market.



## 6.1. Financial results

In 2021, the Retail Banking segment generated a profit before tax of PLN 1,505.1 million, which represents an increase by PLN 431.8 million, i.e. 40.2% year on year. This increase results mainly from higher net fee and commission income and lower level of net impairment losses and fair value change on loans and advances. The foreign branches in the Czech Republic and Slovakia in 2021 generated a gross profit of PLN 108.1 million compared to PLN 78.7 million in 2020, which represents an increase by 37.3% year on year.

PLN M	2020	2021	Change in PLN M	Change in %
Net interest income	2,570.6	2,719.7	149.1	5.8%
Net fee and commission income	774.4	994.5	220.0	28.4%
Net trading income	35.7	42.6	6.9	19.3%
Other income	53.0	2.5	-50.5	-95.3%
Net other operating income/expense	-33.9	-0.4	33.4	-98.7%
<b>Total income</b>	<b>3,399.9</b>	<b>3,758.8</b>	<b>358.9</b>	<b>10.6%</b>
Net impairment losses and fair value change on loans and advances	-630.4	-451.4	179.0	-28.4%
Overhead costs and depreciation	-1,483.6	-1,516.3	-32.7	2.2%
Taxes on Group's balance sheet items	-212.6	-286.0	-73.4	34.5%
<b>Profit before tax of Retail Banking</b>	<b>1,073.3</b>	<b>1,505.1</b>	<b>431.8</b>	<b>40.2%</b>

## 6.2. Activity of Retail Banking Area in numbers

Refers to mBank and mBank Hipoteczny

('000)	31.12.2019	31.12.2020	31.12.2021	Annual change
<b>Number of retail clients, including<sup>1</sup>:</b>	<b>5,603.9</b>	<b>5,661.8</b>	<b>5,514.6</b>	<b>-2.6%</b>
Poland	4,645.3	4,658.5	4,487.8	-3.7%
Foreign branches	958.6	1,003.4	1,026.9	2.3%
The Czech Republic	667.0	702.7	717.8	2.2%
Slovakia	291.5	300.7	309.0	2.8%
<b>PLN M</b>				
<b>Loans to retail clients, including:</b>	<b>60,017.0</b>	<b>65,579.3</b>	<b>73,236.5</b>	<b>11.7%</b>
Poland	<b>54,933.1</b>	<b>58,351.2</b>	<b>63,430.6</b>	<b>8.7%</b>
mortgage loans	37,480.6	41,205.1	44,320.9	7.6%
non-mortgage loans	17,452.5	17,146.1	19,109.7	11.5%
Foreign branches	<b>5,083.8</b>	<b>7,228.1</b>	<b>9,805.9</b>	<b>35.7%</b>
The Czech Republic	3,913.5	5,182.0	6,831.1	31.8%
Slovakia	1,170.3	2,046.1	2,974.8	45.4%
<b>Deposits of retail clients, including:</b>	<b>77,487.7</b>	<b>98,221.0</b>	<b>112,377.9</b>	<b>14.4%</b>
Poland	<b>66,837.9</b>	<b>84,402.2</b>	<b>96,586.7</b>	<b>14.4%</b>
Foreign branches	<b>10,649.8</b>	<b>13,818.7</b>	<b>15,791.2</b>	<b>14.3%</b>
The Czech Republic	7,346.4	9,564.6	11,018.6	15.2%
Slovakia	3,303.5	4,254.1	4,772.7	12.2%
<b>Investment assets of mBank individual clients (Poland)</b>	<b>13,560.1</b>	<b>19,088.2</b>	<b>21,582.3</b>	<b>13.1%</b>
<b>('000)</b>				
<b>Credit cards, including</b>	<b>396.5</b>	<b>388.0</b>	<b>376.8</b>	<b>-2.9%</b>
Poland	355.4	349.4	340.5	-2.5%
Foreign branches	41.1	38.6	36.2	-6.1%
<b>Debit cards, including:</b>	<b>3,848.7</b>	<b>4,141.4</b>	<b>4,456.9</b>	<b>7.6%</b>
Poland	3,231.5	3,472.1	3,777.2	8.8%
Foreign branches	617.2	669.4	679.7	1.5%
<b>Distribution network</b>				
Advisory Centres	40	42	33	
Light branches	14	14	15	
mBank (f. Multibank)	89	83	85	
mKiosks (incl. Partner Kiosks)	166	161	149	
mFinanse Financial Centres	44	42	40	
Czech Republic & Slovakia	37	41	45	

<sup>1</sup> Includes the number of Kompakt Finanse clients.

### 6.3. Retail Banking of mBank in Poland

#### Retail banking offer for individuals

In 2021, despite the raging Covid-19 pandemic, we reported an increase in the activity and number of transactions made by our clients. We continued our efforts to digitalise sales and customer service processes, and acquired new clients in mobile channels. We improved the process of concluding card and e-commerce transactions and ordering bank transfers. Throughout most of the year we carried out business in an environment of extremely low interest rates, which began to rise in October in a series of hikes.

In 2021, we implemented biometrics in banking transactions. Using facial recognition or a fingerprint scanner, clients can authorise, among other things, BLIK transactions, money transfers, or change certain settings in the mobile app. The new feature, which can be activated in the app settings, allows our clients to make banking operations faster without the need to enter the PIN. In November 2021, we launched the BLIK NFC service which enables contactless and cardless BLIK payments made with a smartphone. The service is available to all mBank clients who use Android and HMS devices. This solution allows our clients to make contactless payments with a smartphone in shops and points of sale, even without a debit or credit card. The only requirement is to have the bank's mobile app installed on a smartphone. Contactless BLIK payments have been used by over 150,000 clients. We also enabled our clients to submit an application for personal data correction, account type change, and issue of necessary documents. Previously such operations required our clients to visit one of our branches. Now they can submit such applications remotely.

In June, we launched a campaign entitled "Eco-banking. Yes, mBank makes it happen" to celebrate the World Environment Day. The campaign presented eco-friendly banking solutions available at mBank, i.e. limiting plastic and paper use and eliminating the need for branch visits, thus lessening our environmental impact and reducing carbon footprint.

The significance of the mobile channel continues to rise: the mobile app is currently used by 2,587,900 clients in Poland, up by 13.8% compared with 2020 (2,274,300 users). Share of the mobile application in the sale of non-mortgage loans increased to 42% at the end of 2021 compared with 33% in 2020. Monthly active users (MAU) increased to 3,039 thousand (+6.2% year on year). For more information on new mobile solutions, see chapter 1.7 "Key events and projects in mBank Group in 2021".

#### Non-mortgage loans

In 2021, we began a gradual return to satisfactory sales volumes of unsecured loans for individuals. May was the peak month for the sales of our banking products since the beginning of the pandemic, and one of the best months in this respect in the bank's history. The total volume of disbursed loans as at the end of 2021 stood at PLN 5,805.4 million. At the end of December 2021, our share in the non-mortgage loan market reached 7.1%, constituting a 49.0% increase in sales compared with 2020. Focusing our efforts on selling cash loans to individuals in 2021 brought forth PLN 4.7 billion worth of volume, which equals 82% of the entire portfolio of non-mortgage loans. Improving economic situation gave us a green light to liberalise the credit rating policy, and contributed to an improvement in sales ratios.

Electronic channels were the uncontested leader in the sales area, reaching a nearly 50% share in the sales of unsecured loans. The mobile app overtook the online banking channel. Due to a rapid growth of the e-commerce market boosted by the pandemic, in 2021 we took a number of initiatives to improve the online borrower experience at mBank. Further developments in this area were based on finding new partners, improving integration, and expanding the offer addressed to merchants, including easier integration of mBank loan instalments.

We continued our efforts in the area of client acquisition. This included preparing a special offer in the area of consolidation of liabilities with other banks and a first loan offer. We did not charge a commission on new revolving loans. We introduced loan payment holidays for clients who took out a cash loan in an attempt to offer them flexible loan repayment options. We prepared special offers for clients who receive their salary to an mBank account. We also launched special product offers promoting active use of credit cards, in which our clients have a chance to win, among other things, Allegro or Biedronka gift cards.

The NPS survey provides us with valuable information. We analyse survey data and customer feedback on an ongoing basis. Moreover, the survey conducted at the end of 2021 showed a stable, high satisfaction level of 71% for cash loans, and a satisfactory level of 55% for credit cards, and 61% for revolving loans.

#### Mortgage loans

The sales of mortgage loans to individuals in Poland increased significantly in 2021 (+44.2% year on year). We granted loans worth a record-high combined value of PLN 9,258.2 million.

Improvements and automation of the sales process allow us to better satisfy our clients' growing need for mortgage loans. At the same time, we gradually improved the credit decision waiting time, which in Q4 2021 was about 10 days shorter than the yearly average.

Changes introduced in the recent months show that clients use remote channels to send documents to the bank increasingly often. In 2021, every fifth application was filed using this channel.

On June 30 we expanded our offer by adding **mortgage loans with an initial five-year fixed interest rate** and allowed our clients with PLN-denominated mortgage loans based on floating rates to switch to the product.

Since Q4 2021, we offer our clients an **eco-friendly mortgage loan**. It can be used for the financing of real estate, both on the primary and secondary market. In addition, clients who decide to choose this solution may take advantage of a lower margin.

The NPL ratio for the mortgage loan portfolio for individuals in Poland remained stable year on year and amounted to 1.7% at the end of 2021.

#### Deposits

In 2021, mBank reported another increase in funds deposited in current and savings accounts of its clients. At the same time, the value of balances in term accounts decreased. The structure of deposits was mostly impacted by low interest rates applicable until October. After a series of three cuts in 2020, clients were more reluctant to keep their savings in term deposits due to their relatively low interest rates reflecting market rates. Consumer sentiments have not come back to the levels from before the Covid-19 pandemic due to a persisting pandemic threat. This situation encourages clients to save money, thus increasing the funds deposited in bank accounts. At the end of 2021, retail deposits at mBank in Poland amounted to PLN 96,586.7 million compared with PLN 84,402.2 million at the end of 2020 (up by 14.4% year on year). In the last quarter of 2021 interest rates were increased three times. This may cause changes in market rates in 2022 and alter customer expectations.

#### Investment funds for retail clients

In 2021, we introduced many changes in the investment area. We expanded the offer dedicated to individual clients (as the first bank on the market) with model investment consulting. Based on the knowledge and experience of our customers, their risk appetite and investment horizon, we build 4 different investment strategies. The service is mainly based on the solutions of foreign giants such as Schroders, Fidelity or (AB) AllianceBernstein. For clients without investment experience, we have introduced investment goals. We support them in defining goals, a horizon and monthly amounts that should be allocated to investment funds to increase the chance of achieving the goal in the future.

mBank's investment platform is the Investment Fund Supermarket. It is available in the mBank mobile application. Within 3 months, the service achieved almost 40% adoption among investing clients.

#### Cards and accounts

Since March, clients can open an mBank account without leaving their home using an e-ID. The process of opening an account using an e-ID is yet another method of remote account opening, alongside the selfie method. It is both convenient and more eco-friendly. An alternative solution was launched in September. It allows clients to open an account by confirming their identity with a courier, without the need for a branch visit or paper documents. When filing the application for a new account, the client accepts the electronic agreement with an SMS code. After the courier confirms the client's identity, the agreement is delivered to the client by email, along with a confirmation that the account has been opened.

In the second half of the year we introduced numerous improvements for our clients in the process of opening an account with a selfie. We made communication in the mobile app clearer. In 2021, 21,000 clients opened an account using the selfie method.

Subscription services, which enable subscribers to stream movies, TV shows or music, have become increasingly popular in Poland and worldwide. In order to make it easier for clients to manage their subscriptions, we launched a new service identifying and forecasting card subscriptions. Online subscription-based services have become a new trend, which was additionally strengthened by the pandemic and is expected to continue for a long time. mBank clients may view all their card subscription payments in one place: in the transaction history in the mobile app or in online banking. This allows them to easily keep track of their subscription payments. Our online banking and mobile app also present a forecast of upcoming subscription payments, which facilitates budget planning.

We continued to develop the range of cards available to individual and corporate clients, also in the foreign branches. We implemented Apple Pay and Google Pay for corporate clients and were the first large bank in Poland to offer new wallets Xiaomi Pay and SwatchPAY! for Mastercard cards. Currently mBank is the leader in Poland in terms of the number of mobile wallets offered to individual and business clients.

We launched new plastic pre-paid microchip cards for corporate clients. Clients in the Czech Republic and Slovakia were offered virtual eCards enabling them to pay online and stay in full control of their spending (they can load a specific amount onto their eCard and unload the card after making a purchase).

The popularity of mobile cards has been growing year by year. The details of such cards are available in the app, while mobile payment solutions allow clients to pay in stores or make ATM withdrawals. We are promoting the Mastercard Mobile card (a joint campaign with Mastercard („Bądź bogatszy o bezcenne przeżycia”), regular posts in social media, a Biedronka gift card for card users) and the virtual eCard, which was featured in the Mr. Good Time (Pan Dobrego Czasu) marketing campaign. In 2021 clients who opted for virtual cards helped us reduce plastic use by nearly 500 kilograms.



As in the previous years, in 2021 mBank clients had the opportunity to order limited edition WOŚP cards: “PolandRock” and “30th WOŚP Grand Finale”, and a new product on offer “30th WOŚP Finale” MC Mobile card. All the cards were designed by Jurek Owsiak himself.

In 2021, the value of payment card transactions made by mBank’s retail clients in Poland amounted to PLN 61.7 billion, which represents a rise by 24.6% year on year. The number of transactions made by mBank clients increased by 22.0% year on year. The share of card transactions made by mBank cards in the total number of card transactions in Poland stood at 12.2% at the end of September 2021 (last available data, cumulative for the first nine months of 2021).

#### Additional services

In 2021, which saw a fast development of e-commerce, we used mOkazje (mBenefits) to encourage e-commerce companies to switch to Paynow. The offer is addressed both to mBank clients (SMEs and corporations) and to external clients. By joining Paynow they can smoothly settle transactions made as part of mOkazje and offer discounts on individual product categories in the basket. The first campaigns organised jointly with Moje dostawy, Laboratorium Pani Domu and Cavares have been already completed. We are currently working on new campaigns.

In November we launched open banking. This new service allows mBank clients to see all their accounts (transaction history, account balance) together in one place, wherever they bank. The service is provided in accordance with EU’s PSD 2. It is free of charge and available in mBank online banking for the following banks: Alior Bank, ING Bank Śląski, Millenium Bank, PKO Bank Polski, and Bank Pekao.

#### Offer for affluent clients

In 2021 we continued the acquisition of affluent clients in the premium segment. Our offer and communication are based on the Intensive Package covering three pillars responding to client needs. Daily banking – a charge-free account and card for active users, charge-free access to cash all over the world, and three charge-free emergency express transfers. Financial needs – charge-free currency conversion for purchases made abroad, preferential investment offer (deposit plus fund), preferential credit offer for clients who change/buy a flat (mortgage) or face unexpected expenses (cash loan). Premium service – enabling clients to save time and receive professional assistance. Intensive clients receive priority service from mLine consultants and support from personal experts at our branches, who can be contacted directly from the mobile app.

#### Brokerage operations and asset management

The Brokerage Bureau of mBank provides a comprehensive range of brokerage services to individual and private banking clients, the largest Polish institutional investors (pension funds, investment funds, asset management companies), and foreign funds. It is an undisputed leader in the retail client segment. The Brokerage Bureau enables clients to trade in regulated markets in Poland and abroad as well as in the OTC (CFD) market. Wealth management clients use investment advisory and asset portfolio management services. The Bureau is an active player in the equity market, preparing and conducting public and private offerings (IPO/SPO/ABB).

In 2021, investors’ activity on the Warsaw Stock Exchange (WSE) increased significantly compared with the previous years. The main market grew by 5% year on year, driven by increased activity of foreign investors on the WSE compared with 2020.

Retail clients’ share on the WSE dropped insignificantly to an estimated level of 22.5%. The Brokerage Bureau of mBank remains the leader in the market of brokerage services for retail clients. In 2021, the Bureau’s clients accounted for 9.2% of all transactions in stocks on the main market of the WSE, which secured it the second spot in the league table. Clients still display a keen interest in the segment of foreign markets and passive investment solutions (ETF). At the end of 2021, foreign assets accounted for approx. 10% of all assets of retail clients. Almost 34,000 clients held them in their portfolios.

The number of brokerage accounts of the Brokerage Bureau's clients amounted to over 390,000 at the end of 2021. In the discussed period, the Bureau acquired more than 60,000 new investment accounts. This is the best result on the Polish market.

Modern investment tools and a comprehensive range of products and services have a decisive impact on retail investors' choice. In H2 2021, the Brokerage Bureau launched a new mobile app, mBank Giełda. The share of orders submitted by clients via mobile channels is still growing and currently stands at over 40%.

The Brokerage Bureau also plans to take measures with regard to the ESG agenda, which is one of the pillars of mBank's strategy for 2021-2025. The Bureau will adjust its product range by adding further solutions based on the ESG criteria. Additionally, it will educate investors to raise their awareness of this issue.

The value of assets under management grew considerably in 2021 to nearly PLN 3.5 billion (+21%). Clients were especially interested in mixed strategies (e.g. Anti-Inflationary Strategy, Multiasset Strategy, Sustainable ESG Strategy, and mFund for the Active). The outflow of assets under management from debt-based strategies was limited (slightly above PLN 200 million) despite negative nominal investment results produced by these strategies.

In 2021 the Asset Management Department of mBank's Brokerage Bureau implemented sustainable development risk analysis methodologies in the investment process. This was helped by the knowledge gained from managing the Sustainable ESG Strategy launched in 2019. The introduction of a formal analysis process and the expansion of the analysed scope resulted from the introduction of EU regulations (among others SFDR) and adoption of the Strategy of Sustainable Development Risks in the Investment Advisory and Financial Instrument Portfolio Management Service in the Brokerage Bureau of mBank.

In 2021 the Asset Management Department of mBank's Brokerage Bureau launched a number of educational and informational campaigns on investing in order to address clients' needs identified by mBank. These included publicly available webinars held together with the Wirtualna Polska portal and podcasts recorded in cooperation with the Radio 357, as well as cyclical articles and webinars addressed directly to clients and employees.

The last year on WSE was marked by above average transactional activity in the area of capital transactions. In 2021, the Brokerage Bureau of mBank was particularly active and concluded seven IPO, SPO and ABB transactions. The Brokerage Bureau of mBank was an intermediary in numerous offerings, among others:

- the SPO of Mabion (PLN 134 million) as a global coordinator and the sole bookrunner,
- the IPO of Vercom (PLN 225 million) as a co-coordinator and the joint bookrunner,
- the IPO of Shoper (PLN 363 million) as a global coordinator and a joint bookrunner,
- the IPO of Pracuj Group (PLN 1,120 million) as a co-manager,
- the IPO of STS Holding (PLN 1,078 million) as an investment firm and a joint bookrunner.

In 2022 the preparations for setting up mTFI, i.e. mBank's investment fund company, will be continued. mBank submitted the respective application to the Office of the Polish Financial Supervision Authority in 2021. The creation of mTFI will allow mBank greater flexibility in adjusting its product range to changing expectations of clients and market fluctuations. In this context it is worth stressing that the ESG agenda is one of the pillars of mBank's strategy for 2021-2025. ESG will considerably affect how the product range will be shaped in the future, also in the area of investment products.

#### Relations with UNIQA

In 2021 mBank continued to develop its bancassurance cooperation with the strategic partner UNIQA. The partnership covers sales of insurance products to mBank clients with a focus on stand-alone products, including car, travel, home, and life insurance, as well as bundled products, including insurance bundled with loans.

mBank develops its insurance offer to address the needs of clients who actively use remote banking channels. The stand-alone product offer is available across all access channels. All stand-alone products, including car, home, travel, and health and life insurance for clients and their close ones, are available in the mBank mobile application. 27% of stand-alone insurance products sold in 2021 were purchased in the mobile app.

We note an increasing number of clients who have insurance unrelated to banking products. Despite the ongoing pandemic, sales of life and health insurance, real estate insurance and sales of travel insurance products have been steadily growing since May 2021.



## **Products and services for small and medium-sized enterprises**

At the beginning of the year clients were given the option to submit new applications for state aid under Shield 2.0 (PFR). We helped our clients by holding webinars, and publishing Q&As and articles written by mBank and PFR experts. Under Shield 2.0 state aid was provided to 6,600 mBank clients (PLN 709 million in total). At the same time, we were working on redemptions and settlements under Shield 1.0, which supported 40,000 mBank clients who received PLN 3.4 billion worth of aid. We implemented a number of processes enabling the settlement of aid provided through our agency, from transferring the necessary Fund documents and aid repayments, through debt collection processes, to reporting to PFR.

Throughout the year we offered companies assistance in running their business. mBank clients were offered a business account with a two-year "no fee" guarantee. Compared with the previous special offer supporting client acquisition, this time we put a stronger focus on promoting our additional services, shifting clients' attention to tools dedicated to helping companies run their business. We launched a broad-scale campaign advertising mBank's products and services in radio stations (mBank experts were promoting the bank's services in RMF FM) and on TV. We continued to provide moneyback support for new businesses. Consequently, we managed to retain our dominant position on the SME market in Poland and increase the group of the most engaged clients by 11%.

In 2021 we continued the social campaign Digital Revolutions (Cyfrowe Rewolucje), which helps micro, small and medium-sized enterprises to grow their e-commerce business. Also the Eye to Eye (Oko w Oko) meetings with entrepreneurs were continued in a new online formula. At the end of the year we helped entrepreneurs prepare for changes resulting from the introduction of the Polish Deal. We held educational webinars for entrepreneurs with the participation of market experts. For more information, see chapter 1.7 "Key events and projects in mBank Group in 2021".

This year the number of e-commerce clients using the Paynow gateway doubled, with the turnover rising four times. We implemented a mobile approval of the Paynow agreement, which enables clients to approve the agreement in the mobile app. Moreover, we improved the payment experience thanks to the "white label" integration; now buyers can pay for purchases on the client's website without being redirected to the payment operator's website, which makes online shopping faster. In an effort to increase the security of transactions made by our clients we amended the Paynow Payment Integrator Rules (thus strengthening the security of online shoppers). In addition, we launched the Paynow calculator on mBank's website enabling clients to easily check how much they pay for their current payment gateway.

Compared with the previous year, 2021 saw a 50% rise in the number of business clients acquired by the national network of certified accounting offices (OSCBR). Our clients using the mAccounting Comfort service are served by nearly 900 accounting offices located across Poland. There are more than 300 locations where clients can set up a business and open a business account with mBank. mBank clients were systematically provided with expert knowledge in the form of blog articles written or videos made by the accountants cooperating with mBank. The publications discussed, among others, the National e-Invoice System or the Polish Deal.

As part of the Finance mOrganiser we prepared a special offer addressed to business clients who wish to open a current account with mBank or set up a business with mBank's help. The clients who use this special offer receive a one-month access to benefits helping them manage their company finances, such as free-of-charge issue of invoices, monitoring of payments, option to keep track of company costs, use the help of a financial assistant or keep their own accounting records.

### **6.4. Retail Banking in the Czech Republic and Slovakia**

Similarly to previous years, in 2021 mBank focused on the acquisition of new customers, further automation and digitalization of its process and strengthening of non-mortgage lending. mBank's strategy in the Czech Republic was significantly affected by the moves of the Czech National Bank which increased the reference interest rate from 0.25% to 3.75% in a series of five hikes.

In order to improve the profitability of the Czech and Slovak branches, in the second half of 2021 mBank successfully switched part of its resources from mortgage area to non-mortgage loans (cash loan) area. As a result, the sales of cash loans were record-high. mBank still continues to implement the improvements of mortgage loan processes by introducing its new version on the Slovak market. Long term focus on the efficiency brought significant improvements in the area of fees and commission which resulted in the introduction of new, significantly shorter price list for mBank's customers. Following the digitalization path, mBank invested more resources to develop in the area of BankID and took part in one of the biggest digitalization projects on the Czech market as well as introduced its first fully virtual card for e-commerce transactions.

During 2021, mobile application became the most widely used distribution channel for our clients. Currently, 65% of active clients use mobile banking. Throughout 2021, we brought a number of improvements to our clients as part of digitization, including i.a. the new Internet Banking 3.0, a fully mobile account opening for new clients, instant payments etc. At the same time, we pay great attention to the customer experience and continuously measure their Net promoter score (NPS) within the use of mBank. In addition to strengthening the digital distribution, we worked to further bring physical distribution closer to our clients. The role of branches has proved important in improving mBank's position on the broker market thanks to the strengthening of branch relations with brokers at the local level and product/process help-desk for our partners provided from branches.

**Loans and deposits**

The mBank loan portfolio in the Czech Republic and Slovakia stood at PLN 9,805.9 million as at 31 December 2021, representing an increase of PLN 2,577.8 million (+35.7%) year on year. The mortgage loan portfolio of foreign branches amounted to PLN 29,871.4 million as at 31 December 2021, representing an increase of 55.6% year on year. The non-mortgage loan portfolio increased by 33.4% to PLN 6,738.9 million as at 31 December 2021.

mBank was able to significantly increase cash loans sales and improve its positions on both markets. The non-mortgage new loan portfolio grew and stood at PLN 1,128.5 million as at 31 December 2021, up by 40.1% year on year, in the Czech Republic and at PLN 458.4 million, up by 80.4%, in Slovakia.

Sales of mortgage loans in the foreign branches grows. New mortgage loan portfolio in Slovakia increased by 22.6% year on year to PLN 1,022.5 million as at 31 December 2021. Sales of mortgage loans in the Czech Republic stood at PLN 1,766.8 million, up by 19.3% compared to the previous year.




The volume of deposits continued to grow in 2021 and at the end of the year was affected by changes in interest rates on saving accounts introduced by mBank's peers. The portfolio of deposits stood at the level of PLN 62,482.8 million as at 31 December 2021 which represents a growth of 26.8% on an annual basis.

## 7. Corporate and Investment Banking Area

The Corporate and Investment Banking segment serves 31,315 corporate clients including large enterprises (K1 - annual sales exceeding PLN 1 billion), mid-sized enterprises (K2 - annual sales of PLN 50 million – PLN 1 billion) and small enterprises (K3 - annual sales below PLN 50 million, full accounting) through a network of dedicated 43 branches. mBank Group's offer of products and services for corporate clients focuses on traditional banking products and services (including corporate accounts, domestic and international money transfers, payment cards, cash services, and liquidity management products), corporate finance products, hedging instruments, equity capital market (ECM) services, debt capital market (DCM) instruments, mergers and acquisitions (M&A), leasing and factoring.



Key financial data of Corporate and Investment Banking Area (at the end of 2021):

Share in total income	Pre-tax profit	Total income
37.8% 	PLN 803.1 M 	PLN 2,307.4 M 

Key business data:

	2017	2018	2019	2020	2021
Clients ('000)	22.0	23.7	26.5	29.1	31.3
Branches (pcs)	46	46	46	46	43
Loans to corporate clients (PLN M)	37,942	44,233	47,786	46,025	28,306
Deposits of corporate clients (PLN M)	34,590	35,346	38,138	39,236	43,757

### Key highlights

- Increase of income by 8.5% in comparison with 2020.
- Acquisition of 2.2 thousand of new corporate clients.
- New mobile application for corporate clients with a clear interface, intuitive navigation and a "task assistant".
- Development of activities in the ESG area: mBank arranged the issuance of green bonds amounting to PLN 150 M by R.Power (the largest Polish developer of photovoltaic farms), added to the offer a special loan for financing small renewable energy projects, donated along with its clients PLN 20 M during the 29th Grand Finale fundraiser of the Great Orchestra of Christmas Charity.
- mBank's corporate clients were provided with three popular mobile payments options, including Apple Pay, Google Pay and Garmin Pay.
- In 2021 mBank has signed 3,200 agreements through its high-tech client onboarding portal.
- Another edition of special campaign "Digital Revolutions: to support the development of microfirms and SMEs in the e-commerce area.
- At the end of the year, mBank's RES portfolio reached PLN 2.7 billion (compared with PLN 2.0 billion at the end of 2020).

## 7.1. Financial results

The Corporate and Investment Banking segment generated a profit before tax of PLN 803.1 million in 2021, which represents an increase by PLN 311.4 million, i.e. 63.3% year on year. The reason for improved profit before tax was mainly lower level of net impairment losses and fair value change on loans and advances and increased net fee and commission income.

PLN M	2020	2021	Change in PLN M	Change in %
Net interest income	1,111.1	1,114.6	3.5	0.3%
Net fee and commission income	773.3	944.5	171.2	22.1%
Net trading income	228.1	263.8	35.7	15.7%
Gains less losses from investment securities, investments in subsidiaries and associates	-9.4	3.9	13.3	+/-
Net other operating income/expense	24.3	-19.4	-43.7	-/+
<b>Total income</b>	<b>2,127.4</b>	<b>2,307.4</b>	<b>180.0</b>	<b>8.5%</b>
Net impairment losses and fair value change on loans and advances	-609.9	-409.7	200.2	-32.8%
Overhead costs and depreciation	-841.7	-867.6	-25.9	3.1%
Taxes on Group's balance sheet items	-184.1	-227.0	-42.9	23.3%
<b>Profit before tax of Corporates and Investment Banking</b>	<b>491.7</b>	<b>803.1</b>	<b>311.4</b>	<b>63.3%</b>

## 7.2. Activity of Corporate and Investment Banking Area in numbers

Refers to mBank only

	31.12.2019	31.12.2020	31.12.2021	Annual change in %
<b>Number of corporate clients</b>	<b>26,476</b>	<b>29,083</b>	<b>31,315</b>	<b>7.7%</b>
K1	2,319	2,358	2,272	-3.6%
K2	8,211	8,862	9,740	9.9%
K3	15,946	17,863	19,303	8.1%
<b>PLN M</b>				
<b>Loans to corporate clients, including</b>	<b>28,962.4</b>	<b>28,036.1</b>	<b>28,305.7</b>	<b>1.0%</b>
K1	7,307.1	6,719.5	6,019.3	-10.4%
K2	18,685.1	18,302.3	18,983.4	3.7%
K3	2,840.9	2,714.4	2,959.9	9.0%
Reverse repo/buy sell back transactions	13.4	103.8	90.6	-12.7%
Other	115.9	196.1	252.4	28.7%
<b>Deposits of corporate clients, including</b>	<b>35,216.0</b>	<b>34,816.6</b>	<b>43,756.7</b>	<b>25.7%</b>
K1	12,434.0	8,673.2	9,892.0	14.1%
K2	14,934.4	15,631.5	21,602.3	38.2%
K3	7,079.4	9,958.4	11,813.9	18.6%
Repo transactions	175.4	93.2	87.8	-5.8%
Other	592.9	460.3	360.7	-21.7%

### **7.3. Corporate and Investment Banking of mBank**

In 2021, the ongoing COVID-19 pandemic placed demands on the bank to maintain security rules and strict social distancing. The bank's response to this challenge was to focus on further dynamic digitalisation and process optimisation. In 2021, we implemented a new application for corporate clients and focused on work related to the development of services for e-commerce. As a result, we are taking care of the environment as well as time and resources.

Mobility is crucial to clients. Almost 81% of our clients already use mBank's mobile app. The number of app users increased by as much as 20% year on year in 2021. At the beginning of 2021, we launched a new mobile application for corporate clients, described in more detail in section 1.7. "Key events in mBank Group in 2021". The new app increased the importance of the mobile channel in everyday work. Clients appreciate mBank CompanyMobile and are increasingly willing to use the application: the number of logins to the application in 2021 increased by as much as 100%; and by as much as 148% year-on-year within 4 months after we closed down the old application.

#### Digital onboarding of corporate clients

In July 2020, we introduced a solution for digital onboarding of new corporate clients which fits perfectly with the remote working mode as it is paperless and online. In 2021, we promoted remote channels for onboarding of corporate clients. Our flagship digital client onboarding project is used by all client segments. The solution is becoming increasingly popular. We remotely concluded over 3,200 agreements in our state-of-the-art client onboarding portal in 2021.

Our solution supports a fully digital corporate client acquisition process. It is a platform for modern sales interactions with clients and onboarding of most of the transactional banking products, in particular bank accounts accessible in the electronic banking system together with cards and cash handling. We confirm clients' identity remotely without them having to visit a branch or complete paper formalities. The process is universal and can be used by clients of all sizes and organisational complexity. We significantly streamlined bank-client interactions and we can open an account even within one day. We use automated compliance checks in the process, including checks against sanction lists. We are constantly working on the quality of the process, the user interface and the automation of data flows.

In 2021, we did our best to maintain high acquisition of new companies. The corporate client base (K1, K2 and K3) grew by 2,232 companies to 31,315 compared with December 2020. Client acquisition grew by 7.7% year on year. This dynamic acquisition together with the state aid granted to companies as part of counteracting negative consequences of the pandemic translated into rise of the value of funds accumulated in current accounts with mBank. The high volume of current deposits is a springboard for continued development of transactional banking.

In June 2021, we implemented ApplePay, GooglePay and GarminPay services for corporate cards, enabling cardholders to pay with their phones and selected smartwatches. This is a popular solution which can be used across multiple devices. The benefits for clients include time savings, convenience and security of transactions.

#### eCommerce and the Paynow gateway

We want to be the bank of first choice for clients who are dynamically growing their sales in both traditional and modern channels. Paynow is a fast, reliable and state-of-the-art gateway embedded in the cloud and connected to mBank's electronic banking systems. Clients can easily integrate the gateway with their online shops thanks to the API and plug-ins for major retail platforms. We support all the most popular payment methods while maintaining the highest security standards. We guarantee very high availability of the service, top performance and load resistance. All these features were successfully tested during the 29th Grand Finale of the Great Orchestra of Christmas Charity in 2021 which was unusual as it was mostly held online.

An additional advantage that supports the choice of our product is its integration with banking systems. We make sure that corporate clients can take advantage of the speed and ease of settlements provided by a coherent and complete combination of a payment gateway and banking services.

Paynow is the only fully cloud-based payment gateway in Poland. We are constantly developing the technology and expanding the range of options to support conversion. We strive to help online shops sell more, sell easier and more effectively, which is why we introduced improvements that maximise the success of transactions, such as abandoned shopping cart recovery. We also support our clients' sales thanks to the innovative mDeals project used by 2.5 million of our retail clients. This is an unusual match of supply and demand on the Polish market. Our efforts produced expected outcomes. Transaction volumes continued to increase in 2021: turnover increased more than 40-fold in the final months of 2021 compared to the early months of the year.

## Products and services on offer

### Corporate loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) stood at PLN 28,215.0 million at the end of 2021, representing an increase of 1.0% year on year.

PLN M	31.12.2019	31.12.2020	31.12.2021	Annual change
Loans to corporate clients <sup>1</sup>	28,949	27,932	28,215	1.0%
Loans to enterprises <sup>2</sup>	28,797	27,966	28,842	3.1%
Loans granted to local governments	200	84	34	-59.6%
Market of loans to enterprises	383,963	367,145	385,593	5.0%
mBank's share in the market of loans to enterprises	7.5%	7.6%	7.5%	

<sup>1</sup> The bank, excluding reverse repo transactions.

<sup>2</sup> NBP category which ensures comparability of results of the banking sector.

### Corporate deposits

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 43,668.8 million at the end of 2021, representing an increase of 25.8% year on year. In 2021 we maintained a reduced level of interest on selected bank accounts dedicated to corporate clients. We reduced it in 2020. We also kept additional fees for maintaining balances and applied some minor changes to them compared to 2020. They involved balances in both PLN and foreign currencies. It resulted in a significant decrease in corporate deposits, especially in December 2021.

PLN M	31.12.2019	31.12.2020	31.12.2021	Annual change
Corporate deposits <sup>1</sup>	35,041	34,723	43,669	25.8%
Deposits of enterprises <sup>2</sup>	32,770	36,836	46,795	27.0%
Deposits of local governments	164	173	265	53.2%
Market of deposits of enterprises	330,076	393,893	436,882	10.9%
mBank's share in the total deposits of enterprises	9.9%	9.4%	10.7%	

<sup>1</sup> The bank, excluding repo transactions.

<sup>2</sup> NBP category which ensures comparability of results of the banking sector.

### Renewable Energy Sources (RES)

mBank continued with green transition in 2021. Our activities included, among others, financing investments in renewable energy sources. Following the introduction of the mBank S.A. Credit Policy on Financing Renewable Energy Source Systems in December 2018, we increased (doubled to PLN 4 billion) the limit in 2020. In 2021, we liberalised the RES policy to allow for the financing of RES projects for clients in the SME segment and the financing of projects outside the auction support scheme.

In 2021, mBank financed 6 investments in photovoltaics (PV) and 4 investments in wind farms. Almost PLN 800 million was allocated for such investments. At the end of the year, mBank's RES portfolio reached PLN 2.7 billion (compared to PLN 2.0 billion at the end of 2020) and the utilisation of the RES limit (since the introduction of the Policy) was 68.5%.

In addition, mBank arranged (as sole arranger and dealer) a PLN 1 billion bond issue programme for the photovoltaic company R.Power Sp. z o.o.

### Fast credit process

For K2 and K3 segment clients applying for financing up to PLN 6 million, we implemented a simple credit process which allows them to obtain financing quickly. The process significantly reduced the range of documents required from clients and the time to a decision. We introduced a contract generator which helps to prepare credit documentation for clients and reduces the risk of errors on the part of the bank. At



the same time, mBank continuously modifies its offer of credit products aligning them with the needs of our clients.

#### De minimis guarantees

The bank continued to implement the portfolio de minimis guarantee line (PLD) agreement under the government programme "Supporting entrepreneurship with BGK guarantees and sureties". As at 31 December 2021, the utilised limit amounted to PLN 2,493.12 million.

On 25 June 2018, mBank signed another portfolio de minimis guarantee line agreement (PLD-KFG) as a continuation of the previous agreement (PLD). The de minimis guarantee limit granted to mBank under the PLD-KFG agreement amounts to PLN 6,200 million. As at 31 December 2021, the utilised limit amounted to PLN 4,416.6 million.

#### COSME

We continued to implement a portfolio guarantee line with a counter-guarantee from the European Investment Bank under the COSME programme (the European Union's programme for the competitiveness of enterprises 2014-2020). The guarantee limit granted by BGK to mBank is PLN 2,000 million. As at 31 December 2021, the utilised limit amounted to PLN 1,555.07 million.

In the corporate area, we also continued in 2021 with the following:

- BiznesMax portfolio guarantee line agreement (FG POIR). The guarantee limit granted to mBank under the agreement with BGK amounts to PLN 380 million. As at 31 December 2021, the utilised limit amounted to PLN 305.4 million;
- portfolio liquidity guarantee line agreement (FGP). The guarantee limit granted to mBank under the agreement with BGK amounts to PLN 11,000 million. As at 31 December 2021, the utilised limit amounted to PLN 2,189.1 million;
- agricultural portfolio guarantee line agreement (FGR). The guarantee limit granted to mBank under the agreement with BGK amounts to PLN 35 million. As at 31 December 2021, the utilised limit amounted to PLN 28.1 million.

#### Issue of debt securities for corporate clients

The share of mBank in the non-treasury debt market as the end of November 2021 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
<b>mBank (PLN M)</b>	<b>300.0</b>	<b>10,023.52</b>	<b>9,052.83</b>
Market (PLN M)	16,870.51	96,864.13	46,456.8
Market share	<b>1.8%</b>	<b>10.3%</b>	<b>19.5%</b>
Market position	#5	#4	#2

Source: Fitch Polska Newsletter, November 2021

The largest issue in 2021 on the corporate securities market was the placement of a tranche of Dino Polska bonds in the amount of PLN 200 million. Another significant transaction was the issue of bonds of Echo Investment in two tranches of PLN 367 million total.

The bank also carried out a number of other issues independently or in a consortium: Develia (PLN 250 million), RPower (PLN 175 million), Kruk (PLN 330 million), Cognor (PLN 200 million), Toyota Leasing (PLN 300 million), Ghelamco (365 PLN million), Robyng (PLN 150 million), EFL (PLN 300 million), Santander Multirent (PLN 160 million), Marvipol (PLN 116 million).

mBank Hipoteczny issued two tranches of covered bonds for the total amount of PLN 600 million.

#### Transactional banking

Cash management is an area of Corporate Banking offering state-of-the-art solutions to facilitate planning, monitoring, and management of highly liquid assets, cash processing, as well as electronic banking. The solutions streamline daily financial operations, enhance effective cash flow management, and help to optimise interest costs and income.

mBank's vast and ever-expanding range of cash management products and services supports long-term relationships with clients. It is reflected by the following data:

Number of outgoing foreign transfers	+14.7%
Number of incoming foreign transfers	+15.9%
Number of corporate cards	+3%
Number of active mCompanyNet users	+7%

We are working to digitise and automate mass processes, thus taking care of the environment as well as time and resources. We are constantly expanding our system with new modules and functions. We want our clients to be able to do as much as possible on their own without having to contact the bank.

#### Virtual Branch

The Virtual Branch is an integral part of the mBank CompanyNet system where clients can submit electronic applications to the bank in the key areas of bank-client interactions. The Virtual Branch is where clients can now handle most matters digitally. In 2021, clients were even more willing and more likely to use remote channels of the bank, resulting in a 97% year-on-year increase in the number of matters handled digitally. In many cases, electronic processes accounted for 100% of all processes, eliminating paper document circulation. We digitised 7 processes in the Virtual Branch. As a result, 45 of the most labour-intensive processes involving the client and the bank can now be carried out fully electronically. We are working on digitising more processes. With the initiatives we have taken, we have reduced labour intensity and streamlined processes in the bank. The modifications introduced have generated not only savings but above all increased satisfaction of clients who are served immediately.

#### Activity of the Financial Markets Sales Department

In 2021 we continued the initiatives supporting the digital transformation of sales processes. They were designed to improve our competitive advantage in customer service provided to both corporate and retail clients. Thanks to expeditious introduction of improvements, effective onboarding and constant efforts focused on strengthening relationships with clients, we reported a rise in the number of transactions as well as in the volume of product sales and the resulting income.

- Cross-selling of financial market products translated into higher margins on transactions with corporate clients, which rose by 9.1%. Excluding deposits, the rise accounted for 19.0%.
- Helped by constantly rising efficiency, the number of active clients reached 4,600, which represents an average increase by 14.3% monthly.
- For the commodity team 2021 was largely marked by a dynamic growth in margins on the existing client portfolio. Compared with 2020, margins on commodity products surged by 142% in 2021. The total margin on commodity transactions reached an all-time high of PLN 17.7 million. The number of new clients entering into commodity transactions went up by 39 (pushing the total number of active clients up to 121).
- The project team participated in more than 200 projects and concluded hedging transactions in 81 projects in 2021. These included 34 structured finance projects, 39 CRE (commercial real estate) projects, and 8 RES (renewable sources of energy) projects. Moreover, in 2021 we worked on bringing the cross-selling of derivatives into compliance with the requirements of MiFID II and the guidelines and recommendations of the Polish Financial Supervision Authority (KNF).
- The extension of our dealing desk and stronger cooperation with business lines in the Retail Client Sales Division resulted in margins going up by 21% year on year in 2021. As a result of the introduction of client onboarding supported by the Contact Centre and numerous marketing campaigns, there was a climb in the number of active clients using this service. The number of corporate clients grew by 17.8% year on year (over 33,000 clients), while the number of retail clients increased by 30.0% year on year (over 137,000 clients).

mBank's market shares in specific financial instrument markets as of December 31, 2021, are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	11.0%	19.9%

### Financial Institutions

Banking financial institutions are served by mBank's Financial Clients Department (DKF). Our work focuses, among others, on raising financing from other banks and offering settlements in the Polish złoty (PLN). We also provide the possibility to deposit surplus funds with other banks, and extend financing to banking clients.

As at December 31, 2021, mBank had four active loans from other banks worth PLN 3,011 million in total. In 2021, the bank prepaid three EUR loans with a total value of PLN 1,380 million. mBank's total debt on account of loans from other banks was by PLN 124 million higher than at the end of 2020 due to a clear weakening of the zloty against the Swiss franc in late 2021.

At the end of December 2021, the total value of loans granted by mBank to other banks reached the equivalent of PLN 110.5 million, up by PLN 8.9 million on 2020. mBank's portfolio included active short and medium-term loans granted to other banks from Poland and abroad.

mBank maintains healthy business relationships with banking clients and renders high quality services. Its position in handling PLN settlements remains strong.

Furthermore, in 2021 the Financial Clients Department focused its efforts on actively supporting commercial transactions concluded by Polish exporters. The support included, in particular, adequate short-term financing offered to banking financial institutions and assumption of transaction risk. At the same time, we continued to serve medium-term loans secured with KUKE insurance policies extended to banks from the Commonwealth of Independent States.

The challenges posed by the Covid-19 pandemic that forced us to change our work model continued throughout 2021. Our relationships with correspondent banks remained undisturbed. We moved direct contacts and meetings online and served clients via emails or at videoconferences. Our goal was to arrange and hold online meetings with clients whenever possible; however, some meetings were held face to face. It has been our ambition to maintain customer service standards at the pre-pandemic level. The experience and skills gained recently enable us to foster even stronger relationships with banks.

### Custody services

mBank provides services including:

- settlement of transactions in securities registered in local and foreign markets;
- safe-keeping of clients' assets;
- maintenance of securities accounts and registers of securities in non-public trading;
- maintenance of asset registers of pension funds and investment funds;
- monitoring the valuation of clients' assets.

mBank's custody clients are mainly local and foreign financial institutions, in particular investment and pension funds, another banks offering custodian and investment services, insurance companies, asset management institutions and nonfinancial institutions. In 2021, the number of served investment funds decreased by 8.0% year on year.

## 8. Activities of subsidiaries of mBank Group

### 8.1. Summary of financial results of mBank Group subsidiaries

In 2021, the profit before tax generated by mBank Group's subsidiaries amounted to PLN 256.8 million, compared with PLN 65.9 million in the previous year.

The increase in the profit before tax in annual terms resulted mostly from lower loan loss provisions, as well as higher interest income and non-interest income, which translated into improved result of mLeasing.

The table below presents the profit before tax posted by individual subsidiaries in 2021 compared with 2020.

PLN M	2020	2021	Change in PLN M	Change in %
mFinanse	30.7	55.2	24.5	79.7%
mLeasing <sup>1</sup>	9.4	150.0	140.6	1,488.7%
mBank Hipoteczny	20.1	30.2	10.1	50.0%
mFaktoring	12.6	27.5	14.9	118.7%
Other <sup>2</sup>	-6.9	-6.0	0.9	-12.8%
<b>Total gross profit of mBank's subsidiaries</b>	<b>65.9</b>	<b>256.8</b>	<b>190.9</b>	<b>289.7%</b>

<sup>1</sup> Includes result of Asekum Sp. z o.o. and LeaseLink Sp. z o.o.

<sup>2</sup> In 2020, "Other" subsidiaries included mElements, Tele-Tech Investment, Future Tech and G-INVEST.

In August 2021, the Group has sold Tele-Tech Investment. In consequence, in 2021 the "Other" category covers mElements, Future Tech and G-INVEST.

### 8.2. Business activity of selected subsidiaries



In 2021 sales and financial results rebounded. Positive sales trends were observed since the beginning of the year. The economic situation, customer sentiment, low interest rate policy, and wide availability of financial products propped up sales of mortgage loans and unsecured products in the consumer loan area. The strong sales of mortgage products observed throughout the year were driven by a higher number of real estate development projects offered for sale, attractive borrowing terms, and an increasing number of real estate purchases for investment purposes. On the one hand, increased consumption and higher salaries encouraged more clients to use unsecured products, in particular cash loans. On the other hand, however, markets were struggling with a shortage of raw materials essential in the production of goods, e.g. cars. This in turn had a negative impact on the providers of car purchase financing services. In addition to higher demand, sales volumes in 2021 were also impacted by more relaxed lending criteria and a widespread marketing campaign promoting mBank products. All these factors boosted sales in the majority of product groups.

In 2021 the open platform for selling financial products mFinanse was focused on its core activity of a credit broker. The sales of mortgage loans reached PLN 2,915.1 million in 2021, up from PLN 2,365.8 million recorded a year before (+23.2%). In the analysed period we also reported rising sales of cash loans. The sales of loans offered by mBank surged by 119% to PLN 671.3 million in 2021 compared with PLN 306.5 million a year before. Profit from sales of car loans dedicated to car dealers fell by 29.2% year on year to PLN 193.7 million, down from PLN 273.8 million in 2020. In 2021 sales in the car lease area grew by 27.5% compared with 2020 to PLN 116.1 million (PLN 91.1 million in 2020).

mFinanse's profit before tax in 2021 amounted to PLN 44.7 million against PLN 30.7 million a year before. The increase was helped by booming sales of credit products. The performance was also positively affected by the sale of organised parts of the enterprise in the insurance area completed in the previous years.

During the pandemic mFinanse took measures vital to maintaining business continuity. First of all its actions were aimed at protecting the health and safety of its employees, business partners and clients. The subsidiary carried on with these measures throughout 2021. The head office employees continued to work from home. The subsidiary's brick-and-mortar branches, kiosks, and partner outlets continued to operate in line with security rules established in compliance with the guidelines of the Ministry of Health.

## m Leasing

The value of contracts concluded by mLeasing reached PLN 6,495.5 million in 2021, up from PLN 5,128.7 million recorded a year before. This constitutes an increase of 26.7% year on year. The value of contracts regarding movables concluded in 2021 reached PLN 6,297.5 million, up from PLN 4,961.6 million recorded a year before (+26.9%). The value of contracts regarding real property reached PLN 198.0 million, up from PLN 167.1 million recorded in 2020 (+18.5%).

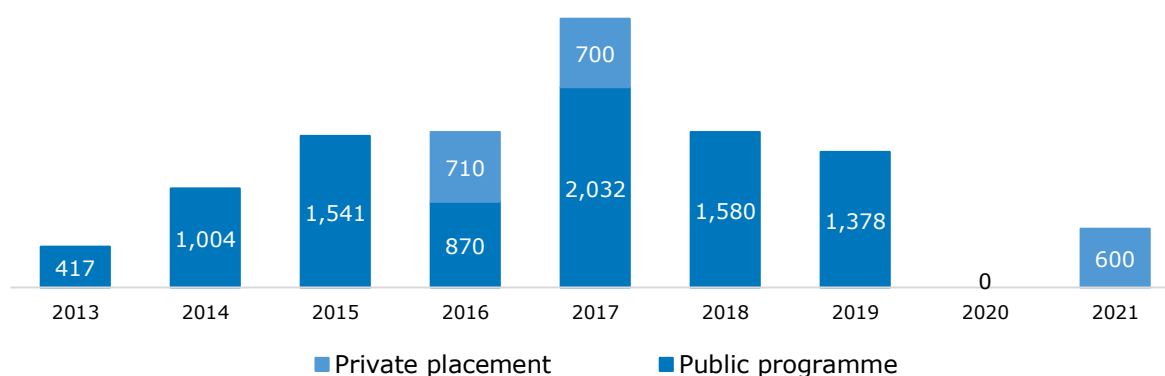
The subsidiary's 2021 profit before tax amounted to PLN 150.0 million, which is a significantly higher figure than the 2020 profit before tax of PLN 9.4 million. Revenues in 2021 were 22.0% higher than in 2020 (PLN 366.2 million in 2021 compared with PLN 300.2 million in 2020) and risk costs were lower by PLN 75.5 million. Credit risk costs in 2021 amounted to PLN 170.2 million, compared with PLN 94.7 million in 2020.

In view of the COVID-19 pandemic, we offered our clients the possibility of reducing three to six leasing instalments since 2020. The use of an automatic process to handle our clients' applications allowed us to streamline the decision-making process. At the end of 2021, forbearance applications were filed with respect to 2% of the portfolio. Throughout 2021 we applied looser conditions for granting new financing than in the corresponding period of the previous year. This is due to the improved economic situation, which positively translated into higher resilience of clients after the first pandemic period of 2020.

## m Bank Hipoteczny

In 2021, mBank Hipoteczny based its loan portfolio development on a pooling model in the retail area. The subsidiary implements it in the formula of close cooperation with mBank, i.e. with the sales being carried out by mBank's forces. In 2021, 9 pooling transactions were conducted in the retail portfolio, for a total amount of PLN 1,756.03 million. At the end of December 2021, the gross value of mBank Hipoteczny's loan portfolio amounted to PLN 11.8 billion, compared to PLN 11.5 billion at the end of 2020. This translates into an increase of 2.5%. The faster than anticipated growth rate of the retail loan portfolio had a direct impact on the higher value of the portfolio.

**Covered bonds issues in 2013-2021 (PLN million)**



The subsidiary posted a profit before tax of PLN 30.2 million, which represents a 50.0% increase on 2020. The rise was driven mostly by a major drop in impairment losses on loans, which stood at PLN -2.4 million (including guarantees) at the end of 2021 compared with PLN -42.3 million in 2020.

The year-on-year decrease in impairment losses was helped by growing stability and a stop to the growth in Covid-driven impairment losses on the commercial portfolio as well as by the release of impairment losses recognised on the retail portfolio thanks to, among others, the implementation of the new definition of default, and changes in the LGD and PD parameters.

In 2021 mBank Hipoteczny continued to follow the new work rules introduced in early 2020 to curb the spread of Covid-19. In accordance with the rules the employees work from home, while those who cannot perform their duties remotely take shifts in the office, adhering to all safety measures. The purpose is to ensure safety while maintaining business continuity.

Apart from the new working patterns, mBank Hipoteczny also developed support measures for corporate and retail clients. The latter were enabled to suspend the payment of their principal or principal and interest instalments for up to six months. In addition, a loan payment holiday could be easily applied for online. In the case of corporate clients, applications for support were considered on an individual basis. In 2021

mBank Hipoteczny recorded a considerable drop in the number of applications in both the retail portfolio (0.75% of retail borrowers submitted applications in 2021 vs. 10% in 2020) and the corporate portfolio (13% in 2021 vs. 42% in 2020).

Additionally, since June 24, 2021, mBH has been processing loan payment holiday applications in line with Articles 31fa-31fc of the Act on Interest Subsidies for Bank Loans Granted to Provide Financial Liquidity to Entrepreneurs Affected by the Effects of Covid-19 and Amendments to Certain Other Acts (so-called Shield 4.0). As at December 31, 2021 clients filed 24 applications for support (including 9 in 2021), while the subsidies were granted to 22 borrowers (including 8 in 2021).



## **Faktoring**

Despite the Covid-19 pandemic, in 2021 the subsidiary continued to grow dynamically and broke new business records. Its turnover (the value of purchased invoices) was historically high at PLN 29.8 billion. Compared to 2020, the turnover grew by 25.0%, similarly to the entire market (25.8%). The subsidiary has retained its fifth position among factoring companies in Poland. According to the Polish Factors Association's data, the subsidiary's market share remained on the same level as in 2020 and amounted to 8.2% in 2021.

In 2021, mFaktoring acquired 174 new clients, up by 22% compared with the previous year. The total volume of new agreements totaled PLN 665.7 million, which represents an increase by 136%. In April 2021, mFaktoring lifted the limitations pertaining to some products on offer and restrictions on selected entities' access to financing introduced in 2020. In 2021, especially from Q2, clients' interest in working capital financing, including factoring products, grew noticeably. Companies which obtained funds under PFR shields resumed their investments. The higher sales volume and interest in factoring were supported by increasing market prices of raw materials.

In 2021, mFaktoring continued to cooperate with BGK as part of the liquidity guarantee programme. The programme secures factoring limits granted to ensure financial liquidity of mFaktoring's clients. The BGK programme has been extended by June 30, 2022.

During the Covid-19 pandemic, the subsidiary performs all processes remotely. mFaktoring continues to exercise enhanced monitoring of the receivables portfolio. Compared with the beginning of the pandemic, the subsidiary did not observe any significant changes in the receivables portfolio or a material risk increase in this area. There were also no signals of a clear deterioration in the payment discipline among the largest recipients in the mFaktoring portfolio. In 2021, the subsidiary did not create any impairment losses in connection with the Covid-19 pandemic.

Dynamic business development gave a boost to the subsidiary's financial performance. In line with the IFRS Condensed Consolidated Financial Statements of mBank S.A. Group for 2021, the profit before tax of mFaktoring for 2021 stood at PLN 27.5 million compared with PLN 12.6 million in 2020.



## 9. Risk management

### 9.1. Risk management foundations

mBank Group manages risk on the basis of regulatory requirements and best market practice by developing risk management strategies, policies and guidelines.

The risk management process is conducted at all levels of the organisational structure, starting at the levels of the Supervisory Board (including Risk Committee of the Supervisory Board) and the bank's Management Board, through specialised committees and organisational units responsible for risk identification, measurement, monitoring, control and reduction, down to each business unit.

Risk management roles and responsibilities in mBank Group are organised around **the three lines of defence scheme**:

- The first line of defence is **Business** (business lines), whose task is to take risk and capital aspects into consideration when making all business decisions, within the risk appetite set for the Group;
- The second line of defence, mainly the **organisational units of the risk management area, Security and Compliance function**, creates framework and guidelines concerning managing individual risks, supports and supervises Business in their implementation and independently analyses and assesses the risk. The second line of defence acts independently of the Business;
- The third line of defence is **Internal Audit**, which independently assesses risk management activities performed by the first and the second line of defence.

In the communication between organisational units in the risk management area and business lines in mBank, as well as between the bank and the Group subsidiaries, an important role is played by the **Business and Risk Forum of mBank Group** which is constituted by the Retail Banking Risk Committee, Corporate and Investment Banking Risk Committee, and Financial Markets Risk Committee. The main function of these committees is to develop the principles of risk management and risk appetite in a given business line, by making decisions and issuing recommendations concerning in particular: risk policies, risk assessment processes and tools, risk limit system, assessment of the quality and profitability of the portfolio of exposures to clients, approval of introducing new products to the offer.

The management function at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types are performed in the risk management area supervised by the Deputy Chairman of the Management Board, Chief Risk Officer.

The Risk management strategy of mBank Group is based on three pillars:

- **We support sustainable growth** i.a. through the development of tools and processes designed from the client's perspective. In our credit decisions, policies, expansion and portfolio structure, we take into account the impact on the natural environment and the community in which we operate. In the dialogue with the Business, we indicate the directions of acquisition and expansion in order to jointly build a diversified loan portfolio with a significant share of prospective and responsible sectors and segments. We finance clients' needs responsibly, educate them and transparently communicate the decisions. We develop solutions in a dialogue with the client and for the sake of good loan portfolio quality.
- **We pursue prudent and stable risk management**, i.a. by shaping a safe and profitable balance sheet and managing risk in an integrated manner. We monitor newly emerging risks and build the competences of our employees in this area. We develop the ability to manage ESG and cyber risk.
- **We are developing the risk management area in response to the challenges of a changing world.** We are passionate about new technologies. We experiment to increase the level of automation and digitalization of our processes. We draw conclusions and learn from mistakes. We promote the development of a risk culture at mBank, broad understanding of risk and the importance of multi-faceted looking into the future. We learn having in mind the future needs in changing conditions.



## 9.2. Main risks of mBank Group's business

The Management Board of mBank takes measures to ensure that the Group manages all material risks arising from the implementation of the adopted strategy of mBank Group, in particular, through approving strategies and processes for managing material risks in the Group.

The following risks were recognized as material in the Group's operations as of December 31, 2021: credit risk, risk of foreign currency credit portfolio (associated with actual or potential threat to the bank's results and capital related to foreign currency mortgage loans granted to unsecured borrowers until 2012), operational risk, market risk, business risk (including strategic risk), liquidity risk, compliance risk, reputation risk, model risk, capital risk (including risk of excessive leverage) and tax risk.

The following sections present the rules of managing credit, market, liquidity and operational risk in mBank Group.

### Credit risk

The bank organises credit risk management processes in line with the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (PFSA) (in particular Recommendation S, T and C), EBA's Guidelines on loan origination and monitoring and CRR/CRDIV, which address issues related to credit risk management.

#### Tools and measures

Credit risk inherent in financing of mBank Group clients is assessed based on shared statistical models developed for the AIRB (Advanced Internal Rating-Based) approach and uniform tools, and is based on common definitions of terms and parameters used in the credit risk management and rating process. The bank ensures their cohesion at the Group level.

The Group uses different models for particular client segments. The rules governing clear assignment of clients to a system are defined in the bank and the Group subsidiaries internal regulations.

In their credit risk management process, the bank and the Group subsidiaries use the core risk measures defined under the AIRB approach:

- PD – Probability of Default (%);
- LGD (Loss Given Default) – estimated relative loss in case of default (%);
- EAD (Exposure at Default) – estimated exposure at the time of default (amount);
- EL – Expected Loss taking into account the probability of default (amount);

and related measures including:

- RD (Risk Density) – relative expected loss defined as EL to EAD (%);
- LAD (Loss at Default) – estimated loss (amount) in case of default (the product of EAD and LGD).

In the decision-making process, for reporting and communication with business units, PD and EL are expressed in the language of rating classes whose definitions (Masterscale) are uniform across Commerzbank Group.

In its credit risk management process, the bank also attaches great importance to the assessment of unexpected loss. For this purpose, the bank uses the RWA (Risk Weighted Assets) measure, which is applied, under the AIRB approach, to calculate regulatory capital required to cover credit risk (unexpected loss).

In managing mortgage-secured credit exposures the Group uses the LtV ratio (Loan to Value), i.e. the value of the loan to the market value (or mortgage banking calculated value) of the real estate which secures the loan.

Stress testing is an additional tool of credit risk assessment. Stress testing of the regulatory capital and economic capital required to cover credit risk is carried out quarterly.

In addition to the tools listed above, which are applied both in the corporate and in the retail credit risk measurement, the Group uses tools specific to these areas.

**For corporate credit risk** the Group defines maximum exposure to a client/group of related clients using the following credit risk mitigating measures:

- MBPZO (Maximum Safe Total Exposure), which defines the maximum level of financial debt of an entity from financial institutions calculated under the bank's methodology, approved by the bank's competent

decision-making body. An alternative measure used by the bank to clients applying for small exposure is Borrowing Capacity (BC);

- LG (General Limit), which defines the level of credit risk financial exposure to a client/group of related clients acceptable to the Group, approved by the bank's competent decision-making body. LG includes a structured limit and products granted outside the structured limit.

In order to minimise credit risk, the Group uses a broad range of collateral for credit products, which also enable active management of the capital requirement. In the assessment of the quality of collaterals for risk products, mBank and mLeasing use the MRV ratio (Most Realistic Value) reflecting the pessimistic variant of debt recovery from the collateral through forced sale.

The level of profitability from relations with clients is taken into account in credit decision process, so that the planned level of profitability covers at least the estimated amounts of the expected loss on bank customer involvement.

**Retail credit risk** measures are constructed to reflect the characteristics of this customer segment and, in the case of portfolio measures, the high granularity of the loan portfolio:

- DtI (Debt-to-Income) - i.e. monthly credit payments to the net income of a household (used for individual customers);
- DStI (Debt-Service-to-Income) - the ratio of actual yearly credit charges and other financial burdens to the applicant's yearly net income (ratio used only for individual customers);
- DPD (Days-Past-Due) - a family of portfolio risk measures based on the number of days past due date (e.g. share of contracts which are from 31 to 90 days past due date in the total portfolio by number or by value);
- Vintage ratios, which present the quality of cohorts of loans grouped by disbursement time at a different phase of their lifetime;
- CoR (Cost of risk) - cost of risk for a loan portfolio (segment), i.e. ratio of credit provisions result (or changes in valuation of contracts based on fair value approach) to the exposure;
- Roll-rates, which measure the migration of contracts between days-past-due brackets (1-30, 31-60, 61-90 DPD, etc.).

### Strategy

#### *Corporate and Investment Banking*

In accordance with the Corporate Credit Risk Management Strategy in mBank Group, the main goal in this area is defining a safe level of risk appetite in sales of risk-bearing products to the Group clients and use synergies by integrating the offer of the bank and Group subsidiaries. The Corporate Credit Risk Management Strategy takes into account the statements of the mBank Group Strategy for 2020-23, which sets out key business initiatives and actions in the coming years based on 4 strategic pillars: Customer (acquisition and development of long-term relationships), Platform (ecosystem and user experience), Efficiency (operational), Employees and organizational culture.

The Corporate Risk Management Strategy is realised by credit risk policies, limits reducing the risk and the principles of risk assessment of business entities applying for financing. The bank manages credit risk both at the single entity level and the consolidated level.

The Group actively manages credit risk aiming to optimise profitability taking into account the cost of risk. In its current credit risk management, including concentration risk, the bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

The bank monitors credit portfolio on a quarterly basis including an analysis of the dynamics of change in size and (sector) segmentation of the credit portfolio, client risk (analysis of PD rating), quality of collateral against credit exposures, the scale of change in EL, Risk Density, and default exposures.

The Group strives to avoid concentration in industries and sectors where credit risk is considered excessively high. The bank uses internally defined industry limits for day-to-day management of the sector concentration risk.

In compliance with the Recommendation S of the Polish Financial Supervision Authority (PFSA), the bank has identified a mortgage-secured credit exposure portfolio in retail and corporate banking and applies the Mortgage-Secured Credit Exposure Risk Management Policy. The bank manages the mortgage-secured credit exposure portfolio risk with a focus on defining an optimised portfolio structure in terms of quality (rating), currencies, country regions, tenors, and types of properties.

mBank offers innovative investment products as part of a new integrated platform that ensures appropriate product selection and efficient use of capital.

Developing its lending activities, the Group considers environmental, social and corporate governance impacts and incorporates ESG considerations into its credit risk processes and policies.

On regular basis the bank adapted credit risk policies and the credit risk management process to the economic situation caused by the COVID-19 pandemic.

#### *Retail Banking*

Lending in retail banking is a key segment of the Group's business model, both in terms of the share in total assets and the contribution to its profits.

As credit exposures are highly granular (more than 2 million active loans), the retail banking credit risk management process is based on a portfolio approach. This is reflected in the statistical profile of risk rating models including the models which fulfil the regulatory requirements of the Advanced Internal Ratings-Based approach (AIRB). The AIRB parameters (PD, LGD and EL) are used widely in order to estimate credit requirements, to determine acceptance criteria and terms of transactions, and to report risks.

Furthermore, the Retail Banking credit risk management has the following characteristics:

- high standardisation and automation of the credit process, including decision-making, both in acquisition, post-sale services, and debt collection;
- little (as compared to Corporate Banking) discretionary competences in the decision-making process (e.g. no discretionary adjustment of clients' ratings);
- extensive risk reporting system based on portfolio analysis of credit exposure quality, including vintage analysis and roll-rates analysis.

The main point of reference in the retail banking credit risk management process is risk appetite defined in correlation with the strategy of mBank Group. The general principle underlying the lending strategy of the Group in terms of sales of retail loans is to address the offer to clients who have an established relationship with the bank or to address it to new clients for whom the loan is a product initiating a long-term relationship of highly transactional nature. Thereby, the bank continues to focus its non-mortgage loans policies on lending to existing clients with a high creditworthiness. To reduce risks associated with new clients, the bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

The new acquisition focuses on products which may be financed with issue of mortgage bonds. Those exposures will then be transferred to mBank Hipoteczny in the pooling process to enable the issue of mortgage bonds. The conservative policy of assessing borrowers' reliability and creditworthiness is applied; taking into account, inter alia, current, historically lowest, levels of interest rates, the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness.

In order to mitigate the risk associated with a decrease in the value of mortgage collateral in relation to the value of credit exposure, the Group's credit offer is (and will be) directed mainly to clients who buy standard properties within large urban areas.

Bank adapted its current credit policy for mortgage loans and non-mortgage loans segment to expected economic downturn caused by COVID-19 pandemic. Changes in credit policy address most probable risks:

- lower net income of customers,
- lower turnover on the customer's accounts,
- increased interest rates
- increased unemployment rate,
- permanent or temporary deterioration of financial standing in particular sectors particularly exposed, in opinion of the bank, to the negative effect of the pandemic

#### Quality of mBank Group loan portfolio

As of December 31, 2021, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) decreased to 3.9% from 4.8% at the end of 2020. The change of the indicator applies to both business lines, but is mainly visible in corporate banking. The decrease of the ratio results from the realization of debt collection processes.

In accordance with the EBA guidelines on management of non-performing and forborne exposures, which came into force from June 30, 2019, banks are obliged to monitor and manage the NPL portfolio. Banks should strive to maintain the value of the NPL portfolio below the threshold set by the regulator at 5%. As of December 31, 2021, the NPL<sub>REG</sub> ratio (ratio calculated according to EBA guidelines) was at 3.6%.

Provisions (defined as credit risk costs for loans and advances to customers, i.e. provisions for loans and advances at amortised cost and fair value change of loans and advances mandatorily at fair value through profit or loss) decreased from PLN 3,962.6 million at the end of December 2020 to PLN 3,346.7 million at the end of December 2021.

Coverage ratios of non-performing loans and advances (coverage ratio and coverage ratio including provisions for performing loans) decreased in the analysed period respectively from 58.2% and 72.2% in December 2020 to 53.1% and 70.4% in December 2021. The change of the indicators applies to corporate banking and is caused by processes of significant write-offs and sales towards non-performing exposures with high coverage ratio and by the increase in new exposures in Stage 3, which are characterized by a lower coverage ratio.

The manner of identifying evidence of default is based on all available credit data of a given client and encompasses all of the client's liabilities towards the bank.

The table below presents the quality of mBank Group loan portfolio as at the end of December 2020 and as at the end of December 2021.

Loans and advances to clients 31.12.2020 (PLN ('000))	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	120,080,864	1,314,147	121,395,011
Non-performing loans and advances	4,574,022	181,449	4,755,471
Non-performing loans ratio (NPL)	3.8%	13.8%	3.9%
Provisions for non-performing loans	-2,396,983	-129,218	-2,526,201
Provisions for performing loans	-781,127	-39,344	-820,471
Coverage ratio	52.4%	71.2%	53.1%
Coverage ratio, including provisions for performing loans	69.5%	92.9%	70.4%

Loans and advances to clients 31.12.2020 (PLN ('000))	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	111,778,636	2,015,959	113,794,595
Non-performing loans and advances	5,024,146	423,905	5,448,051
Non-performing loans ratio (NPL)	4.5%	21.0%	4.8%
Provisions for non-performing loans	-2,902,799	-265,583	-3,168,382
Provisions for performing loans	-738,027	-56,211	-794,238
Coverage ratio	57.8%	62.7%	58.2%
Coverage ratio, including provisions for performing loans	72.5%	75.9%	72.7%

**Non-performing loans and advances** - loans and advances at amortised cost with impairment (stage 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default

**NPL ratio** - loans and advances at amortised cost with impairment (stage 3 and POCI) and loans and advances mandatorily at fair value through profit or loss in default in the whole portfolio

**Provisions for non-performing loans** - provisions for loans and advances at amortised cost with impairment (stage 3 and POCI) and fair value change of loans and advances mandatorily at fair value through profit or loss in default

**Provisions for performing loans** - provisions for loans and advances at amortised cost without impairment (stages 1 and 2) and fair value change of non-default loans and advances mandatorily at fair value through profit or loss

**Coverage ratio** - coverage ratio of loans and advances related to the portfolio in default.

## Market risk

In the process of organisation of the market risk management, the bank follows requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and the EBA guidelines, concerning market risk management.

### Tools and measures

In its operations, the bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of financial instruments in the bank's portfolios due to changes of the market risk factors, in particular:

- interest rates (IR);
- foreign exchange rates (FX);
- stock share prices and indices;
- implied volatilities of relevant options;
- credit spreads (CS) to the extent reflecting market fluctuations of debt instruments prices.

In terms of the banking book, the bank distinguishes the interest rate risk, which defines as the risk of an adverse change in both the current valuation of the banking book position and the net interest income as a result of changes in interest rates.

For the purpose of internal management, the bank quantifies exposure to market risk, both for banking and trading book, by measuring:

- the Value at Risk (VaR);
- expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall);
- the Value at Risk in stressed conditions (Stressed VaR);
- economic capital to cover market risk;
- stress tests scenario values;
- portfolio sensitivities to changes of market prices or market parameters (IR BPV – Interest Rate Basis Point Value, CS BPV – Credit Spread Basis Point Value).

For the banking book, the bank also uses the following measures:

- sensitivity of the economic value of capital (delta EVE);
- sensitivity of net interest income (delta NII);
- repricing gap.

### Strategy

The implementation of market risk management strategy involves managing the bank's positions in a way enabling to maintain market risk profile within the risk appetite defined by the bank.

The bank is focused on meeting customers' business needs, while reducing trade in derivatives, as well as applying the principle of lack of commodity open positions.

The bank stabilises interest income using long-term fixed-rate assets and derivatives and assuming - for equity capital and current accounts - the maximum modelled maturity of 10 years.

The main principle stipulates separation between the market risk monitoring and control functions and the functions related to opening and maintaining open market risk positions. In addition, the bank applies the rule of organisational separation between managing banking book and trading book positions.

### Market risk measurement

The mBank's positions constitute the main source of market risk for the mBank Group.

#### *Value at risk*

In 2021, the market risk exposure, as measured by the Value at Risk (VaR for a 1-day holding period, at 97.5% confidence level), remained at a moderate level in relation to the established VaR limits.

The table below presents VaR and Stressed VaR for the Group's and mBank's portfolios (including modelling of equity capital and current accounts):

PLN ('000)	2020				2021			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2020	Mean	31.12.2020	Mean	31.12.2021	Mean	31.12.2021	Mean
VaR IR	11,332	9,169	11,091	9,365	16,199	10,693	15,825	11,024
VaR FX	2,333	1,478	2,196	1,390	2,096	3,312	2,095	3,276
VaR CS	77,291	53,573	76,296	52,497	86,724	63,057	85,154	61,846
<b>VaR</b>	<b>66,246</b>	<b>47,259</b>	<b>66,191</b>	<b>46,512</b>	<b>83,808</b>	<b>59,744</b>	<b>79,934</b>	<b>59,744</b>
<b>Stressed VaR</b>	<b>154,612</b>	<b>134,063</b>	<b>152,842</b>	<b>130,963</b>	<b>139,372</b>	<b>155,427</b>	<b>136,733</b>	<b>153,259</b>

VaR IR – interest rate risk

VaR FX – FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk

The Value at Risk (VaR) was largely influenced by the portfolios of instruments sensitive to the interest rates and the separate credit spread - mainly the portfolios of the Treasury bonds (in the banking and trading books) and positions resulting from interest rate swap transactions.

#### Sensitivities measures

The table presents the values of IR BPV and CS BPV (+1 b.p.) for the Group's and mBank's portfolios, broken down into the banking and trading books (including modelling of equity capital and current accounts):

PLN ('000)	IR BPV				CS BPV			
	mBank Group		mBank		mBank Group		mBank	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Banking book	-1,197	1,199	-1,195	1,302	-13,934	-11,709	-13,739	-11,499
Trading book	-2	112	-2	112	-205	-209	-205	-209
<b>Total</b>	<b>-1,199</b>	<b>1,311</b>	<b>-1,196</b>	<b>1,414</b>	<b>-14,139</b>	<b>-11,918</b>	<b>-13,944</b>	<b>-11,708</b>

The credit spread sensitivity (CS BPV) for the mBank's banking book, results in c.a. 50% from the positions in debt securities valued at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

#### Interest rate risk of the banking book

The sensitivity of net interest income is calculated and monitored over a five-year horizon in the bank's base scenario assuming a normal situation and in more than 20 defined stress-test scenarios. The table below presents the sensitivity of the net interest income within 12 months horizon, assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curves by 100 bps with floor on product level) and based on a stable portfolio over the period.

PLN M	Δ NII*	
	31.12.2020	31.12.2021
PLN	-384.4	-509.0
USD	-9.7	-38.0
EUR	-107.3	-112.2
CHF	+18.3	+2.4
CZK	-54.0	-51.2
Other CCY	-0.8	-7.2
<b>Total</b>	<b>-538.0</b>	<b>-715.3</b>

\* The measure calculated at mBank level. More information on delta NII is included in the IFRS Condensed Consolidated Financial Statements for 2021.



## **Liquidity risk**

mBank organises liquidity risk management processes in line with the requirements resulting from the law and supervisory recommendations in particular the PFSA Recommendations (among others P, C, H and S) as well as EBA guidelines concerning liquidity risk management.

### **mBank Group liquidity position**

In 2021, the liquidity of mBank Group was at a safe, very high level, which was reflected in the high amount of liquid funds.

Strong discipline in balance sheet management caused that mBank Group has maintained a comfortable liquidity position throughout the entire period of crisis, reflected by high levels of liquidity ratios, which were well above the minimum regulatory levels. In 2021, a stable increase of deposit base and a twice lower growth of dynamics of lending growth had a direct impact on strengthening the liquidity position.

### Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e. the risk of losing its ability to honour its payment obligations, arising from the bank's balance-sheet and off-balance-sheet positions, on terms favourable to the bank and at a reasonable price.

The bank has defined a set of liquidity risk measures and a system of limits, buffers and warning thresholds which protect the bank's liquidity in the event of unfavourable internal or external conditions. Independent measurement, monitoring and controlling of liquidity risk is performed daily by the Balance Risk Management Department.

The main measures used in liquidity risk management of the bank include internal measures based on liquidity gap calculation in various scenarios in LAB methodology as well as the regulatory measures i.e. LCR and NSFR.

LAB liquidity scenarios reflect the projected future cash flow gap of assets, liabilities and off-balance-sheet commitments of the bank, which represent potential risk of being unable to meet liabilities within a specific time horizon and under a certain scenario.

The methodology for measuring the liquidity gap (LAB) includes normal conditions scenario (LAB Base Case) and stress scenarios (short-term, long-term and combined). Stress scenarios are limited. Moreover, the bank has a process of reporting and monitoring of intraday liquidity position including crisis scenario for intraday liquidity. The reverse stress scenario is the complement of the liquidity stress testing system.

In order to support the process of liquidity risk management, the bank has a system of early warning indicators (EWI) and recovery indicators. Breach of thresholds by defined indicators may be a trigger for the launch of the Contingency Plan or the Recovery Plan for mBank Group.

LCR calculation and reporting is carried out in accordance with the Delegated Commission Regulation (EU) 2015/61 of October 10, 2014, amended by the Commission Delegated Regulation (EU) 2018/1620 of July 13, 2018, which applies from April 30, 2020. With the respect of NSFR, the bank reports to the NBP according to the Commission Implementing Regulation (EU) 2021/451 of the 17<sup>th</sup> of December 2020 introducing the NSFR as a reporting requirement from the 28<sup>th</sup> of June 2021, according to uniform reporting forms applicable to all institutions.

### Strategy

The liquidity strategy is pursued by active management of the balance sheet structure and future cash flows as well as maintenance of liquidity reserves adequate to liquidity needs depending on the activity of the bank and the current market situation as well as funding needs of the Group subsidiaries. The bank manages liquidity risk at two levels: strategic (within committees of the bank) and operational (Treasury Department).

Liquidity risk limiting covers supervisory (LCR and NSFR) and internal measures. The liquidity risk internal limit system is based mainly on defining acceptable level of gaps in stress conditions in specific time horizons and for different liquidity risk profiles. The bank limits also the volume and term concentration of foreign currency funding of mBank with FX swaps and CIRS. The structure of these limits reflects the bank's preferences for funding structure in those currencies.

The bank has a centralised approach to the Group's funding management. The subsidiaries are financed by mBank through the Treasury Department. Additionally, mBank Hipoteczny raises funding in the market by issuance of covered bonds and short-term debt securities and mLeasing raises funding by issuance of short-term debt securities.



The Financing Strategy is based on the following assumptions:

- Diversifying sources and timing of financing,
- Maintaining safe regulatory levels and internal liquidity measures,
- Stable increase in transaction deposits,
- Incurring liabilities eligible for the MREL indicator,
- Maintaining the issuing capacity of mBank Hipoteczny, but with the bank's greater involvement in financing the subsidiary by purchasing its covered bonds,
- Increasing financial independence from the majority shareholder.

The bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy, division of roles and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by mBank Group and aimed at neutralising this threat. The Contingency Plan is tested annually.

#### Measuring liquidity risk at the consolidated and individual level

The liquidity of mBank remained at a safe, very high level in 2021, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB liquidity gap and in the levels of regulatory measures.

The Group's liquidity risk measurement includes in addition mBank Hipoteczny and mLeasing. mBank monitors liquidity risk of the subsidiaries to protect liquidity also at the Group level in the event of adverse events (crises).

Liquidity measures, both internal and regulatory, throughout the entire reporting period were definitely above the current structure of limits.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures LCR and NSFR at the end of 2021 at mBank and mBank Group level:

	31.12.2021	31.12.2021
Measure <sup>1</sup>	mBank	mBank Group
<b>LAB Base Case 1M</b>	33,376	35,106
<b>LAB Base Case 1Y</b>	24,965	26,299
<b>LCR</b>	203%	216%
<b>NSFR</b>	152%	149%

<sup>1</sup> LAB measures are shown in PLN million; LCR and NSFR are relative measures presented as a decimal.

#### **Operational risk**

mBank organises the operational risk management process taking into account the rules and requirements set out in external regulations, in particular in the Recommendations M, H and D of the Polish Financial Supervision Authority (PFSa), CRR Regulation and Regulation of the Minister of Development and Finance (on the risk management system and internal control system and the remuneration policy at banks), which constitute the starting point for the framework of the control system and operational risk management in mBank Group.

#### Tools and measures

Due to the dynamics of changes in factors affecting operational risk, the key elements of the risk management process are: identification, assessment, control and monitoring of the effectiveness of risk reduction, counteracting the materialisation of operational risk and reporting.

In order to effectively manage operational risk, the bank uses quantitative and qualitative methods and tools that aim at reason-oriented management of this risk. The Bank performs them in conjunction with the control function, which is an element of the internal control system.

In accordance with the requirements of Recommendation M, the bank has a process of identifying threats related to operational risk for all significant areas of the bank's operations and creating new and modifying existing products, processes and systems, as well as for changing the organizational structure.

The operational risk management process is carried out on the basis of a group of tools, including:

1. Self-Assessment of Operational Risk Management Effectiveness, which is performed by organizational units of the bank and the Group subsidiaries. The purpose of this process is to ensure

the risk identification and assessment and appropriate modifications. In addition, it supports the communication process about the need to change and improve control processes. This translates into a more active approach to operational risk management and increasing operational risk awareness in mBank Group. The end result of the Self-Assessment is the assessment of processes, sub-processes and key operational risks as well as the creation of the corrective action plans.

2. The Register of Operating Losses is a database of losses resulting from operational events that arise, which are recorded with the focus on the cause of their occurrence. The analysis of recorded data takes place in the Integrated Risk Management Department and in organizational units. This approach enables organizational units to analyze their risk profile on an ongoing basis. mBank also uses access to external databases on operational losses and uses them to analyze operational risk and potential threats to which institutions operating in the financial sector are exposed.
3. The key risk indicators KRI and risk indicators RI support the ongoing monitoring of risk. The process makes it possible to predict in advance the occurrence of an increased level of operational risk and to react appropriately by organizational units in order to avoid the occurrence of operational events and losses. KRI and RI, thanks to the system of warning and alarm thresholds, allow to determine the level of risk tolerance.
4. Operational risk scenarios that describe the risks associated with the occurrence of rare but potentially very severe operational risk events.
5. Providing opinions on products before the implementation of a new or modified product offer and the impact of the outsourcing agreement on the operational risk profile. The Bank identifies and assesses the risks associated with these products, including operational risk.

mBank Group through operational risk tools monitors the processes operating during a pandemic and defines corrective action plans which will improve the methods of work performed by employees in the home office mode.

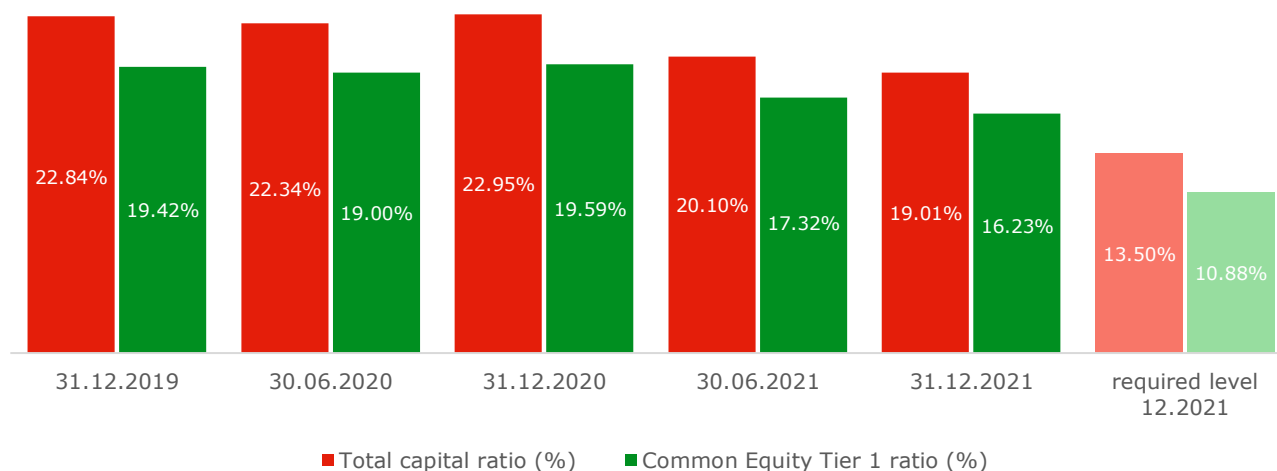
### Strategy

The organisation of the operational risk control and management system is aimed at enabling effective control and management of this risk at every level of the bank's organisational hierarchy. The structure of operational risk control and management covers in particular the role of the of the Supervisory Board and its committees, Management Board of the bank, the Business and Risk Forum, the Chief Risk Officer, the Integrated Risk Management Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the bank. The central operational risk control function focuses on preparation and coordination of the operational risk control and management process in the bank, development of tools, raising awareness in the bank about operational risk and the control function as well as reporting the operational risk profile. Whereas operational risk management takes place in every organisational unit of the bank and in every subsidiary of mBank Group. It consists in identifying, evaluation and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk. The operational risk control process is supervised by the Supervisory Board of the bank through its Risk Committee.

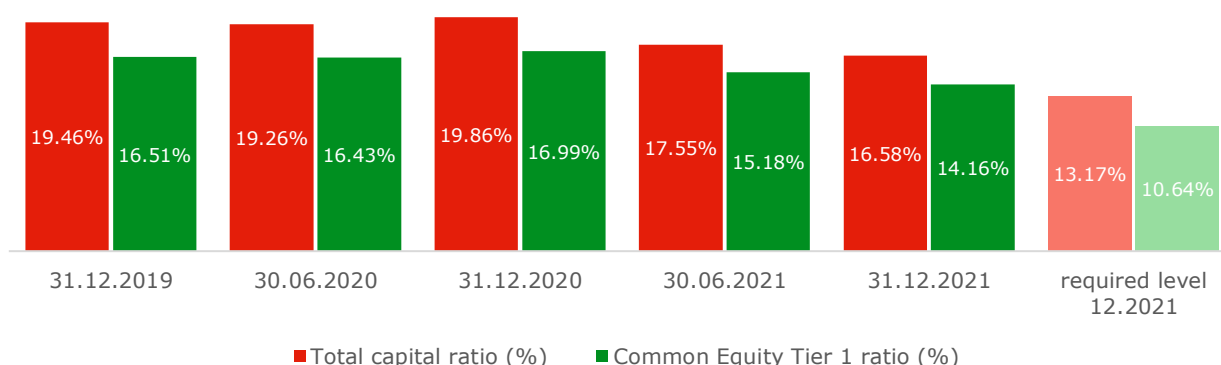
## **9.3. Capital adequacy**

One of the bank's main tasks is to ensure an adequate level of capital. As part of the capital management policy, the bank creates a framework and guidelines for the most effective planning and use of the capital base. The strategic goals of mBank and mBank Group are aimed at maintaining the total capital ratio as well as the Common Equity Tier 1 capital ratio above the levels required by the supervision authority. This allows to maintain business development while meeting the supervisory requirements in the long perspective.

### Capital adequacy of mBank



### Capital adequacy of mBank Group



The capital ratios of mBank Group in 2021 were driven by the following factors:

- inclusion in the calculation of own funds mBank's current loss for 2021;
- inclusion in the calculation of own funds the transitional provisions regarding the temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic, in accordance with Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020;
- not included in the calculation of own funds impairment losses on financial assets not measured at fair value through profit or loss due to recognition of a current loss;
- partial depreciation of subordinated liabilities included in the calculation of own funds;
- a significant change in the value of risk-weighted assets, mainly due to:
  - implementation of a new LGD model for mBank's retail portfolio, including regulatory restrictions in the form of multipliers for this parameter;
  - application of regulatory restrictions (multipliers) with regard to the final RWA value for mBank's AIRB retail portfolio and the entire AIRB mLeasing portfolio related to the recommendation after the implementation of the New Default Definition;
  - implementation of new CRR2 provisions with regard to the requirements for the calculation of exposures exposed to counterparty credit risk;
  - further growth of the retail and corporate credit portfolio.

In 2022 a further increase of risk-weighted assets, due to regulatory factors, is expected.

mBank Group is obligated to maintain own funds on the level exceeding regulatory and supervisory requirements. Consequently the level of the required capital ratios encompasses:

- the basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%;
- the additional capital charge in Pillar II with regard to FX mortgage loan portfolio – 2.12% at the level of total capital ratio and 1.59% at the level of Tier 1 capital on consolidated basis (and on individual basis 2,45% and 1,83% accordingly), according to the PFSA decision of November 24, 2021 (and on individual basis according to decision of October 29, 2021);
- the combined buffer requirement of additional 3.05% (on consolidated basis), which consists of:
  - the capital conservation buffer (2.5%);
  - the other systemically important institution's buffer (0.5%) - according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer;
  - systemic risk buffer (0.00%) – starting from 1st January 2018 the Regulation of the Minister of Development and Finance with regard to systemic risk buffer entered into force. The Regulation introduced systemic risk buffer of 3% of the total risk exposure amount applied to all exposures located in Poland. Due to the exceptional socioeconomic situation that appeared after the occurrence of the global pandemic COVID-19, this requirement was abolished by repealing the Regulation of the Minister of Finance, which has been in force since 19 March 2020;
  - countercyclical capital buffer (0.05%).

On individual basis the value of the combined buffer requirement is 3.05%.

Capital ratios, both on consolidated and individual basis, were above the values. With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement and the combined buffer requirement.

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and the Commission Delegated Regulation (EU) 2015/62 of October 10, 2014, amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio, amounted to 6.32%. The stand-alone leverage ratio amounted to 6.53%.

More details on capital adequacy of mBank Group in the 2021 can be found in the Disclosures regarding capital adequacy.

## 10. HR development

### 10.1. Changes in employment

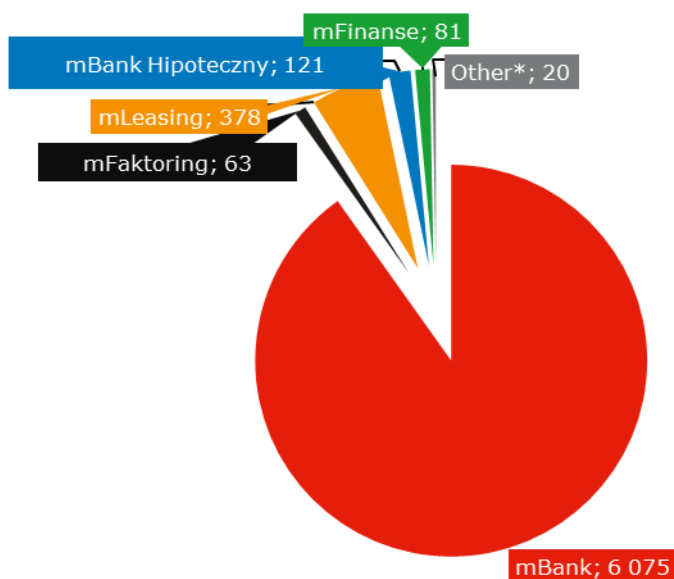
At the end of 2021, the total employment in mBank Group was 6,738 FTEs compared with 6,688 FTEs a year before (+0.8% or +50 FTEs). At the end of 2021, employment at mBank amounted to 6,075 FTEs and increased by 41 FTEs, i.e. +0.7% compared with 2020. At the end of 2021, employment in mBank Group's subsidiaries amounted to 663 FTEs and increased by 10 FTEs or +1.5% v. 2020.

mBank's employees are relatively young: 39% are below the age of 35. They are also well-educated: 81% are graduates of higher education institutions. Many employees undertake post-graduate and MBA studies, thus acquiring new professional qualifications.

The charts below illustrate the employment structure in mBank Group, by subsidiaries, and in mBank, by areas of operation:

#### Headcount in mBank Group

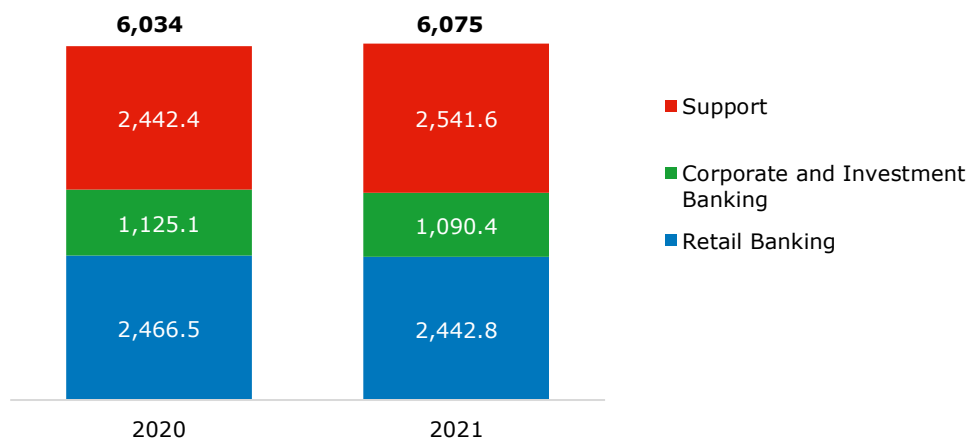
in FTE as at December 31, 2021



\*Other subsidiaries include: mElements and G-INVEST.

#### Headcount in mBank by business lines

in FTE in 2020-2021



## 10.2. Training and development activities

### Development activities

The bank operates in an environment of key changes in the business and social environment. On the one hand, these changes result from the global pandemic situation. On the other hand, they are associated with the increasing importance of automation, the role of artificial intelligence or the digitalization of processes.

The new social and economic system implies the need for a different look at the competences and roles of employees. They are necessary to create an innovative and effective organization. It is essential to develop new skills - competences of the future, as well as professional flexibility. Prolonged remote work leads to deterioration of mental condition of the employees and difficulties in sustaining the work-life balance. An important element of the HR strategy are planned and comprehensive programs which support the mental and physical health of all employees. A big challenge is also managing teams which have been working for the second consecutive year with no direct contact with each other. The answer to these challenges is the appropriate organization of remote work and preparation to work in the hybrid work model. A key element is equipping managers with the tools and skills necessary to manage work efficiency in a remote environment. They will also allow them to motivate employees and take care of their job satisfaction, commitment and sense of belonging to the organization and their own team.

Even more important in building the company's competitive advantage is taking care of the sustainable development of the offer. The offer should adhere to both corporate governance rules and ESG-related guidelines.

Completed development programs were the response to these challenges in 2021. The programs built the competence advantage of the employees, developed a culture of diversity and work based on strengths. They were also an element of motivating employees and increasing the efficiency and creativity of teams. They built the employees' well-being. **All employees employed under an employment contract, regardless of their working time, take part in training courses organized at mBank.**

#### Organization based on strengths - management of own and organizational potential

2021 was the next stage in building an organization based on strengths. A key element in motivating our employees is basing on their potential, developing their talents into strengths and appreciation. We launched many programs and initiatives aimed at supporting all employees and teams. The initiatives helped with discovering and understanding individual's own talents and with learning how to use them during teamwork. We conducted team workshops.

During the summertime, we launched a special program, **Holidays with Talents**. The aim of the program was to enable all employees to work with their own talents on an individual basis.

In 2021, we also introduced the **Start with Strengths** class to the on-boarding program. From November 2021, each new employee during the on-boarding process receives access to analysis of their own talents. The program consists of a Clifton Strengths 34 report and an invitation to participate in a training. During the class, the employee learns about the approach based on the strengths of the Gallup Institute which is applied in our organization. The employee will understand how talents can help in achieving goals and with working in accordance to natural preferences. At the end of the year, the number of new employees who conducted the survey was 3,818. In 2021, 2,265 new employees were trained in strengths.

#### Competences of the future

In 2021, we started the implementation of the **competences of the future** program in the organization. We identified five competence areas, the development of which influences mBank's achievement of a competitive advantage. These are: database competences, cybersecurity, critical thinking, artificial intelligence / machine learning / robotization, cloud solutions and creativity / innovation. First, we focused on three areas of competence: databases, cybersecurity and critical thinking. Two platforms were created to enable employees to develop their competences of the future: **Data Academy** and the **Security Academy**. Additionally, mBank's employees could participate in specialized, certified training / individual workshops. They made it possible to acquire the necessary competences of the future in specific teams.

**Database competences** are developed through the **Data Academy** platform. The goal of Data Academy is to create a development program for mBank employees, which will support promoting the conscious and effective use of data in the bank.

Since November 2021, on the initiative and under the aegis of the Department of Security, we are implementing a security awareness program **in the area of cybersecurity** at mBank. The Security Academy is a platform for the development of competences in this area. The training courses organized as

Zaloguj się do rozwoju



part of the Academy are aimed at the following groups of recipients: developers, IT administrators, Contact Center employees and other employees. The forms of training are varied and adjusted to the target groups.

We started the development of competencies of **critical thinking** in December 2021 with a series of three webinars. The webinars were available to all bank employees. The participants got acquainted with the basic tools which allow to test your own way of thinking. Employees learnt how to not fall into possible thinking traps, be objective and create more effective solutions.

The development of competences of the future is supported by the **Agile Academy** run by the bank's agile coach team. Agile Academy is a program that provides knowledge in the field of Agile, a modern style of product management.

#### Management and work in a remote and hybrid environment

Working in a completely remote environment is a big challenge for employees and their managers. Even greater is the design and preparation of the hybrid work environment. The hybrid model will be the target work model for everyone. In response to these needs, we implemented and carried out the "**ODnowa**" - "**REnew**" development program in 2021. It supports management and work in a remote and hybrid work environment. It is addressed to all managers and employees of the Group. We prepared it to provide a dose of knowledge and inspiration from other organizations. It enables employees to exchange experiences, knowledge and join discussions. In the program, managers learn:

- What are the rules of organizing hybrid work model and how to communicate within this model
- How to build trust and a sense of security in a dispersed team
- How to deal with difficult emotions and stress in a team and support mental health of team members and during crisis.

460 participants took a part in the programme REnew (ODnowa) for managers in 2021, in a total of 52 workshops and webinars.

The participants of the programme for employees learn, among others:

- how to improve their efficiency in a dispersed team;
- how to effectively cooperate and communicate in such a team;
- what tools are used by organisations under a hybrid work model;
- how to minimise tiredness and manage the workload at work and home;
- how to strengthen their mental resilience and build psychological capital, which helps to cope with present and future hardships.

The 2021 programme for employees had 2,114 participants.

#### Enthusiasm for Healthy Life

This development programme is a continuation of the Develop Your Resilience programme implemented in 2020. We launched it to address our employees' need to strengthen their mental and physical resilience and thus help them adapt to the pandemic and working from home. In 2021, the scope of the programme was supplemented with conclusions from the analysis of the 2021 pulse check results and a special follow-up survey. The aim of the programme is to promote a healthy lifestyle and educate our employees. They learn how to protect their health, cultivate a healthy lifestyle, and maintain a good mood. In 2021, the programme had 8,686 participants.

#### Permanent development programmes for employees and managers

- **Employability – Open Up to New Opportunities.** The programme is addressed to all employees of mBank Group, especially to positions whose roles and tasks will change, for example due to automation or changes in business objectives. The programme is inspired by changes in the business environment. It covers trends on the job market in Europe and worldwide.
- **mAcademies.** mAcademies offer training sessions, conferences, workshops and other development initiatives, which allow employees from various areas of the bank to gain expert knowledge, including the latest market trends. In 2021, these activities included the Data Academy, Agile Academy, Risk Academy, Security Academy. Academies organised by mBank are addressed to all employees regardless of whether they work part time or full time.



- **Leaders in a New Reality.** The programme is divided into five stages. It is addressed to all newly promoted managers of mBank Group. The aim of the programme is to provide basic knowledge and tools connected with new team management and communication methods when working from home. In 2021, 82 “fresh” managers took part in the programme.
- **Individual diagnostic and development programme** for Top100 managers, including the Management Board. This is an individual executive development programme conducted by external experts. The programme covers: the identification of natural strengths and motivators of a manager (potential diagnosis); assessment of managerial competences based on a scaled model for similar positions in the financial industry; tailored long-term (at least 24 months) development plan taking into account the results of the potential analysis and competence assessment. As part of development activities, managers cooperate with world’s top institutions specialising in developing leadership competences: **IMD, IESE, MIT, Harvard University, Mobius**. Due to high costs of the diagnostic and development programme, time expenditure, involvement in the process, and importance of the entire programme, each year we invite up to 20 Top100 managers or members of the Management Board to participate in it. In 2021, seven participants (including three women) took part in the programme: six Top100 directors and one member of the Management Board. Additionally, two managers, who took part in development programmes in the previous years when travelling abroad was limited due to the epidemic, participated in development activities abroad. These employees participated in the Advanced Management Program, IESE and High Performance Leadership, IMD.
- **Postgraduate courses.** In the academic year 2020/2021 we financed postgraduate courses of 36 employees. The courses covered the following fields of knowledge: Big Data – analysis and processing of large data sets, Fintech – new phenomena and technologies on the financial market, Business Intelligence – supporting business decisions, visual data analytics, project management, compliance.
- **Develop Your English.** This is a language development programme (levels B2, C1 or C2). Employees can improve their communication skills in English and expand their vocabulary. In 2021, 1,550 employees participated in the programme.
- **Individual training** (including regulatory training). Particularly relevant expert areas include: MiFID II, AML, KYC, client relationship monitoring, modern technologies in investment companies – regulatory aspects, GDPR, ESG in financial institutions, and training in the implementation of IT tools. In 2021, the training sessions had 1,415 participants.
- **Development Fridays.** This programme includes cyclical events consisting of up to 20 workshops, webinars and consultations. They take place every Friday of the month. During the events our employees can develop their soft, social, business and IT skills. In 2021, the meetings were attended by over 12,000 people.

#### Other activities for the employees

- **Cancer awareness activities as part of the World Cancer Day** We organised a series of webinars raising cancer awareness, and a series of workshops during which a psycho-oncologist taught the participants how to do self-examinations. We made available over 190 free vouchers for tumour marker tests for breast and ovarian cancer or testicular and prostate cancer. On the Intranet we created a knowledge base containing educational cancer awareness materials and information on packages available to employees, as part of which they can perform the necessary tests. The 19 meetings attracted 980 participants.
- **April with LinkedIn** We organised a number of educational meetings about LinkedIn for our employees. Throughout April (#KwiecieńZLinkedIn) our employees learned from the best experts in Poland and LinkedIn employees how to use LinkedIn, how to gain knowledge on LinkedIn and how to use this tool for self-development, and how to build your personal brand on LinkedIn. Educational meetings aim to strengthen employee advocacy on LinkedIn. Eight webinars and workshops were attended by approx. 330 people. Please note that mBank boasts the largest percentage of employees who have an account on LinkedIn among banking institutions. More than 75% of mBank employees use LinkedIn.
- **Commemoration of the International Day of People with Disabilities** We organised a meeting for our employees called Impossible is an Excuse starring a special guest – Jasiiek Mela. The meeting was attended by over 200 people. Its main theme was development, overcoming obstacles and openness to others. The aim of the event was to educate people about disabilities. Additionally, we carried out the following communication campaigns:
  - *#PoznajNieWykluczaj (Education over Exclusion)*, a series of posts about social groups threatened by exclusion due to their disability, age and psychophysical properties that make them different.

- Disability Etiquette, a series of posts raising awareness about disabilities.

#### Remote development tools

mBank brings a multitude of development tools to its employees, giving them unlimited access to mobile training. We value training that takes advantage of mobile tools. A broad thematic scope of such training allows our employees to gain knowledge from various areas. The tools include, in particular:

- **LinkedIn Learning.** Access to an up-to-date collection of over 20,000 courses in various forms, including videos, lectures, audio tutorials, presentations, animations and tests. The courses are broken down into numerous categories ranging from soft skills to technical knowledge, as well as extended development paths based on recommendations from business practitioners. In 2021, our employees took part in 10,590 courses.
- **Legimi digital libraries.** The library allows our employees to freely use a vast collection of e-books and audiobooks. In 2021, more than 2,800 users borrowed 239,637 books.
- **SuperMemo – a language learning platform.** The platform offers English and German courses at all levels (from A1 to C2) and business language courses. It is available to all interested employees who made learning languages one of their development goals. Currently, we have 280 users.
- **Knowledge library.** In a dedicated section of the intranet we gather and present recordings from webinars organised under such programmes as Development Fridays or Enthusiasm for Healthy Life. The website is divided by subject and updated once a week.

#### The Young Talents Development Programme

In order to educate and support young applicants at the beginning of their career path, mBank runs an internship program - Bank Talents. Through the program, students and university graduates can start and develop their careers by learning from inspiring leaders. They learn how to translate the theoretical knowledge gained during their studies into business projects. The program facilitates and accelerates access for applicants to entry-level positions. It allows to optimize recruitment processes and increase the significance of the internal recruitment.

The Young Talents Development Programme consists of internships and traineeships. We address it to students and graduates. Program participants gain practical skills and knowledge, and can count on ongoing support from their tutor. As part of the programme, mBank offers interns and trainees employment under an employment contract and access to employee benefits.

The Young Talents Development Programme consists of 2 following programmes:

- **Traineeship programme** consisting of traineeships with flexible working hours offered throughout the calendar year. It means that a trainee can combine work and studies or other obligations. The trainees become familiar with one area of the bank's operations. The traineeship lasts 3 to 12 months on a half-time basis or full-time. In 2021, we admitted 77 trainees, out of whom 30 were employed in the Group after the programme and another 54 trainees continue their traineeships in 2022.
- **Internship programme** addressed to young people who are open, committed and full of enthusiasm, who have already gained previous experience in the form of apprenticeships or activities in student science associations and student organizations. Internship contracts are signed for a term of 12 months. Interns work full-time. The internships in Łódź and Warsaw are conducted on a rotational basis. They enable participants to familiarize with several areas of the bank. Candidates applying for an internship choose one profile determining the leading competence. In 2021, we hired 10 interns, out of whom 8 were employed after the programme.

#### mBank Club

mBank employees integrate and pursue their passions in various sections of the mBank Club. The club also allows employees to maintain relationships while working remotely. During the pandemic, all sections operated in accordance with sanitary requirements. We informed the section members on the decisions of mBank's crisis command on a regular basis. Over 1,600 employees signed up for 27 sections which operated in 2021. mBank's club had a budget similar to the previous years.

### Feedback culture

In 2021, we conducted **three Pulse Check surveys** at mBank Group. In the first one, which took place in January, the response rate amounted to 60%. The survey addressed altered working conditions and well-being, level of stress and healthcare. The respondents assessed positively the technology which ensures work efficiency. They also pointed out factors which have material impact on their well-being (e.g. blurred line between work and private life or excessive workload). The responses were taken into account while creating hybrid work environment. Based on the results, a number of solutions have been implemented in the organization to support the topic of physical and mental resilience.

Another Pulse Check survey was conducted in April. The survey was completed by 72% of employees. The survey continued the themes raised in the previous survey. Some of the questions concerned communication within the organization and culture of cooperation, including efficiency of appointments. The employees praised the most the atmosphere in their teams, open-mindedness and acceptance of differences, as well as the technology, again. After the study, actions were taken, i.a., on changes in the remuneration policy and the effectiveness of appointments.

The third survey took place in September. It was completed by 78% of employees. We paid a lot of attention to the following topics: teamwork (including the developed hybrid model), cooperation with the manager, employee development and diversity. We also continued the topics raised in previous surveys. After the study, work continues to be even better adapted to the needs of employees in terms of supporting their development and career paths. The theme of equal opportunities for women and men is also analyzed.

### **10.3. mBank Group's incentive program**

The incentive system of mBank Group is based on the Remuneration Policy and intangible elements (e.g. career development opportunities). The incentive system plays a key role in developing our corporate culture and builds our competitive advantage by helping the Group to acquire and retain competent employees.

The remuneration policy:

- defines principles of remuneration,
- supports sound and effective risk management,
- ensures that decisions made do not entail excessive risk (i.e. risk exceeding the risk appetite accepted by mBank's supervisory board),
- supports the application of the strategy,
- supports the capital management,
- limits conflicts of interest,
- conforms to the gender neutrality.

The remuneration policy of the bank covers the base salary (fixed component) and a variable part depending on the objectives achieved by the whole organisation and by individual employees. It also includes bonuses granted to management board members and other employees. This applies also to employees having a material impact on the bank's risk profile in a given calendar year (Risk Takers). The maximum level of variable remuneration components of persons who are subject to the Remuneration Policy cannot exceed 100% of the base salary.

In 2021, mBank Group implemented incentive programmes for the members of the management board of the bank and key staff of mBank Group.

#### **Incentive programmes for the Management Board members and key staff of mBank Group – mBank Group Risk Takers**

On June 7, 2018, the supervisory board, acting in line with the recommendation of the Remuneration Committee of the Supervisory Board and the AGM decision of May 9, 2018, adopted the mBank S.A. Incentive Programme Rules. The Programme replaced the existing programmes, i.e.:

- the employee programme introduced by the EGM resolution of October 27, 2008, as amended, and
- the programme for the management board members, introduced by the AGM resolution of March 14, 2008, as amended.

In 2021, we completed the last settlements of these programs - rights to deferred tranches as part of the bonus granted for 2017.

The new programme came into effect on January 1, 2018 and will remain in force until December 31, 2028. Eligible persons under the programme include persons holding positions identified as having a material impact on the bank's risk profile (pursuant to the Risk Takers Identification Policy), referred to as:

- Risk Takers I – member of the management board of mBank Group, or
- Risk Takers II, excluding Risk Takers II – members of the management board of mBank Hipoteczny S.A., which applies a separate incentive programme – an employee holding a position having a material impact on the bank's risk profile. Also a member of the management board of an mBank Group subsidiary.

The employees identified as Risk Takers will be able to acquire warrants free of charge, and, by way of exercising the rights arising from the warrants, to acquire shares. Detailed terms and conditions for acquiring individual instruments are set out in the Incentive Programme Rules and the Risk Takers Remuneration Policy.

### **Bonus for Risk Takers I**

The supervisory board determines the bonus amount for a given calendar year for each management board member individually, based on the assessment of MbO/OKR achievement with respect to a period of at least 3 years. The bonus amount depends on the bonus pool amount. Details about the calculation of the bonus pool for a given calendar year are included in the Risk Takers Remuneration Policy. The policy is available on our website: <https://www.mbank.pl/en/about-us/corporate-governance-and-best-practices/>

MbO/OKR objectives for a given year are determined by a given Management Board member and the Remuneration Committee of the Supervisory Board in accordance with the rules of determining MbO/OKR business and development objectives, approved, among others, by the Remuneration Committee of the Supervisory Board for the Management Board of mBank:

- quantitative individual objectives account from 35% to 50% of the objectives (objectives are determined depending on the scope of responsibilities of a given Management Board member),
- qualitative individual objectives account up to 50% of the objectives. Goals are determined depending on the responsibility for a given position.

### **Bonus for Risk Takers II**

The bonus for a given calendar year is calculated based on the following:

- assessment of the achievement of MbO/OKR objectives for the period of the last three calendar years,
- Economic Profit of mBank Group, and
- result of a business line/subsidiary/organisational unit.
- The decision on the bonus amount is taken at the sole discretion of:
  - the Management Board of the bank with regard to a Risk Taker II – a bank employee, or
  - the Supervisory Board of an mBank Group subsidiary with regard to a Risk Taker II – a member of the Management Board of an mBank Group subsidiary.

The bodies confirm, in accordance with their independent judgement and at their sole discretion, whether a given Risk Taker accomplished their MbO/OKR objectives (taking into account the situation on financial markets in the last/previous financial period/s).

The bonus amount for a given year cannot exceed the amount of the annual fixed remuneration paid to an employee in the year for which the bonus is awarded.

MbO/OKR objectives take into account the following assumptions:

- quantitative objectives
- qualitative objectives.

The bonus for Risk Taker I and Risk Taker II consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus). Both the deferred part and the non-deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants.

The deferred parts of bonuses of Risk Takers I and Risk Takers II are assessed in terms of their determination and payment. A deferred part may be withheld or its amount may be reduced if in a longer time horizon (of at least 3 years):

- the Risk Taker had a direct adverse impact on the financial result or market position of the bank / subsidiary / Group,
- the Risk Taker violated rules and standards adopted at mBank Group or directly caused significant financial losses,
- the Risk Taker failed to fulfil at least one of the elements included in their scorecard, or
- any of the premises stipulated in Article 142 (2) of the Banking Law Act occurred.
- Such a decision may be taken by:
  - the Supervisory Board of mBank with regard to a Risk Taker I,
  - the Management Board of mBank with regard to a Risk Taker II (a bank employee), or
  - the Supervisory Board of an mBank Group subsidiary with regard to a Risk Taker II (a member of the Management Board of an mBank Group subsidiary).

Moreover, a Risk Taker I or Risk Taker II may be obliged to return the bonus granted and paid for a given calendar year (i.e. the non-deferred part and all deferred parts) if they:

- violated rules and standards adopted at mBank Group,
- materially violated generally applicable laws,
- directly caused significant financial losses being the consequence of their deliberate negative actions to the detriment of mBank Group/the subsidiary, or
- contributed to financial sanctions being imposed on mBank/the subsidiary by supervisory bodies under a final and non-appealable decision.

The rules and time limits for returning the bonus are determined, as appropriate, by a decision of the Supervisory Board of mBank/Supervisory Board of an mBank Group subsidiary/Management Board of mBank. The decision on whether the above-mentioned events occurred may be taken by the end of the calendar year in which the last tranche of the deferred part of the bonus awarded for the year in which the event occurred is paid.

In the case of an AGM resolution on the payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom a bonus has been granted (in the deferred or non-deferred part) is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy (in connection with the deferral of the bonus portion paid in subscription warrants).

The bonus paid under the said programme was granted to Risk Takers I and Risk Takers II:

- in 2019 for 2018,
- in 2020 for 2019.

On December 17, 2020, the Supervisory Board, in accordance with a recommendation of the Remuneration Committee of the Supervisory Board, decided to amend the Risk Takers Remuneration Policy so as to adapt its provisions to:

- new Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU, and
- recommendation of the Office of the Polish Financial Supervision Authority (KNF) on variable remuneration components at banks communicated in the letter dated April 17, 2020 regarding measures expected to be taken by banks in response to the COVID-19 pandemic outbreak.

The key changes include:

1. In particularly justified cases, the supervisory board (for Risk Takers I) or the Management Board of the bank (for Risk Takers II) may decide to pay the cash tranches in whole or in part (both the non-deferred tranche and the deferred ones) in the form of subscription warrants. The change applies to the bonus awarded for 2020. Particularly justified cases may result from:
  - mitigation of risk connected with maintaining a sound capital base of the bank,
  - an effective response to the economic situation in Poland, e.g. in relation to the COVID-19 pandemic.

Subscription warrants will be paid out in the acquisition periods set by the Supervisory Board, not earlier than 12 months after the date of the Annual General Meeting of mBank S.A.

2. Starting with the bonus for 2021, the deferral period for the part paid in cash and the part awarded in the form of subscription warrants will be extended:
  - from three to five years – in the case of Risk Takers II being members of senior management (managing directors and members of Management Boards of mBank Group subsidiaries),
  - from three to four years – in the case of the remaining Risk Takers.
3. In the case when the bonus amount determined for a Risk Taker II (excluding managing directors and members of the Management Boards of mBank Group subsidiaries) for a given calendar year does not exceed one-third of their total annual remuneration or PLN equivalent of EUR 50,000 (as at the date of the decision on awarding the bonus), the bonus may be paid in whole in cash in a non-deferred form based on a decision of mBank's Management Board.

In 2021 bonus for Risk Takers II for 2020 was granted completely in subscription warrants. Risk Takers I were granted variable remuneration in the form of subscription warrants, in accordance with the resolution of the supervisory board. The implementation of the first tranche is scheduled for the year of 2022.

### **Employee programmes in mBank Group subsidiaries**

The rules of granting the bonus at mBank Hipoteczny are specified in the Risk Takers Remuneration Policy of mBank Hipoteczny. The bonus is based on phantom shares of mBank Hipoteczny and constitutes an incentive programme (under IAS 19).

Detailed information on incentive programmes is presented in note 43 to the mBank S.A. Group IFRS Consolidated Financial Statements 2021.

Detailed information on the remuneration of members of the management board and the supervisory board and on mBank's shares held by them is presented in chapter 13.7. "Composition, powers and procedures of the management board and the supervisory board".

## **10.4. Management by Objectives (MbO/OKR) – planning and appraisal system**

Since 2011 mBank has been operating a Management by Objectives system, which helps employees focus on the implementation of the organisation's key objectives. We are currently in the process of replacing the annual MbO (Management by Objectives) approach with the quarterly OKR (Objectives & Key Results) approach. mBank's Management Board and the management boards of strategic group subsidiaries use the MbO approach, while the OKR framework is used by key managers and most mBank employees.

The OKR approach is based on the following pillars:

- **PRIORITIES:** we focus on what is most important. We decide what business value we want to achieve by the end of the quarter.
- **EFFICIENCY:** the quarterly cycle makes it possible to identify threats to objective accomplishment. Under the new approach, we can react quickly and operate more efficiently.
- **ENGAGEMENT:** employees see the bigger picture of their work and how their work contributes to the priorities of their areas and the organisation.
- **COOPERATION/ALIGNMENT:** we cooperate more efficiently. We are organised around tasks and challenges, and not around the organisational structure. We give up the silo approach and choose active cooperation. We are one team!
- **TRANSPARENCY:** By default, objectives are visible to other employees. Work goes smoother when information circulation is transparent and we know our coworkers' priorities.

The basis for the planning of objectives in 2021 were the priorities set by the Management Board members. They were reflected in managers' and employees' objectives.

Apart from the accomplishment of MbO/OKR objectives, the annual and mid-year appraisal also takes into account other elements, such as qualitative factors, attitudes and values, as well as the manager's and coworkers' feedback.

Our work under the OKR approach is supported by a custom application. It takes into account the OKR assumptions and the character of work in our organisation. The application allows employees to manage their objectives on an ongoing basis and to access the objectives of their managers and coworkers.



The transformation of the approach to management by objectives is supported by a group of over 50 OKR coaches from different areas. We developed a dedicated training plan for them, which helps them acquire not only knowledge relating to management by objectives, but also numerous soft skills.



## 11. mBank and corporate social responsibility

### 11.1. mBank Foundation

In 2021, mBank allocated approx. **PLN 2.35 million** to reach mFoundation's statutory goals

In line with the "m for mathematics" ("m jak matematyka") strategy, since 2013 mBank Foundation's (mFoundation's) efforts have been focused on supporting educational programmes and promoting mathematics. We strongly believe that mathematics provides the foundation for logical thinking and is vital to understanding the world around us. Knowing mathematics helps to take informed financial decisions and encourages interest in science. mBank believes that mathematics contributes to both personal professional success and the development of Poland's economy.

In 2021, we pursued our mission through:

- subsidising development projects in the area of mathematics education,
- "mPower" ("mPotęga") flagship grant programme,
- new "Growing with Maths" ("Rosną z matematyką") grant programme,
- "A Step in the Future" ("Krok w przyszłość"), mFoundation's contest for the best student thesis in mathematics,
- "Masters of Mathematics" ("Mistrzowie matematyki") scholarship programme,
- partnership with and financial support for external initiatives promoting maths education – the "Maths is everywhere" series developed in cooperation with the "Nauka. To Lubię" Foundation,
- distribution of free publications: *Child's Play Maths (Dziecinnie prosta matematyka)*, *Maths is Everywhere (Matematyka jest wszędzie)*, *Known and Unknown: Great Polish Mathematicians. Maths Lesson Plans and More (Wielcy polscy matematycy znani i nieznani. Scenariusze lekcji matematyki i nie tylko)*.

In 2021, mBank allocated PLN **2,348,835.50** for the implementation of mFoundation's statutory goals. 100% of the statutory goals concerned mathematics education.

As part of our initiatives, we supported children, teenagers and their parents and teachers, as well as students and young scientists. In 2021, subsidies for educational projects were granted to **289 entities**, including:

- 204 public schools (197 elementary and 7 secondary schools),
- 46 NGOs,
- 2 universities,
- 28 public preschools,
- 7 libraries,
- 2 science centres.

Like in previous years, most of the funds donated by us went to beneficiaries from small towns all over the country. This is how we work towards equal opportunities in education. According to our estimates, our activities carried out in 2021 reached over **42,000 direct and over 688,000 indirect beneficiaries**.

#### "Growing with Maths" grant programme

In September 2021 we launched the pilot edition of the "Growing with Maths" grant programme. The programme is dedicated to public preschools, elementary schools with preschool departments or reception classes and education NGOs. The new initiative aims at popularising mathematical education based on learning through play. We want to show the practical application of mathematics, directly engage children through group work and physical activity, and involve parents, grandparents or caregivers in the educational process. It is also important to promote the best mathematical education practices among preschool teachers.

The first, pilot edition is addressed to beneficiaries from Łódź and Masovian Voivodeships. 233 entries were submitted in the competition. We awarded grants ranging from PLN 2,000 to PLN 5,000 (PLN 189,000 in total) to 40 projects. The projects will be implemented from January until June 2022.

### “mPower” grant programme

The aim of “mPower” (“mPotęga”) is the promotion of mathematics among elementary school students. We wish to encourage teachers, parents and maths enthusiasts to break the routine and go off the beaten track in teaching maths. mBank subsidises projects which show children and teenagers in an original way that mathematics is highly useful in everyday life.

In the 8th edition of the programme organised in 2021, we subsidised 161 projects from across Poland. We funded 91 projects for students in grades 4-6 and 70 projects for seventh and eighth-graders. It is worth noting that most grants are awarded to schools in small towns.

In total, mFoundation earmarked PLN 963,500 for grants this year. Moreover, we granted PLN 5,000 to each of the two projects that received the biggest number of votes in an online poll.

### “Maths is Everywhere” online educational series

The “Maths is Everywhere” (“Matematyka jest wszędzie”) educational series is the result of cooperation between mFoundation and “Nauka. To Lubię” Foundation. Tomasz Rożek, a physicist who promotes science on his YouTube channel called “Nauka. To Lubię Junior”, uploaded 10 videos showing that maths is easy and fun.

The videos were inspired by mFoundation’s book titled *Maths is Everywhere*. The main goal of the project was to show parents and children that there is much more to mathematics than just calculations and formulas. Maths is all around us. We use it every single day, not only at school, but also in everyday life, for example when shopping, cooking, traveling, and even when cleaning the house.

The YouTube series was watched by nearly 60,000 viewers. Additionally, our posts about mathematics reached 800,000 users.

## 11.2. Other social-oriented activities

### mBank is eco-friendly

We have been running the “mBank is eco-friendly” (“mBank jest eko”) project for a few years now. This motto encompasses all initiatives aimed at reducing our (direct and indirect) impact on climate and environment.

These include campaigns for employees and a dedicated space on mBank’s intranet where we foster environmental awareness and promote “green” attitudes. In 2021, events such as the Earth Week or Christmas motivated us to provide our employees with “green” training opportunities. Advice on how to be more eco-friendly in day-to-day life covered waste sorting and reduction, responsible shopping, environmentally friendly cosmetics and food, and reduction of food waste. We also invited our employees to meetings with experts such as Marcin Popkiewicz or Jagna Niedzielska. These initiatives are popular, attracting hundreds of mBank employees.

“mBank is eco-friendly” also includes systemic initiatives to reduce our consumption of resources such as water, energy and paper, and eliminate the use of plastics. In 2020 we decided not to print any leaflets and advertise our services to clients electronically instead. This decision enables us to save 5 tons of paper annually. In addition, continuous digitalisation, the launch of a print management system and the smooth transition of most employees to home working allowed us to save 5 million A4 sheets of paper, compared with 2020. Also, at our facilities we use aerators, allowing us to save water, as well as certified, eco-friendly cleaning products bought in recycled packaging. This last solution alone helped us save 76 kg of oil, 14 kg of plastics, and 239 kg of CO<sub>2</sub> emissions.

The Covid-19 pandemic made us realise that we can cope well with less. Guided by this thought and aware of the environmental and climatic challenges, in 2020 and 2021 we decided not to give or receive Christmas gifts, thus lowering fuel use and reducing waste.

#### Project results:

Printing paper consumption in mBank Group in different years:

Paper consumption	mBank Group	mBank Poland	Subsidiaries and foreign branches*
A4 paper sheets in 2019 [millions]	35.3	17.0	18.3
A4 paper sheets in 2020 [millions]	26.6	15.6	11.1
A4 paper sheets in 2021 [millions]	21.4	10.0	11.4

\* mLeasing, mBank Hipoteczny, mFaktoring, mFinanse, branches in the Czech Republic and Slovakia

### **Initiatives for persons with disabilities**

mBank maintains the model of serving clients with disabilities introduced in 2018. Such clients may consent to processing of data regarding their disability. Clients, who have done so, are automatically redirected by the call centre to a qualified consultant. For example, they are offered the option of video calls in the Polish Sign Language. They can be redirected to the bank's employees, who know the Polish Sign Language, so no assistance from external interpreters is needed.

Also, we continue to educate customer service employees, who work at mBank branches. This issue is addressed in the training series "Sensitivity to Disabilities" ("Wrażliwość na niepełnosprawność") organised in cooperation with the Integracja Foundation. In 2021, such training was held online.

While creating new versions of the transactional service, we rely on the knowledge and experience of our employees with disabilities.

We cooperate with the banking industry as part of the working group on serving people with disabilities by banks, operating at the Polish Bank Association (ZBP).

We are also committed to ensuring that our employees with disabilities have equal opportunities. We have established a new position of Senior Diversity and Inclusion Specialist, who is responsible for coordinating all activities encouraging respect for diversity at mBank. We have included the values, which support diversity, in our Code of Values and Behaviours. We wish to build and promote a work culture based on trust and good intentions, in which employees can take bold decisions and create innovation. mBank is a place where we can be the best version of ourselves, at the same time respecting the fact that everyone is different.

Our employees take part in the training series "Education over Exclusion" ("Poznaj, nie wykluczaj"), which provides information about social groups threatened by exclusion due to disability and other traits that make them different from other people. We educate our employees on how to prevent exclusion, and encourage them to be open.

To commemorate the International Day of People with Disabilities, we invited our employees to a webinar starring Jasioł Mela, explorer and motivational speaker. A lecture entitled "Impossible is an Excuse" ("Niemożliwe to tylko wymówka") encouraged participants to avoid stereotyping and reduce prejudice. We also reminded our employees how to interact with people with disabilities, and organised a sign language lesson.

### **Cybersecurity education for Internet users**

In June 2021 we ran a nationwide social campaign promoting cybersecurity called "People are incredible" ("Ludzie są niesamowici"). We educated Internet users on cyberthreats. This edition of the campaign promoted knowledge on online threats and ways to protect oneself from them. The campaign was run on the Internet and on TV, where we broadcast informative advertisements. Moreover, we launched a dedicated website [LudzieSaNiesamowici.pl](https://LudzieSaNiesamowici.pl), where we posted additional information about key takeaways from the campaign. We provided tips and tricks on how to protect oneself from cyberthreats, and encouraged visitors to test their knowledge on cybersecurity.

For mBank, 2021 was yet another year of cybersecurity education. We have been running online security campaigns for several years now. mBank is the first bank to initiate such a broad campaign on this important topic.

The 2021 campaign reached 11.6 million unique users. The dedicated cyber education website had 1.6 million visitors. On average, visitors spent several minutes on the website, which is a very good result compared with other campaigns. During the campaign, the cybersecurity test was completed by over 50,000 users.

On December 29, 2021 we launched another edition of the campaign. Its results will be announced in 2022.

### **"m for mBank's art collection" fund**

"m for mBank's art collection" ("m jak malarstwo") is one of the responsible business strategy projects run by mBank. Thanks to our special fund, we are assembling a collection comprising artworks of the most interesting and promising young artists. The artworks are selected on behalf of mBank by a committee composed of renowned representatives of the art market and a representative of mBank.

When selecting individual works, the committee responsible for art purchases is guided by both their artistic worth and prospective long-term valuation. This may include both single artworks from individual artists, and larger collections.

In 2020 and 2021, mBank bought 57 artworks authored by 34 contemporary Polish painters. Moreover, 50 of them were presented for the first time at the "Y for Youth" ("m jak młodość") exhibition at the National

Art Gallery in Sopot. In December 2021, mBank gave the first-ever award for the best painting during UpComing, an annual exhibition organised by the Academy of Fine Arts in Warsaw.

We expect that in the future mBank's collection will (once again) pave the way for a new generation of artists, and the "m for mBank's art collection" fund will operate like a perpetual motion machine supporting artists. mBank's initiative revitalises the Polish art market and supports the most talented young artists.

#### **Other social initiatives**

Other social initiatives of mBank – cooperation with the Great Orchestra of Christmas Charity (WOŚP) and the "Digital Revolutions" ("Cyfrowe rewolucje") campaign for e-commerce companies – have been described in section 1.7 "Key events and projects in mBank Group in 2021".

## 12. Non-financial information

### 12.1. Information about the statement

This statement concerning non-financial information of mBank Group for 2021 includes a concise description of the business model, policies and due diligence processes, outcomes of these policies, principal risk factors and risk management, and key performance indicators. In line with the legal requirements, for the first time we are adding indicators required by the EU Taxonomy. These elements refer to mBank Group's corporate social responsibility and sustainable development (ESG). ESG is about Environment, which includes also climate protection, Social, including responsibility for clients and employees, and Governance.

The report covers mBank S.A. and its branches in the Czech Republic and Slovakia, as well as selected subsidiaries of mBank Group: mLeasing, mFaktoring, mBank Hipoteczny, and mFinanse. We selected these subsidiaries based on the headcount criterion. As at the end of 2021, the number of full-time equivalents (FTEs) at mBank and the selected subsidiaries accounted for 98.6% of all FTEs in the Group.

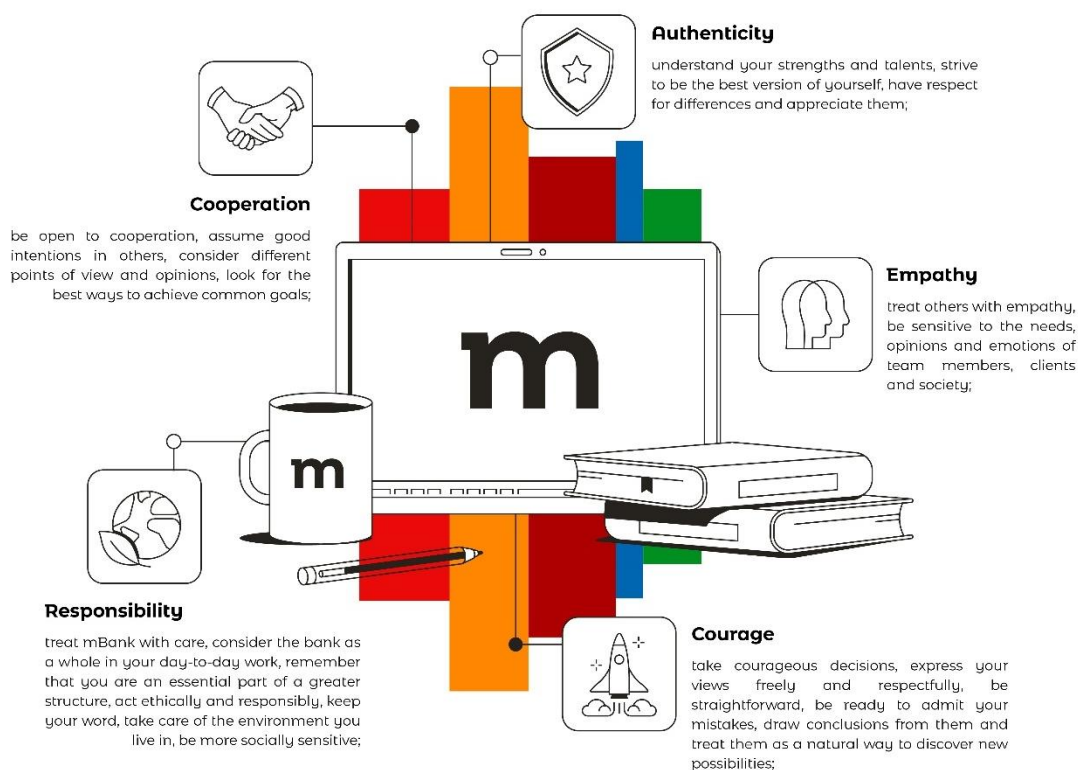
This statement is prepared on the basis of the international reporting standards of the Global Reporting Initiative (GRI).

More information about sustainable development in mBank Group will be available in the integrated report for 2021, which we will publish on mBank's website.

### 12.2. Business Model

mBank has been a synonym for innovative banking solutions for years. We were the first fully online bank in Poland. Today we set the direction of development in mobile banking. We are one of the strongest and fastest developing financial brands in Poland. We aspire to offer the best in mobile banking, helping clients take control of their finance whenever and wherever they want. The starting point of all internal processes, product development, and client tools is our digital DNA and current strategy. We are a universal bank, serving all groups of clients and growing organically.

The activity of mBank Group relies on a model of values centred on benefits for clients, shareholders, employees, and other stakeholders. We identify their genuine needs and implement adequate solutions addressing current and future requirements. At our daily work we are guided by the following values:



We provide professional top-quality customer service and a customised flexible offer. It includes products and services tailored to different user needs: lending, savings, investments, insurance, and corporate products. At the same time, the coherent business model in each of those areas allows clients to move freely between segments, which makes mBank perfect to support them in every step of their personal and professional development. We support entrepreneurs from the beginning of their professional development, helping to start a business with mBank, online or at a branch, and offering a starter service pack including financing, accounting, terminals, and currency exchange. Large companies and international corporations successfully use an integrated range of commercial banking solutions including an advanced transactional banking platform. The comprehensive offer extends to investment banking services on the capital market.

mBank's product distribution concept consolidates the most advanced technological solutions which address the challenges in the environment and set the trend in the Polish banking sector. Online and mobile solutions, as well as the network of distribution points and a call centre, provide a comprehensive platform for customers to interact with mBank. The IT platform architecture allows the bank to develop and introduce new products, services and sales channels efficiently and with a low operational risk. Moreover, continuous development of mobile banking and digital customer service tools reduces our negative impact on natural environment. Mobile and online banking solutions available to clients reduce the need to visit a bank branch as well as save paper. mBank employees also reduced the number of business trips and the daily commute. This shift was helped by high-tech teleconference solutions available in mBank's head office and branches as well as virtual meetings and home working.

The Covid-19 pandemic accelerated the digitalisation of processes, including customer service. In 2021 we continued this trend, which became vital a year ago. Today our clients can handle a variety of affairs, e.g. open an account, fully online. In 2021 we updated our mobile banking apps, added new contactless mobile payment options, or implemented an automatic voice assistant (voicebot). We also equipped our employees with new digital tools enabling them to work effectively from home.

In November 2021 we adopted a new business strategy for 2021-2025 which includes our ESG agenda. The new strategy covers five ESG pillars:



For more details about our ESG strategy for 2021-2025, see chapter 3. "mBank Group's Strategy" or go to [mBank's website](#).

The implementation of the new ESG strategy has been supervised by the Sustainability Committee (KZR) of mBank Group. It indicates the main directions of activities and proposes them to the Management Board, organizes the ESG management system and supervises the course of initiatives in this area. The Committee issues decisions and recommendations regarding ESG policies and guidelines. Moreover, it coordinates the work of various organisational units of mBank Group and is a platform for dialogue on sustainable development. The Committee is chaired by the vice-president of the management board, Chief Risk Officer, and is composed of representatives of all mBank areas and Group subsidiaries.

Every quarter, mBank's Management Board discusses ESG topics with the Supervisory Board. Also, the Risk Committee of the Supervisory Board regularly deals with ESG issues.



The ESG issues are an essential part of business processes in mBank Group, such as risk management, introduction and sale of new financial products, recruitment and development of employees or relations with suppliers. We also take ESG issues into account when assessing the performance of 100 most senior employees of mBank, including the Management Board members.

In 2021 we signed the UN's Principles for Responsible Banking and joined the United Nations Environment Programme Finance Initiative (UNEP-FI). Moreover, we continue supporting the Ten Principles of the Global Compact initiative of which we are a member. Our actions are guided by the UN's Sustainable Development Goals.

### **12.3. Policies, due diligence and their outcomes**

#### **Compliance policy at mBank**

The compliance policy contains general principles for ensuring compliance of mBank's activities with laws, internal regulations and market standards. This also applies to compliance with the recommendations and advice of the Polish Financial Supervision Authority (KNF) and other public authorities relevant to the bank's business.

Compliance is ensured through three lines of defence:

1. The first line of defence is the management of compliance risk and the execution of control functions in operations,
2. The second line of defence includes at least:
  - the management of compliance risk and the execution of control functions as part of the tasks performed by the Compliance Department,
  - risk management by staff on dedicated posts or in organisational units where part of the risk management tasks have been delegated to other units within the first or second line of defence,
3. The third line of defence is represented by the activity of the Internal Audit Department (DAW).

In all three lines of defence, the bank's employees duly apply control mechanisms or independently monitor the observance of control mechanisms.

The implementation of the provisions of the policy is the responsibility of all employees of the bank, in accordance with their responsibilities and the powers vested in them:

- mBank employees identify, assess, control and monitor the risk of non-compliance with laws, internal regulations and market standards. They also prepare quarterly reports for the Compliance Department.
- Business unit directors are, as part of the control function, responsible for organising work in such a way that employees follow the compliance policy.
- The Compliance Department prepares and submits annual, quarterly and ad-hoc reports to the bank's Management Board, Supervisory Board and Audit Committee.
- The bank's Management Board is responsible for the effective management of the bank's compliance risk. It presents annual reports to the Supervisory Board and the Audit Committee.
- The Supervisory Board assesses the adequacy and effectiveness of compliance risk management. It also oversees the Management Board's performance of compliance obligations in both the control and compliance risk management functions.

Internal audits cover all areas of operations of the bank and its subsidiaries. Audit topics in the area of compliance include:

- Implementation of the AML programme and sanctions policy,
- Personal data protection,
- Compliance with the law on trading in financial instruments,
- Compliance risk management,
- Preventing abuse of the law, including corruption.

Internal audits assess the adequacy and effectiveness of the risk management and internal control systems within the audited processes, at the first and second lines of defence, respectively. In doing so, we consider the adequacy and effectiveness of the control mechanisms and independent monitoring of their application



in those lines. Each audit also verifies the compatibility of our internal regulations and processes with external requirements.

#### Results of policies implemented:

GRI 419-1 Non-compliance with laws and regulations in the social and economic field

In 2021, we paid three fines, including two fines imposed by the Office of Competition and Consumer Protection (UOKiK) and one fine imposed by the Polish Financial Supervision Authority (KNF), in a total amount of PLN 9.5 million. Non-financial sanctions imposed on mBank included one UOKiK decision.

Authority	Subject matter	Year of initiation	Results of proceedings	Reply from mBank
UOKiK	Use of prohibited clauses in model contracts for Individual Pension Accounts (IKE)	2012	Original penalty of PLN 14.79 million reduced to PLN 2.46 million	mBank paid the penalty
UOKiK	Non-application by mBank of negative lending rates due to negative LIBOR	2015	Imposed penalty of PLN 6.58 million	mBank paid the penalty
KNF	Failure to correctly identify beneficial owners for some clients	2019	Imposed penalty of PLN 0.45 million	mBank paid the penalty
UOKiK	Fees charged by mBank for termination of revolving loan agreements	2020	Authority's decision to refund fees to customers	mBank refunded fees to customers

Internal audits conducted in 2021 in the area of compliance concerned anti-money laundering and sanctions policy in selected areas of the bank's operations (3 audits) and the implementation of GDPR (1 audit). As a result, the Internal Audit Department identified areas for improvement. The bank implemented the recommendations issued as a result of those audits in a timely manner.

#### **Anti-corruption policy in mBank**

The policy provides guidelines for the identification and mitigation of corruption risks, the key principles of the code of ethics, and related responsibilities. No management board member, manager, employee or associate may justify corruption or bribery by invoking mBank's interest.

mBank follows a policy of zero tolerance for all forms of corruption, including accepting, offering, requesting, granting and giving consent for additional benefits, objects or payments in order to:

- exert an undue influence on a decision,
- gain or secure an unlawful business advantage,
- achieve personal gain.

The Management Board and employees of mBank are required to avoid conflicts between their private and professional interests. Offering any undue benefits, especially to central and local government officials, civil servants as well as politicians, is strictly prohibited.

At mBank, we counter corruption through a system of three lines of defence:

1. The first line includes the bank's business units,
2. The second line of defence is the Compliance Department which:
  - sets standards for compliance with anti-corruption laws and regulations,
  - monitors compliance with such standards,
3. The third line of defence is the Internal Audit Department (DAW), which assesses the adequacy and effectiveness of the anti-corruption system implemented in the bank.

The Management Board and employees report incidents of corruption or symptoms of corruption to their line manager or directly to the Compliance Department. Reports can also be made anonymously via the [mSygnał](#) system, which is also available online to third parties. All reports are handled with the utmost care and confidentiality. The organisational units, which examine cases of violations, identify all the circumstances of the incident and secure evidence. If a crime is suspected, the director of the unit involved

passes the evidence to the Security Department, which notifies the law enforcement authorities, if suspicions are confirmed.

Individuals found guilty of corruption or attempted corruption are subject to the procedure set out in the Labour Law and the mBank's Work Regulations. The Director of the Compliance Department notifies the member of the bank's Management Board responsible for the relevant area of the bank's business as soon as possible of a corruption incident. In cases of high reputational risk or where the incident involves a member of the bank's Management Board, the Director of the Compliance Department also notifies the Chair of the Supervisory Board.

The Compliance Department maintains a register of proceedings in corruption cases. It submits periodic reports on the implementation of the anti-corruption policy to the bank's Management Board and Supervisory Board as part of its compliance risk management reports. It may also independently, irrespective of reports from organisational units, take steps to detect corrupt activities. The Compliance Department carries out scheduled and ad-hoc audits in areas of the bank that are particularly exposed to the risk of corruption. This applies in particular to cooperation with the bank's business partners.

The bank expects its business partners (suppliers, counterparties, contractors cooperating with mBank and its clients on behalf of the bank) to act in accordance with the principles set out in the policy. An anti-corruption clause is an integral part of each agreement concluded by the bank with its business partners.

The Anti-Corruption Policy sets out the rules for giving and receiving gifts by mBank employees. Among other things, the Policy prohibits:

1. accepting and giving gifts of cash or cash equivalents,
2. giving and accepting to/from other mBank employees gifts in any form whatsoever if the gift could be considered as influencing the integrity of the performance of the processes entrusted to them,
3. accepting gifts from mBank's business partners,
4. giving gifts to central and local government officials in connection with their functions.

The Compliance Department keeps a register of gifts received and given. It regularly checks that the rules of accepting and giving gifts are complied with.

#### Results of policies implemented:

GRI 205-3 Confirmed incidents of corruption and actions taken

We identified no cases of corruption in 2019, 2020 and 2021.

GRI 205-2 Percentage of employees that have received training in the organisation's anti-corruption policies and procedures

Employees regularly receive training on anti-corruption and gift acceptance/giving. Such annual training is mandatory for all full-time employees of the bank, as well as for contractors who have access to protected data. The training is concluded with a knowledge test with a mandatory passing threshold. In addition, the Compliance Department conducts training for narrower target groups, which is tailored to their specific area of activity and level of exposure to corruption risks.

	2019	2020	2021
Percentage of employees trained (mBank S.A.)	95%	83%	97%

#### **Fraud prevention policy at mBank and whistleblowing**

The policy defines who, and how, is responsible for fraud prevention. We have a zero tolerance policy against anyone who commits fraud or financial crime. Consequences may include criminal prosecution, disciplinary measures under employment law or pursuit of civil claims.

The risk management cycle applied in mBank includes four stages:

- fraud prevention – risk assessment, early identification, and clear rules and mechanisms mitigating risk;
- fraud detection – implementation of fraud controls, monitoring systems and reporting channels;
- fraud management – every case of suspected crime to the detriment of mBank or its client is investigated and necessary steps are taken, including legal measures;
- response – clear rules for mitigating loss or damage, corrective mechanisms, lessons learned.

mBank has implemented an electronic system for anonymous reporting of violations (whistleblowing). Reports can be submitted anonymously through the [mSygnał](#) system, which is also available to third parties. It can be accessed from any device with internet access.

Any form of pressure against bank employees who, in good faith, report a suspected violation, a breach of the bank's internal regulations or of applicable law, is prohibited. The identity of the whistleblower and the reported person is strictly protected. Their data cannot be made available to third parties unless such an obligation arises from the provisions of the law (whistleblower protection principle).

The rules for reporting violations and the procedure for investigating cases are laid down in internal regulations, according to which:

- any employee of a bank has a duty to report that he or she suspects or knows about a violation,
- this must be done in good faith to avoid intentionally hurting someone,
- no form of reprisal can be taken against an employee who reports a suspected violation in good faith, even if the information is not corroborated by an investigation,
- the information provided in the report, as well as the information obtained in the course of the investigation, is subject to data protection regulations and must be treated as confidential,
- the whistleblower can set up an anonymous mailbox where he/she receives information on the follow-up to his/her report and can provide additional information,
- each report is checked by authorised personnel, allowing for objective, fair and impartial clarification of the reservations.

Initial verification of reports is carried out by employees of the Compliance Department. Reports registered in the system or otherwise are reviewed and analysed by authorised persons: employees of the HR department, foreign branches, Compliance Department or our Ethics Officer. Reports are reviewed as soon as possible after receipt and investigated within 30 calendar days of receipt. Once we confirm the reported violation, the matter is pursued in accordance with the law and the bank's internal regulations.

We prevent the recurrence of malpractices. We define standards and guidelines of conduct in internal regulations. We conduct training, issue recommendations for corrective actions and carry out inspections.

The rules for reporting fraud to the Management Board and the Supervisory Board are also clearly defined. They cover regular and ad-hoc reports.

#### Results of policies implemented:

Number of reported and confirmed cases of fraud	2019	2020	2021
Cases reported to the fraud management team	63	76	70

All the reports filed in 2021 were checked and, if necessary, appropriate measures were taken to eliminate the malpractices identified. Of the reports received, in 5 cases the Security Department filed notices to the Public Prosecutor's Office on suspicion of a criminal offence. We recorded no cases of internal violations resulting in significant losses to the bank or an adverse impact on reputation risk.

In 2022, we will adapt the whistleblowing process to new regulatory requirements. We are awaiting the publication of a local law on whistleblower protection, which is expected to transpose the EU directive into Polish law. In 2021, we performed a gap analysis against the published draft law.

#### **mBank's disclosure obligations**

mBank has implemented the requirements imposed among others under the Act on Trading in Financial Instruments, MAR, and the Act on Public Offering.

We comply with the disclosure requirements because:

- we are a public company, that is, an issuer of securities admitted to trading on the regulated market;
- we carry out brokerage activities;
- we carry out custodial activities;
- we carry out activities referred to in Article 70(2) of the Act on Trading in Financial Instruments.

In accordance with the law, we classify information on certain events related to mBank's business as inside information. In such cases, we provide a mandatory current report to the Polish Financial Supervision Authority (KNF), the Warsaw Stock Exchange (GPW) and the Polish Press Agency (PAP). This also applies to certain other events, which are not inside information. The requirement to provide a report to the KNF applies to events related to brokerage, depositary or investment activities. Each organisational unit of mBank affected by or aware of such an event must inform the Compliance Department.

Failure to report, late reporting, and undue reporting generate the risk of financial penalties for mBank. In that case, the risk of financial penalties also affects:

- the persons providing information for a report;
- the members of the Management Board responsible for the given area.

mBank keeps records of persons discharging managerial responsibilities within the meaning of MAR.

In addition, at the beginning of 2022 we introduced a new Disclosure policy for communications with investors, the media and clients. It defines the scope of disclosures and how the policy is implemented. According to its provisions, mBank ensures open and transparent communications, takes into account the needs of all stakeholders and provides them with universal and equal access to information in line with the highest market standards and applicable laws.

#### Results of policies implemented:

Number and amount of financial penalties imposed for non-delivery, untimely delivery or delivery of an unreliable report: there were no such cases in 2021 and in the previous two years.

#### **mBank's conflict of interest management policy**

The policy sets out standards and principles on how to avoid, correctly identify and manage conflicts of interest. The solutions adopted by mBank ensure that conflicts of interest are managed in accordance with the principle of equal treatment of clients. They ensure that mBank, its employees and persons associated with mBank do not gain benefits or avoid losses at the expense of clients.

Proper management of conflicts of interest is part of the corporate culture and it is the responsibility of mBank employees at all levels of the organisational structure. It is particularly important that members of the Management Board and the directors of organisational units take part in:

- identification of conflicts of interest,
- identification of appropriate measures to avoid conflicts of interest, or
- resolving such conflicts when they arise.

Special rules apply to members of mBank's Supervisory Board and Management Board. They are obliged to disclose the occurrence or potential occurrence of a conflict of interest and to refrain from taking part in discussions and voting on matters that may give rise to such a conflict in their relationship with an mBank client or mBank itself.

In accordance with the provisions of this policy, the Management Board designates the Compliance Department as the unit responsible for overseeing the management of conflicts of interest in the bank. In particular, the oversight covers the implementation of internal regulations, IT solutions, consultations provided to organisational units, control and training activities, and issuing recommendations. The Compliance Department analyses reported conflicts of interest, issues recommendations on how to proceed in a given case, and monitors the implementation of the recommendations. The Compliance Department reviews the policy to assess its adequacy and effectiveness at least once a year.

Information barriers are used to limit the circulation of inside information, information concerning mBank's clients and their transactions.

Results of policies implemented:

The bank's employees (full-time employees or part-time employees and contractors with access to protected data) are required to undergo annual training covering the management of conflicts of interest. The training is concluded with a knowledge test with a compulsory passing threshold. In addition, the Compliance Department provides training to narrower target groups, which is tailored to their specific area of activity and conflict of interest risk profile.

	2019	2020	2021
Percentage of employees trained	95%	83%	97%

**Policy on the assessment of qualifications (suitability) of Supervisory Board and Management Body members, and key function holders**

This policy describes the criteria and process for assessing the qualifications of (candidates for) members of mBank's Management Board, Supervisory Board and Audit Committee. The document sets out the principles to be followed in the event of a vacancy in the position of a member of the Supervisory Board and the Management Board, including in urgent and unexpected cases requiring immediate filling of the vacancy. The policy introduces principles to be followed to ensure that the positions of members of the bank's most important bodies are occupied by persons who are suitable for the function as regards their:

- qualifications,
- substantive knowledge,
- skills,
- professional experience,
- aptitude and reputation.

They must also be characterised by honesty, integrity and the ability to conduct the bank's affairs in a prudent and stable manner.

In addition, one of the objectives in the selection of the composition of the Management Board and the Supervisory Board is to apply the criterion of comprehensiveness and diversity, including with regard to gender, age and professional experience.

When selecting members of the Supervisory Board/Management Board, the General Meeting of Shareholders and the Supervisory Board take into account the outcome of the suitability assessment and strive to achieve a balance in terms of gender representation, or at least to reach a minimum gender minority of 30% in both bodies as a whole.

Results of policies implemented:

	2019	2020	2021
Number of women on mBank's Management Board	1	0	0
Participation of women in mBank's Management Board	14.3%	0.0%	0.0%
Number of women on mBank's Supervisory Board	2	4	3
Participation of women in mBank's Supervisory Board	20.0%	50.0%	37.5%

*Data as at the end of 2021*

**Policies and due diligence related to information security and cybersecurity**

One of our important objectives is to ensure the security of mBank's information resources, both in Poland and in foreign branches, including protection of their confidentiality, integrity, availability and authenticity. We protect information regardless of the form in which it is stored. We strive to maintain continuity of services provided to clients and ensure continuous incident response.

We pursue those objectives in accordance with our **Policy on information security**. Among other things, it provides for:

- perception of information security management as an important part of bank management,

- application of security standards developed on the basis of the experience of mBank employees, Commerzbank Group standards, international standards and global best practice,
- continuous improvement of employees' qualifications and raising their awareness of information security, particularly in connection with the constant development of new banking products and the emergence of new threats,
- ensuring adequate resources for the execution of security processes and addition of new security features,
- involvement of all employees in the implementation of the policy,
- educating customers on how to behave safely in a digital environment,
- development and continuous improvement of the information security management system.

The second key regulation that underpins our digital security activities is the **Policy on cybersecurity**. Its key objective is to ensure a high level of cybersecurity in the services provided to clients, in the activities carried out by the bank's employees and in the relations with other financial institutions. We follow this vision through specific objectives, including:

- matching the necessary level of cybersecurity with innovative business;
- continuously raising employee and client awareness of information security;
- managing the risk of cyber threats through a system of early detection, response, lessons learned and risk assessment;
- incident management;
- managing cooperation with suppliers and business partners;
- development and continuous improvement.

Actions necessary to ensure the required level of security are coordinated by employees of mBank's Security Department, led by the Department Director who has the role of CSO (Chief Security Officer). All actions are supervised directly by a member of the Management Board, who has the role of COO, and by the formally established Security Committee, composed of representatives of different areas of the bank. The Committee has powers and decides on important security actions related to: protection of information, including protection of information in IT systems, banking crime, physical and technical protection, as well as ensuring the continuity of the bank's operations.

A dedicated Security Operations Center (SOC) team is part of the Security Department. With the SOC, we are able to effectively carry out activities related to monitoring of security and handling of cyber incidents and payment incidents 24/7/365. We also have our own CERT team, affiliated with the European Trusted Introducer organisation, working closely with other teams of this type. Since 2017, mBank's CERT has held Accredited status, confirming its high organisational maturity and agility. The Information Security Management System we have implemented is compliant with the ISO 27001 standard. It is also an important part of the requirements imposed on the bank under the National Cybersecurity System Act. The degree of compliance with these requirements is confirmed regularly, once every two years, as part of a compliance audit. The most recent such audit took place in Q4 2021.

In our operations, we use a range of security monitoring solutions from reputable and recognised vendors. These allow us to build an effective, multi-layered (security-in-depth) security system. We also cooperate with providers of Threat Intelligence and Threat Hunting services. With these services, we are able to effectively and proactively prevent many threats and respond to cyber incidents.

We review our security activities and the current actual security level of processes, IT systems and provided services by means of security audits, compliance audits, advanced security tests, penetration tests, and Red Team cross-sectional tests. These activities are performed in accordance with an annual plan, which is updated and extended depending on identified risks (in case of implementation of new systems, use of new technologies, occurrence of incidents, identification of new threats, etc.). Detected vulnerabilities and irregularities are used in conclusions and recommendations. Their implementation allows for continuous improvement of the security level of services provided by the bank.

To ensure the required level of security, we continuously educate and raise security awareness among our employees. We provide mandatory information security and cybersecurity training to each employee. In addition, we conduct non-mandatory training, mainly as part of the Security Academy.



We also engage in educating the society, including our clients. We run regular educational campaigns in the media for internet users (see the chapter 11 "mBank and corporate social responsibility"). We also offer a free-of-charge [CyberRescue](#) service. It provides our customers with support in case become victims of cybercrime.

#### Results of policies implemented:

Once a year, every mBank employee in Poland is obliged to complete a mandatory cybersecurity training on an e-learning platform. The training is concluded with a knowledge test with a compulsory passing threshold.

In addition, the Security Department ran an employee awareness programme on cybersecurity in 2021. As part of the Security Academy, 24 workshops were held. We trained 860 participants. The workshops were designed for IT developers, IT administrators, customer service and contact centre employees, office workers and managers. The forms of training were adjusted to the groups of recipients. They were supported by external experts.

### **Policies and due diligence related to personal data security**

For a bank, effective protection of personal data and the rights and freedoms of data subjects is an essential condition for reliability. The General Data Protection Regulation (GDPR) has unified the rules of privacy protection for the citizens of the European Union, including Poland. At mBank, which is an independent controller of personal data, we have implemented and comply with the GDPR requirements. We respect the rights of our clients, counterparties and employees and protect their privacy.

We have regulated this area in the **Policy on personal data security** and the **Policy for personal data management over time (retention)**. These policies describe the rights of personal data subjects as well as the obligations of mBank as controller. They define how we implement the principles and obligations under the GDPR. This includes the principles of data processing, such as, among others, data confidentiality, minimisation of the scope of processed data, processing for a strictly defined purpose. These policies also define how and for how long we process personal data and the deadlines after which we anonymise or delete personal data.

We have appointed a Data Protection Officer, to whom any data subject can write at: [inspektordanychosobowych@mbank.pl](mailto:inspektordanychosobowych@mbank.pl) For more information on data protection and its implementation at mBank, please visit our website: <https://www.mbank.pl/rodo/strona-glowna/>

#### Results of policies implemented:

GRI 418-1      Complaints concerning incorrect processing of personal data of clients and other data subjects:

In 2021, we received 26 new complaints from the Office for Personal Data Protection (UODO). We also continued to communicate with the UODO on complaints from previous years. The complaints concerned the bank's processing of personal data of, among others, our clients and potential clients. In 2021, we received 4 administrative decisions of the President of UODO obliging us to implement the complainant's request. We implemented 3 of them in accordance with the decision of the UODO. In the case of 1 decision, we appealed to the Regional Administrative Court, which overruled the decision and closed the proceedings.

In 2021, mBank's data protection officer confirmed 106 breaches of GDPR at the bank. After analysis and estimation of the risk of violation of rights and freedoms, we notified 56 violations to the President of the UODO. We informed the affected persons about the incidents and potential actions to minimise the adverse consequences of these incidents for them.

### **New product introduction policy**

This document sets out the general rules for the process of introducing new products to mBank's offering and modifying existing products. It ensures that the products we deliver are:

- consistent with mBank's strategy and values, including empathy and the client-centric philosophy we follow;
- safe for clients and for us, including, but not limited to, taking into account our safety standards;
- compliant with generally applicable laws and our internal strategies and policies.

We assess each new product against ESG factors, i.e., its impact on social and environmental goals. We conduct this analysis at different stages of the process, from planning through implementation to product modification. By raising awareness of ESG issues among employees, we eliminate the introduction of defective products which have a negative impact on the bank's reputation.

The new product introduction policy defines in particular the rules of compatibility of mBank's financial products with clients' needs and rights. We monitor the match of offered products with the needs of their users by reviewing the sales process, identifying potential and actual cases of misselling, and analysing complaints and claims submitted by clients.

When selling products, we pay particular attention to communicating honestly and clearly with the client. The information and materials we address to clients use simple and understandable language, in line with [mKanon](#), our proprietary communications standard. We also follow the principle of transparency and proper scope of information.

The descriptions of our products are clear, concise and include all the relevant features that affect their suitability and attractiveness. We do not conceal the conditions necessary to use them. We give notice of the risks associated with the use of a product. We openly inform customers about the cost of products. We present our offering, including our pricing policy, in a transparent manner. We communicate changes in our price lists to clients well in advance.

The new product introduction policy sets out a zero tolerance rule against misselling of products:

- misleading, negligent and unprofessional product selling;
- distorting the character of individual products;
- misselling – selling products which are not intended for a particular customer group.

Depending on the types of risks identified, the product introduction process includes verification and opinions issued by various mBank units, as well as review and approval by relevant committees. Among the risks analysed, we assess among others compatibility with the ESG objectives defined by the mBank Group's business strategy.

The implementation of the rules laid down in the policy is reviewed in an application used by mBank employees. Each new product or modification of an existing product must be checked before it is offered. Individual product modifications are implemented according to predefined approval tracks, and the assignment to a track depends on the scale of the modification and the amount of risks involved. We use the application, among other things, to standardise the product introduction process and to keep a record of actions taken in the process.

#### Results of policies implemented:

In November 2021, we adopted the mBank Group's new business strategy for 2021-25. Among other things, it provides that mBank will launch at least one sustainable product each year in both business areas (retail and corporate) which meets its ambitious ESG goals. The first such product that we launched in December 2021 was the EKO mortgage loan.

As regards responsible promotions and sales, in 2021 we trained 716 of our employees in applying the principles of simple and clear communication in line with mKanon. We also audited 70 subpages on the mBank.pl website. As a result, the Polish Language Foundation awarded us the Language Quality Seal. It confirms that the content on the website is user-friendly, linguistically correct and understandable.

The match of products with clients' needs, as well as the way products are promoted and sold, is reflected in complaints data. When analysing them it should be noted that they also cover other issues, such as the quality of after-sales service.

Percentage of complaints resolved in favour of the client	2019	2020	2021
Retail banking	82%	76%	76%
Corporate banking	80%	74%	75%

- Complaints – number and resolution time:
  - Retail segment: in 2021, we processed a total of 181,200 complaints. As for complaint handling time (4.4 days), we were back at pre-pandemic levels. We resolved 61% of complaints within 1 business day (52% in 2020).
  - Corporate segment: in 2021, we processed a total of 3,634 complaints. 24% of the complaints were closed within 5 business days (22% in 2020). We process complaints as quickly as possible, within a maximum of 15 business days. In particularly justified cases we can extend the deadline to 35 business days.

## **Policy on competences of employees who serve investment clients**

We have established a "Policy for meeting the knowledge and competence requirements of employees who serve investment clients". It is designed to ensure that the investment products we offer are tailored to the individual client profile. The policy fulfils the requirements of MiFID II as set out in the Regulation of the Minister of Finance. All mBank employees serving investment clients are subject to knowledge and competence reviews. The policy defines:

- the posts which are subject to it;
- the scope of knowledge and professional experience required of staff;
- the way of reviewing and improving staff competence.

This enables our employees to understand both the characteristics of the investment products offered and the needs of our clients.

In the retail and corporate banking business areas, we have introduced detailed rules which implement this policy. Accordingly, employees, who serve investment clients, undergo an annual audit of their competences, including knowledge and experience. In the case of a positive verification, they obtain the status of an authorised employee and can independently provide (potential) clients with information on investment services and financial instruments. In case of a negative result, they can only perform their duties under the supervision of another employee, who has received such authorisation. mBank's Brokerage Office, acting as its separate unit, follows similar procedures.

We ensure that our employees regularly participate in in-service education and trainings related to the investment offer. When planning training, we take into account competence gaps which we have identified in the past.

### Results of policies implemented:

1,346 employees, who serve investment clients, received relevant training in 2021.

In addition, in retail banking, we started the development of an application which will support the process of managing work under supervision. The application will allow us to manage the rights and positions of employees, who serve investment clients.

## **Strategy on ESG risks in investment services**

In the area of investment services provided by mBank, in 2021 we implemented the "[Strategy on risks for sustainable development in the investment advisory and financial instrument portfolio management service at the mBank Brokerage Office](#)" as well as an accompanying [document containing the information required by the SFDR](#) regulation. These documents describe how, in providing portfolio management and investment advisory services, we take into account the impact of investment decisions on sustainable development. Evaluation of investments from this perspective is intended to help identify and, where consistent with the provisions of the investment strategies, minimise sustainability risks.

In this regard, we have also extended the mandatory information documents (MiFID packages) for retail banking clients, including mBank and Brokerage Office clients, for whom we provide investment services. We provide such documents to clients before concluding an agreement on management or investment advisory services.

mBank's Brokerage Office has established committees responsible for the selection of financial instruments for investment portfolios in the management service and the selection of recommended portfolios in the investment advisory service. They take into account the impact of investments on sustainable development objectives. This allows us to:

- exclude the assets most harmful from an ESG perspective,
- apply positive asset selection ("best-in-class" approach).

mBank's Brokerage Office has implemented detailed rules regarding the analysis of risk for sustainable development in the process of managing investment portfolios. The procedure determines the factors which guide the selection of issuers and financial instruments. It aims to minimise the adverse impact associated with ESG factors. It also describes the principles for analysing the aforementioned risks in the case of portfolios covered by individual investment strategies, as well as investment funds and other financial instruments included in investment portfolios. Likewise, as part of the investment advisory service, each fund is analysed with regard to the aforementioned risks before a recommendation is made.

We believe that ESG factors significantly influence our clients' investment performance. To the greatest extent possible, we aim to incorporate ESG factors into financial analysis and asset allocation of our investment decisions and recommendations.

Results of policies implemented:

The value of assets in the management service in ESG model investment strategies, designed for mBank's private banking clients, increased significantly in 2021. The share of the above-mentioned strategies in the total assets in model investment strategies for this group of clients increased from 21.2% to 28.8% in 2021. At the same time, the value of assets invested in the above-mentioned strategies increased by 138%, to PLN 192 million, at the end of 2021.

**Policy on preventing mobbing, discrimination and other unacceptable behaviour**

We wish to encourage positive employee relations and build friendly work environment. As an employer, mBank strives to create a work environment free of mobbing, discrimination, and other forms of violence caused by superiors and colleagues.

The policy provides as follows:

- we at mBank we do not accept mobbing, harassment, sexual harassment, other forms of discrimination and illegal or unethical behaviour that violates the rules of social coexistence. We define such behaviour comprehensively as unacceptable behaviour;
- what unacceptable actions are, and it introduces a clear procedure for dealing with them when they occur;
- that every employee, including managers and Management Board members, is required to avoid unacceptable behaviour towards other employees, co-workers, client, suppliers;
- that if someone creates a situations that encourages unacceptable behaviour or behaves in such a way, he or she is in breach of basic employee duties. mBank as an employer may then draw consequences in accordance with labour law and the bank's work regulations.

Any employee who considers that they have experienced unacceptable behaviour has the right to make a complaint. He or she may do so non-anonymously or anonymously. Employee complaints are investigated by the Unacceptable Behaviour Committee. It is made up of directors or their appointed representatives from the following departments: HR Department, Compliance Department, Legal Department, Communication and Marketing Strategy Department, mBank's Ethics Officer and Data Protection Officer. Persons, whose legal or factual relations with the complainant could affect their objectivity and impartiality, are recused from the Committee. The Committee acts as quickly as possible:

- to explain the case comprehensively;
- to act impartially and confidentially;
- to determine whether unacceptable behaviour has taken place and what behaviour and then recommends what solutions should be applied in the case and what should be done in the future to avoid such behaviour in the bank.

Results of policies implemented:

Number of unacceptable actions reported and handled:

The Committee reviewed 4 cases in 2021. In three of them, the Committee did not identify mobbing or unacceptable behaviour. In one case, the Committee found that unacceptable behaviour occurred in the case under review. Appropriate action was taken in relation to the individuals involved.

Number of people trained in anti-mobbing and anti-discrimination:

We launched e-learning for all managers and other employees of the bank in late 2020. The curriculum includes a theoretical part and an awareness-raising part. It shows how to avoid unacceptable behaviour and how to deal with it in a team. 2,394 mBank Group employees took part in the training in 2021. The programme continues in 2022.

**mBank's remuneration policy**

The main objectives of this policy, which sets out the principles of employee remuneration in mBank, are as follows:

- ensuring the protection of the rights and interests of the bank's clients and preventing conflicts of interest,

- supporting the implementation of the bank's governance and risk management strategies,
- supporting sound and effective risk management and discouraging staff from taking excessive risks,
- building high employee engagement by providing a market-based remuneration package that is commensurate with contributions,
- retaining the best employees and attracting talent to the organisation,
- ensuring cost efficiency in terms of the salary budget.

The bank's Management Board is responsible for the development, implementation and execution of the policy. The Management Board analyses the implementation of its principles on an annual basis and submits proposals for changes. The Supervisory Board approves the remuneration policy. In case of doubt, it consults the Remuneration Committee.

Employees who hold managerial positions with significant impact on the bank's risk profile are additionally subject to the "Remuneration policy for employees with significant impact on the risk profile". In addition to this policy, mBank has established Remuneration Rules and Bonus Rules.

#### Results of policies implemented:

GRI 405-2 Ratio of basic salary and remuneration of women to men at mBank by employee category

Ratio of basic salary of women to men (mBank)	2019	2020	2021
senior management	77%	69%	71%
middle management	82%	79%	83%
other employees	75%	76%	79%
Ratio of total pay of women to men (mBank)	2019	2020	2021
senior management	74%	62%	63%
middle management	79%	78%	83%
other employees	74%	74%	78%

In 2021, for the purposes of reporting to the KNF, we used, for the first time, a new methodology for calculating the pay gap. Instead of the arithmetic mean which we had used so far, we used a weighted average, where the ratio of women's to men's pay is weighted by the number of employees within a given grade level. Under this methodology, the ratio of total pay for women to men across mBank was 89% in 2021. This compares to 69% under the old methodology used in the table above.

The presented structure of earnings is to a large extent influenced by the larger group of women employed in operational positions while men prevail among managers. Remuneration adjustments were also significantly reduced due to the pandemic and the need for savings, which is why there were no significant changes at the level of other employees.

Initiatives at the bank, which are currently under way, aim to equalise salaries for comparable positions while also supporting women's promotions. In the long term, this should close the gap in average pay between women and men.

Despite the unfavourable business conditions caused by the pandemic, mBank has taken action oriented at equality between women and men. Thanks to this, in 2021 we have become a member of the Bloomberg Gender-Equality Index. Experience gathered during the application process to the index indicated our strengths and weaknesses in scope of gender equality, both in our organisation as well as when promoting it in our environment. More information about the index can be found on the website: [www.bloomberg.com/gei/about/](http://www.bloomberg.com/gei/about/)

#### **mBank's Work Rules**

mBank's work rules define the responsibilities of the employer and employees. In line with labour law, mBank's work rules govern the organisation of work at the bank and the conclusion of employment agreements. mBank's work rules define matters relating to full or part-time employment and working hours, work attendance, holidays, remuneration, awards and bonuses. mBank's work rules cover:

- liability for breach of employee's obligations,
- occupational health and safety, fire protection,
- protection of women and minors at work.

The President of the Management Board or a Management Board Member or Managing Director authorised by the President oversees the implementation of the rules at the bank with the support of employees of the Employee Development and Organisational Culture Department and directors of the bank's units who monitor compliance with the rules in their units on an on-going basis. The work rules apply to all employees of the bank working under employment agreements irrespective of position, full or part-time employment, and term of the agreement. They are required to comply with the rules and need to sign a declaration to that effect no later than the first day of work. mBank's work rules were implemented and are updated in form of an Order of the President of the Management Board.

### **mBank's Workers' Council rules**

mBank employees are represented by the Workers' Council established under the Act of April 7, 2006, on employee information and consultation. The Workers' Council is comprised of 7 members elected by all employees for a term of four years. Its responsibilities include consulting the employer on:

- status quo, structure and expected changes of employment and
- matters which could cause significant changes to the organisation or the basis of employment.

The Workers' Council operates under an agreement with the bank.

### **Anti-money laundering (AML) and counter-terrorism financing regulations**

As regards preventing money laundering and terrorist financing, we follow internal regulations and policies of the Commerzbank Group at mBank. We act in accordance with the "Anti-Money Laundering and Countering the Financing of Terrorism Programme" which is consistent with national and EU regulations. We apply the following principles:

- we identify and verify the identity of our clients,
- we identify and verify the identity of the beneficial owners of our clients,
- we identify the risk of money laundering and terrorist financing,
- we apply financial security measures appropriate to the identified risk of money laundering and terrorist financing,
- we identify and verify our clients and their beneficial owners for holding politically exposed positions (PEP, RCA),
- we refuse to engage with and we terminate customer relationships where we have identified a risk of money laundering or terrorist financing or an inability to comply with financial security measures,
- we monitor our clients' transactions to protect mBank from money laundering and terrorist financing,
- we regularly train our employees.

All mBank employees are responsible for the implementation of the programme. In particular, account managers and client advisors are responsible for the periodic review of clients. The President of the Management Board is responsible for ensuring that the obligations of the AML Act are implemented under the AML Programme. The President of the Management Board is appointed to this role by a resolution of the Supervisory Board. The Director of the Financial Crime Prevention Department, supervised by the Managing Director of Regulatory, Legal and Customer Relations, is responsible for ensuring that the activities of the bank and those of its employees and other persons performing activities for the bank comply with anti-money laundering and counter-terrorist financing regulations.

#### Results of policies implemented:

	2019	2020	2021
Percentage of employees trained	98%	83%	99%

### **Global sanctions policy**

mBank verifies clients and monitors persons and entities that are parties to transactions against European Union, United States and UN sanction lists in order to comply with applicable laws on specific restrictive measures. The Financial Crime Prevention Department:

- adopts guidelines and instructions,



- informs departments and subsidiaries of sanction-related restrictions affecting business policy,
- advises on the implementation of such restrictions and monitors compliance with them.

We comply with sanctions regulations by identifying customers and beneficial owners and transactions which violate sanctions. We refuse to execute such transactions. We inform clients about the sanctions regulations and we train bank employees. Every employee is required to read the policy and apply it under all circumstances.

In the case of business relationships in sanctioned countries, we monitor them closely and apply measures including termination of the relationship.

#### Results of policies implemented:

	2019	2020	2021
Percentage of employees trained	96%	76%	98%

#### **Rules for suppliers**

mBank's suppliers are obliged to comply with the law, labour law, human rights law, anti-corruption law, protect the environment, and not to discriminate.

mBank conducts its business in an ethical and responsible manner, as set out in particular in the Universal Declaration of Human Rights, the standards of the International Labour Organisation and the OECD guidelines (with particular reference to the guidelines on combating corruption).

Each supplier taking part in the procurement procedure or performing contracts with mBank undertakes to act in accordance with the guidelines. It also ensures that its subcontractors comply with them, as well.

Guidelines are understood to mean, in particular, the provisions of:

1. Universal Declaration of Human Rights,
2. International Labour Organisation standards,
3. OECD Guidelines (especially on the fight against corruption),
4. The Rio Declaration on Environment and Development – Agenda 21,
5. United Nations Convention against Corruption,
6. international trade sanctions and embargoes, including sanctions that may be enacted as a result of a resolution adopted in accordance with Chapter VII of the UN Charter by the UN Security Council or any sanction imposed by the European Union,
7. acts of internal law implementing these provisions as well as the provisions of the rules, in particular those aimed at removing conflicts of interest.

#### Results of policies implemented:

Percentage of suppliers who signed new or renewed existing agreements with mBank in 2021 and who read and declared that they comply with the "Supplier Principles": 100%.

In 2021, work was underway on a new "Code of Sustainability for mBank Suppliers and Partners", which became effective in January 2022. It sets out in more detail the obligations of our contractors in the area of their environmental, social and governance (ESG) responsibilities. Every supplier, who takes part in a procurement procedure, is required to sign a statement on the application of the code.

#### **Climate and environmental policies and due diligence**

The mBank Group mitigates its climate impact mainly through lending policies, which govern our approach to financing of industries with positive and negative climate impacts.

Since 2019, we follow the **Credit policy for industries relevant to EU climate policy**. It excludes, among other things, the financing of the construction of coal and lignite mines and restricts the financing of coal-fired power generation in the broadest sense. It also covers financing of other high-emission undertakings (e.g., transport industry, fuel trade) and energy-intensive industries (e.g., cement or paper production). The policy specifies the preferred areas of bank financing. These include RES systems, electric vehicle charging stations, and activities that reduce energy losses in the energy sector. The policy complements other sectoral policies, including agriculture, forestry and the food sector, automotive, metals, broadly defined construction, real estate and healthcare. This makes mBank's approach to a sustainable economy holistic. In addition, we keep abreast of market trends and exposure to new and

existing risks in individual industries (including those related to the transition to a zero-carbon economy) and we regularly publish sector analyses.

In 2018, we introduced our **Credit policy for financing renewable energy sources (RES)**. It now provides for the allocation of PLN 4 billion to finance wind farms and photovoltaics (the policy originally provided for PLN 0.5 billion but we increased this figure in 2019 and 2020).

Our climate-related and RES financing credit policies are described in more detail in chapter 12.4 "Key risks and risk management", in the section on risks resulting from adverse environmental changes (primarily climate change).

These credit policies were approved by mBank's Corporate and Investment Banking Risk Committee, which includes two members of mBank's Management Board. We update the credit policies on a regular basis and review them at least once a year; we also take into account the impact of climate change using an expert approach.

#### Results of policies implemented:

	2019	2020	2021
Investments in large-scale RES systems (MW)	497.2	972.0	365.5

In 2021 alone, we allocated PLN 1 billion to finance the construction of new wind and photovoltaic farms. In total, they will have a capacity of over 360 MW. It is as much as is needed to meet the demand of more than 700,000 people, which is almost as many as the population of Krakow.

At the end of 2021, the cumulative capacity of large-scale RES systems financed by mBank was 1,825.5 MW, including 596.5 MW photovoltaics, 1,224 MW wind energy, and 5 MW biogas. Each year, these systems can collectively produce around 3,406 GWh of clean energy (taking into account the performance indicators of individual RES). Thanks to these RES systems, 2.58 million tonnes of CO<sub>2</sub> emissions and about 4.85 tonnes of air pollutant emissions are avoided every year (according to KOBIZE emission indicators for 2020).

In 2021, we introduced a new offer for smaller RES projects (primarily for autoproducers, i.e. non-energy businesses producing electricity for their own needs, and photovoltaic farms) with a rated capacity of up to 5 MW. This complements our offer for large-scale RES investments and our leasing offer for SMEs. In 2021, we also engaged in green bond issues to finance RES systems. As sole arranger and dealer, we arranged an impressive PLN 1 billion green bond programme for R.Power. We also issued and placed our own EUR 0.5 billion green bonds. This issuance was conducted in accordance with [mBank's Green Bond Framework](#) which provides for the proceeds to be used, among other things, for RES financing.

In November 2021, we adopted mBank Group's new strategy for 2021-25. As part of the ESG goals defined therein, we decided to allocate PLN 10 billion of capital to finance "green" investments such as renewable energy as well as electromobility, recycling and waste management. This includes PLN 5 billion of mBank's own funds and PLN 5 billion from external sources such as green bond issues and bank consortia. PLN 10 billion is the highest amount for financing "green" investments declared by a bank in Poland. In addition, we are committed to achieving zero net CO<sub>2</sub> emissions in Scope 1 and 2 by 2030 and zero net CO<sub>2</sub> emissions in Scope 3 by 2050. Reduction of GHG emissions related to our loan portfolio will be key. We will design a decarbonisation path, including defining milestones and how to achieve them, based on scientific evidence. This will allow us to realistically contribute to reaching the goals of the Paris Climate Agreement.

#### **Policy on mBank's handling of reputation risk-sensitive industries**

This policy imposes restrictions on the provision of services to companies in sectors that are socially controversial and violate the provisions of the Ten Principles of the UN Global Compact. It defines the industries and activities that mBank does not serve, as well as those for which mBank applies special service rules. The first group includes, among others, entities that operate in the pornographic industry or those that preach radical ideologies. The second group includes, among others, arms production and trade. In this last case, mBank, as a rule, participates in transactions only with state-owned entities.

This policy excludes servicing entities and individuals that:

- use child labour, forced labour or otherwise violate human rights in their activities;
- economically exploit environmentally valuable areas;
- threaten the global cultural heritage.

Regardless of the sector, we do not establish business relationships with:

- entities that operate in countries subject to UN sanctions;

- persons and entities that engage in harmful tax competition.

**Other policies relevant to ESG**

We also have other policies in place to address sustainability-related issues. These cover areas such as: corporate governance, data security and privacy, customer relations, employee relations, ethical business and responsible investment financing. Further details can be found in the "mBank's sustainability standards" document: [https://www.mbank.pl/pdf/relacje-inwestorskie/mbank-sustainability-standards\\_pl.pdf](https://www.mbank.pl/pdf/relacje-inwestorskie/mbank-sustainability-standards_pl.pdf).

**12.4. Key risks and risk management**

Non-financial risks have become increasingly important in financial institutions over the past years. As an organisation, we continuously monitor the external and internal environment. We do so to manage all non-financial risks at the bank, including risks posed by third parties. In particular, we attach special importance to cybersecurity, data security, and privacy. We continuously monitor related processes and implement new technologies. Furthermore, faced with challenges of climate change, we are aligning our operations to finance investments with a sustainable environmental impact.

The bank's non-financial risk management is overseen by the mBank supervisory board, among others through the Risk Committee appointed by the supervisory board. The supervisory board approves management strategies for individual risks in the mBank Group. The Management Board of mBank is responsible among others for:

- the development of non-financial risk management systems,
- their implementation and their consistency with the business strategy,
- as well as their proper functioning in the organisation.

There is a Business and Risk Forum of mBank Group in place, which is a platform for decision-making and dialogue of organisational units of the business lines and the risk management area in the Group. The Forum includes:

- the Retail Banking Risk Committee,
- the Corporate and Investment Banking Risk Committee and
- the Financial Markets Risk Committee.

Individual non-financial risks are managed according to a model of three lines of defence:

- I. the first line of defence are the business units;
- II. the second line of defence includes mainly the risk, security, and compliance units;
- III. the third line of defence is the Internal Audit Department which provides the independent internal audit function.

In December 2020, the bank appointed the **mBank Group Sustainable Development Committee**. It is going to serve as a platform for decision-making, issuing recommendations, and dialogue on sustainable development. These tasks comprise analysis of the impact of ESG factors (environmental, social and governance). Four meetings were held in 2021. Among other things, the Committee approved the Sustainability Code for mBank's suppliers and partners and adopted the classification criteria and a pool of retail mortgage products for the issuance of green bonds. During the meetings, Committee members discussed mBank's ESG strategy objectives for 2022, ESG ratings, ECB climate stress tests, and the new principles of the Best Practices for GPW-Listed Companies. The Committee is chaired by the Vice President of the Management Board, Head of Risk Management.

**Operational risk**

We understand operational risk as the risk of a loss caused by incompatible or defective internal processes, people and systems or the external occurrences, including legal risk. Operational risk includes the subcategories defined below. It does not cover reputational risk, which is a separate risk category, or strategic risk, which is part of business risk.

According to mBank Group's Risk Catalogue, operational risk includes the following permanently significant and significant subcategories:

- legal risk,

- IT risk,
- cyber risk,
- conduct risk,
- performance, delivery and process management error risk,
- external fraud risk,
- internal fraud risk,
- outsourcing risk,
- HR and organisational risk,
- physical security risk.

The rules for mBank's operational risk management are defined in the mBank Group Operational Risk Management Strategy. The Strategy is updated on an annual basis and approved by the bank's management board.

The operational risk management system is based on the following:

- identification and assessment of operational risk,
- monitoring of operational risk,
- mitigation of factors causing operational events,
- reduction of the probability of future loss,
- mitigation of the impact of materialised losses,
- reporting operational risk.

In 2021, as part of our operational risk management, we primarily observed and faced a changing external environment, in particular:

- legal risks related to the foreign currency loan portfolio; among other things, the bank analysed proposals for a systemic solution to the problem of foreign currency loans;
- cyber threats;
- further consequences of the COVID-19 pandemic and restrictions imposed to counteract it.

Internal operational risk tools indicated a high concentration of legal risks, including losses on the CHF loan portfolio and rising cyber and IT threats.

Details concerning operational risk management tools, measures, and strategies are described in chapter 4.2 "Main risks of mBank Group's business".

### **Legal risk**

Legal risk is understood as the risk of loss caused by:

- legal defects in internal regulations,
- contracts with clients and third parties,
- declarations of the bank,
- changes in case law,
- unfavorable court decisions,
- changes in legal regulations.

Details concerning proceedings pending before courts, arbitration bodies, and public administration bodies are presented in note 33 to the mBank S.A. Group IFRS Consolidated Financial Statements 2021.

### **IT risk**

IT risk is understood as risk arising from inadequate application of information technology and from the unavailability or insufficient quality of services based on information technology and any errors in ICT

environments caused by internal factors and external events. IT risk is linked with the development, use and selection of IT solutions which support the execution of the bank's business processes.

Technological progress is a factor that increasingly determines the way customers communicate with financial institutions. Digital banking services are among the fastest growing. They are characterized by innovation, creativity and openness to new technologies. The main challenge with such a rapid development of services, constant regulatory changes and unpredictable environment is to ensure the highest quality and availability of services.

In the past years, we have taken a number of initiatives which significantly mitigate the risk that our IT services could be unavailable:

- we have invested in Evidence Base Management and advanced monitoring,
- we have implemented an end-to-end failure management process including continuous review and elimination of root causes,
- we have migrated the IT infrastructure to two state-of-the-art data centers
- we have implemented Active/Active architecture for critical IT systems.

Such initiatives have largely mitigated the risk that our IT services could be unavailable. We pursue advanced efforts to improve the quality of software development and implementation processes, and the stability of our systems. We continue to upgrade the bank's main transactional and accounting systems with a view to future use of cloud solutions. The key challenges included:

- to ensure high capacity of the bank's connectivity;
- to protect the performance of VPN and remote communication tools;
- to provide secure remote system access for the bank's employees.

Due to the ongoing pandemic, the Crisis Management structures have been continuously active since March 2020. Based on the experience of 2020, we improved the regulatory framework in the event of a contingency. We are also updating the bank's Business Continuity Management System (BCMS). In particular we have permanently integrated remote work into the Business Continuity Plans and make use of it on a large scale. The bank follows the mBank S.A. IT Policy to ensure superior performance of our IT area. The IT Policy and the related standards have been approved by the IT Architecture Committee chaired by the Vice-president of the Management Board: Head of Operations and Information Technology. In accordance with the IT Policy, we strive to ensure a consistent and transparent management model of IT services, ICT environment components and related activities.

### **Cyber risk**

Cyber risk is understood as the risk of digital fraud targeting the bank and its clients, their IT systems and data processed in the systems, in particular compromising the security of client information or their assets.

To protect client data, cyber risk management is increasingly important to banking and financial institutions. IT incidents may generate huge losses and expose banks to reputational risk. Cyber risks may cause a contagion effect, hurting many financial service providers at the same time. This is why mBank places a very strong emphasis on security of IT systems and data based on adequate organisational and technical solutions. We promote cybersecurity among our employees. E-learning and in-class training raises employees' awareness and knowledge of cybersecurity. For several years we have been running educational campaigns for clients (see chapter 11 "mBank and corporate social responsibility").

We work to mitigate cyber risks. As a leader of digital banking solutions, we use adequate, state-of-the-art security monitoring systems from renowned vendors. We counteract new types of cyberattacks based on specialised systems and the knowledge and experience of the Security Operations Center team. Our SOC operates 24/7, all year around. Employees and clients may report all cybersecurity matters to the SOC, including identified incidents, attempted attacks, infections, and suspicious transactions. As a result, we are able to quickly and efficiently take measures adequate to emerging new threats. We have also set up a dedicated team mBank CERT, co-operating with other teams of this type all over the world as a member of an organisation Trusted Introducer. mBank CERT holds the Accredited status.

Our activities regarding cyber risk mitigation are based on our Policy on cybersecurity and Policy on information security. They are described in chapter 12.3 "Policies, due diligence and their outcomes".

In the era of countless hacker attacks and corporate network security breaches, it is increasingly important to mitigate risks of IT system vulnerability. The bank's IT Infrastructure Security Vulnerability Monitoring Policy defines the measures necessary to identify security vulnerabilities of IT environment components, ensures their elimination with required security fixes, and sets out the monitoring and reporting procedures.

In 2021, we continued to focus on cyber security of our clients and their services as well as employees and internal systems they use. Due to the outbreak of the COVID-19 pandemic, work in 2021 continued mainly in the remote model. Almost all mBank employees worked remotely in line with the relevant security requirements. The new work format and the resulting restructuring of the architecture of IT solutions necessitated far-reaching measures in many areas including formal risk rating, appropriate mitigating mechanisms and their review in practical security tests. With active participation of our cybersecurity team, we soon added new services offered to online banking clients. Introduction of new services for clients in remote mode required additional security audits and tests.

Established several years ago, the bank's Security Operations Center and mBank CERT remain the key operational link of the Information Security Management System. It allows for active security monitoring and effective response to occurring security incidents under the National Cyber Security System Act of 5 July 2018. In addition, according to the Decision of the National Cyber and Information Security Authority (Národní centrum kybernetické bezpečnosti) of the Czech Republic of 16 November 2020, mBank became a Key Service Operator, based on Cyber Security Act No. 181/2014 (UBC). In 2021, we implemented a project to comply with the requirements under the Act and started cooperation with the authorities established for this purpose. We continued to develop our security monitoring systems and ensure adequate response to new threats and vectors of attacks. We work to mitigate risks by improving our capacity of quick and effective elimination of system vulnerabilities with necessary security fixes.

We focus on the security of services and systems which rely on computing cloud solutions. We have established a security framework defined in Security Standards and recommendations for cloud solutions. We improve our security competences which cover cloud solutions. We implement technologies to ensure security of such services and monitor any security breaches.

### **Conduct risk**

Conduct risk is understood as the risk resulting from misconduct of the Bank/mBank employees. It usually results from misselling of banking products or financial services. In particular, conduct risk includes:

- the risk of misselling of banking products/transactions, i.e., misleading and careless selling of products and services or distortion of characteristics of products and services, resulting in selling of products or services which do not match the client's needs;
- the risk of manipulation of reference interest rates, exchange rates or other financial instruments or benchmarks.

mBank Group follows a policy of zero tolerance for misselling of transactions/products as well as a policy of compliance risk – activities which do not comply with applicable laws.

The bank has established the mBank Code of Conduct, a set of guidelines all employees are required to follow. The Code of Conduct defines the course of action regarding lawful and unlawful business practice, financing of clients, as well as rules applicable at the place of work. In addition, the document identifies actions and attitudes that are unacceptable and prohibited. Employees are expected to comply with the principles and rules of the Code of Conduct both within the company and in their relations with clients, suppliers and external partners. Any situations where employees behave in contravention of the mBank Code of Conduct are analysed and on that basis the mBank Group takes measures to avoid such cases in the future. Conduct risk is managed according to an operational model of three lines of defence.

We mitigate conduct risk with:

- controls and their independent monitoring by competent units in processes as a part of a continuous control function;
- identification of non-compliances, monitoring of the implementation of corrective action plans defined for identified non-compliances, including in-depth analysis of non-compliances, defining improvements and designing appropriate controls;
- the process of implementation/modification of products and services, the important component of which is gathering opinions;
- on-going recording of operational events and losses, risk analysis based on the operational loss register, and loss reporting processes;
- on-going monitoring of the key risk indicators KRIs and RIs (in particular, complaints-related KRIs); whenever a warning or alarm threshold is reached, corrective actions are taken as defined for each risk, typically including an analysis of the root cause and reporting the clarifications and recommended corrective actions to the head of the responsible unit;



- in-depth review of external complaints and improvement of processes;
- review of any disputes;
- issuing opinions on motions tabled to the Risk and Business Forum including products, regulations, and limits;
- implementation of specific compliance policies and procedures including AML, fraud, and sanctions,
- employee training.

In 2021, we implemented at the bank the updated policy of introducing new products in accordance with the requirements of Recommendation Z. We run the process of implementing new products or services and modifying existing ones with the use of a standardised IT tool. This makes our work, from the design stage to the launch of a product or service, more effective and the process itself more secure. The process involves sales, support, risk, and compliance units. The tool supports:

- identification of risks which may materialise in connection with product implementations and modifications;
- each step of the process (including gathering opinions, review of terms before live roll-out);
- product portfolio management based on efficient records of product information and key characteristics (including key product risks).

In addition, we put emphasis in the control function process in 2021 on analysing the causes of irregularities and the probability of similar events occurring in other processes. It improved the control function process, raising employee awareness and ensuring informed identification of non-compliances and effective corrective measures.

### **Risk of errors in performance, delivery and process management**

Risk of errors in performance, delivery and process management is understood as the risk of:

- failed transaction service,
- data entry errors,
- delayed performance,
- process management issues,
- issues affecting business partner relations.

Risk of errors in performance, delivery and process management is managed according to an operational model of three lines of defence. The bank has established a Data Quality & IT System Development Committee/ Its mission is to create conditions necessary to establish, maintain and develop an effective system supporting data quality management across the organisation and IT system development according to procedures and internal regulations.

We mitigate the risk of errors in performance, delivery and process management by:

- implementing the Information Management & Data Governance Programme Strategy;
- pursuing the Data Management Policy and Standards;
- on-going monitoring and regular reporting of data quality;
- discussing key corrective action during meetings of the Expert Group (members of which are Area Data Stewards and Enterprise Data Stewards);
- handling quality incidents in a four-level network of data stewards (including approximately 95 data stewards allocated to thematic areas) including automated (Informatica Data Quality) or manual reports processed in a dedicated application JIRA (Data Error Register);
- in-depth analysis of internal and external complaints and process improvement;
- controls and their independent monitoring as a part of a continuous control function;
- identification of non-compliances, monitoring of the implementation of corrective action plans defined for identified non-compliances, including in-depth analysis of non-compliances, defining improvements and designing appropriate controls;

- on-going recording of operational events and losses, risk analysis based on the operational loss register, and loss reporting processes;
- on-going monitoring of the key risk indicators KRIs and RIs (in particular, KRIs related to timely performance and availability of services); whenever a warning or alarm threshold is reached, corrective actions are taken as defined for each risk, typically including an analysis of the root cause and reporting the clarifications and recommended corrective actions to the head of unit.

In 2021, we worked to improve the quality of client data, risk data, financial data and to develop a system for automated measurement of data quality.

As part of the implementation of corrective action plans in the control function process, we introduced automated solutions to some of the manual processes as well as additional monitoring by a second pair of eyes, which reduces the materialisation of risks of human error.

### **Risk of external fraud**

The risk of external fraud is understood as the risk of crime committed by a third party. The key categories of external fraud include: credit fraud, payment or payment card fraud, online banking fraud, data theft.

The risk of fraud materialises whenever specific criteria defined in internal regulations are met. The key mitigating measure is prevention. Fraud prevention is managed comprehensively, from effective identification of fraud to mitigating its impact. As a key element of mBank's fraud risk management system, we have defined and we are implementing a programme raising the fraud awareness of the bank's employees combined with advanced fraud risk controls across the selling channels.

Payment security is our priority. To prevent fraud, we use advanced systemic solutions which aim at monitoring of suspected payments. mBank's Online Payment Security Policy ensures the necessary security of online transactions and protects the bank's processes. It provides a framework necessary to secure online payments. The integral supplement for the Policy is the mBank Payment Security Standard, which defines online payment security rules and requirements for designing and upgrading IT products supporting payment services. The Policy defines among others the procedures of risk assessment and prevention, as well as incident monitoring and reporting. The Policy sets requirements regarding strong client authentication, monitoring of transactions, protection of sensitive payment data, as well as education of the clients and communication with them. The bank continuously alerts clients to new threats, in particular affecting online banking, as well as new methods of internet fraud.

In the area of countering external fraud, we continued our efforts in 2021 to protect the Bank and its clients under the circumstances of the COVID-19 pandemic. New fraud and abuse mechanisms emerged mainly in virtual and mobile activities. Such fraud patterns were largely mitigated thanks to effective mitigants in the Anti-Fraud Policy and tools.

### **Outsourcing risk**

Outsourcing risk is understood as the risk of adverse influence of a third party which operates under an agreement and performs:

- banking activities
- factual activities related to banking activity,
- executes processes, provides services or functions to the bank and its clients,

which would otherwise be performed, executed or provided by the bank. Outsourcing risks may impact operational, business, legal, compliance and reputational risks.

The Management Board of the bank is responsible for regulatory compliance of outsourcing agreements and oversees their implementation. In particular, the Management Board is responsible for any decisions to outsource critical functions.

The Management Board has made the Compliance Department responsible for the management and co-ordination of outsourcing across the bank, including the foreign branches.

We manage outsourcing risk based on a model of three lines of defence:

- I. the first line of defence includes organisational units which are owners or administrators of outsourcing agreements, outsource functions, and remain responsible for operational relations with third parties;
- II. the second line of defence includes:

- the Outsourcing Co-ordinator who oversees the outsourcing process and reports to the bank's authorities,
  - other units of the second line (risk, security) which participate in the conclusion and implementation of outsourcing agreements;
- III. the third line of defence is the Internal Audit Department which provides the independent internal audit function.

Organisational units of the bank which are owners or administrators of outsourcing agreements remain responsible for the management of risks of such agreements including among others:

- analysis of the purpose of the agreements;
- analysis of effectiveness of the contractor;
- analysis of function risk including assessment of function criticality;
- analysis of counterparty risk (due diligence, interest conflict);
- monitoring and controlling the quality of functions provided under agreements;
- regular (at least once per year) monitoring of the effectiveness of the contractors.

We follow the principle of maximum mitigation of outsourcing risk, which is why we regularly evaluate the standing of contractors and monitor the implementation of outsourcing agreements.

We continued to implement the EBA guidelines in 2021. Key outcomes included the following:

- we further developed the UMBRA application (an IT tool which supports the management of outsourcing contracts). As part of the work, among other things:
  - we refined the methodology for assessing the criticality of functions,
  - we introduced principles/functionalities of group and individual assessment of contractors,
  - we implemented a Register of Shared Contracts (subject to EBA review),
  - we migrated the results of the surveys: "EBA Outsourcing", "BFG Criticality", "Function Criticality" from the UMBRA application to the new survey module;
- we annexed outsourcing contracts adapting them to the EBA guidelines.

### **HR and organisational risk**

HR and organisational risk is understood as the risk that the organisation would be unable to operate efficiently due to unavailability or a shortage of employees with the necessary professional profile, or due to instability, changes or deficiencies in the organisation's structure and way it is established. The risk includes:

- disruption of relations between employees or between employees and the employer,
- discrimination at work,
- safety at work.

The bank follows a Corporate Governance Policy, which defines common standards for the development, documentation and maintenance of an integrated organisational structure. The policy was defined on the basis of the bank's general principles and the mBank S.A. By-laws which lay the foundation of governance in the bank and its units.

The organisational structure of the bank is a responsibility of the management board. It ensures that the organisational structure is aligned with the bank's strategy, business model, risk level and profile, and financial plans. The organisational structure of the bank is based on the principle of clear allocation of responsibilities. Any change of the organisational structure of the bank is analysed and reviewed by competent units. On that basis, the management board of the bank issues relevant decisions depending on the merits of such change.

The management board defines the organisational structure of the bank taking into account:

1. the bank's areas which generate significant risks to its activity and estimations of probable losses resulting from the potential materialisation of such risks;
2. the bank's business continuity plans;
3. effective implementation of functions by ensuring adequate numbers of employees with the requisite competences and expertise;

4. ensuring that the bank's business targets are achieved;
5. effectively and promptly addressing changing external conditions and sudden or unexpected events.

We mitigate the HR risk of unavailability or shortage of employees with the necessary professional profile by applying a range of preventive measures. In particular, we strive to keep employee rotation low by creating an engaging work environment and fostering a strong organisational culture. We have established a succession plan for selected positions, in particular key management positions. We focus on the development of employees' competences, including both current positions and potential internal transfers. Whenever a vacancy needs to be filled, we always look for internal candidates first. If we cannot identify an employee who could fill a vacancy, we seek candidates on the job market.

Another tool used to monitor HR risk is the **Pulse Check** survey which is conducted periodically. In the survey, employees of the bank, foreign branches and mBank Group companies can express their opinions on issues related to management, process efficiency, employee experience, development opportunities, mBank values, the adequacy of remuneration and important current affairs.

We conducted three Pulse Check surveys of employees in 2021, specifically addressing the following topics:

- employees' experience with remote and hybrid working, including wellbeing and health,
- corporate communication and collaboration culture, including effectiveness of meetings,
- team work, employee development and diversity. One of the surveys also explored employee perceptions of the conditions in the banking industry in Poland. An additional survey further explored the topic of employee wellbeing and health.

The bank's management board and the directors and managers of the mBank Group analyse the results of the surveys. Actions are then taken at various management levels to strengthen employee engagement and mitigate any problems identified as a result of the surveys which, if left unaddressed, could contribute to the materialisation of HR risks.

The bank is very strict about discrimination and mobbing at work. We do not tolerate any behaviour which could violate human rights and employee rights. We have established a system of addressing negative employee behaviour and implemented the mBank Policy against mobbing, discrimination and other unacceptable behaviour. On the basis of the Policy, a Committee has been established for the prevention of mobbing and other unacceptable behaviour which investigates reported violations and cases and takes appropriate corrective actions. The Committee also defines proposals to prevent the occurrence of similar cases in the future. Moreover, a **whistleblowing channel mSignal** has been launched, where employees and clients can report violations (anonymously or not).

The bank has established an Employee Remuneration Policy which defines the principles for the bank employees' remuneration. The first pillar of the Policy is an approach to remuneration based on the concept of total pay (including both fixed and variable remuneration). The second pillar, which plays a key role in the remuneration process, is a dialogue between managers and employees aiming to provide comprehensive feedback and grounds for remuneration decisions.

The bank's remuneration management system is designed to:

1. protect the rights and interests of the bank's clients and prevent conflicts of interest – we remunerate employees and appraise their performance to ensure that monetary and non-monetary rewards do not encourage them to favour own interest or the bank's interest to the detriment of the bank's clients;
2. support appropriate and effective risk management in the mBank Group without encouraging excessive risk taking beyond the risk appetite approved by the supervisory board;
3. build strong employee engagement by providing a market-based remuneration package adequate to the workload (with a focus on the future and competition, where remuneration is based on the concept of total pay)
4. retain best performers (by creating optimum work conditions) and attract new talent (intern and trainee programmes);
5. ensure that the remuneration budget is cost efficient (by enabling flexible management of remuneration in order to optimise the use of the available budget).

As an important part of the bank's remuneration management system, we have established a dedicated Risk Taker Remuneration Policy (risk takers are managers who have significant influence on the bank's risk

profile). The Policy supports the mBank Group management system and encourages risk takers to protect the Group's long-term interest and to avoid excessive risk exposure.

In connection with the COVID-19 pandemic, we have taken a number of measures to enable effective work of employees and give them support in those trying times. Those initiatives are described in details in chapter 1.7 "Key events and projects of mBank Group in 2021."

### **Physical security risk**

Physical security risk is understood as the risk of potential breaches of physical security, security of assets of the bank/subsidiary or persons entering the premises of the bank/subsidiary, integrity, confidentiality or availability of information processed by the bank/subsidiary. The risk also includes the risk of damage, unavailability or destruction of elements of the Bank's physical infrastructure as a result of direct attacks on the Bank's facilities or as a result of acts of terror; risks to the life and health of employees; as well as failure to ensure continuity of service provision to clients and other stakeholders. Physical security risk may materialise due to:

- actions taken by persons inside the bank/subsidiary,
- actions taken by persons outside the bank/company,
- acts of nature, as well as disasters (including natural and man-made disasters).

The risk also includes the risk of damage, unavailability or destruction of elements of the bank's physical infrastructure due to direct attacks targeting the bank's facilities or acts of terror, threats to the life and health of employees.

Our physical and technical security policy defines the organisational framework of security in the bank's head office, branches of the sales network, as well as other infrastructure elements (buildings) of the bank, including data centers. Dedicated teams skilled in physical security management are responsible for:

- risk analyses of the bank's projects and issuance of recommendations for the bank's projects;
- defining the physical security architecture across the organisation;
- monitoring legal amendments concerning physical/technical security requirements and implementation of necessary modifications;
- development of the technical security concept of new facilities under construction;
- regular maintenance of electronic security systems;
- physical/technical security audits of facilities;
- issuing security opinions for the bank's infrastructure projects;
- handling physical security incidents.

In 2021, electronic security systems were integrated and launched in the new mBank Tower head office, the migration to the head office was completed, and a new security standard for personal movement was developed. A number of audits were also carried out, which raised the level of physical security of the Bank's facilities.

In addition to the operational risks described above, mBank manages other non-financial risks, as well, including: reputational risk, compliance risk, FX loan portfolio risk. We review and mitigate threats arising from adverse environmental change (mainly climate change).

### **Reputational risk**

As an institution of public trust, mBank must protect its image and reputation. We define reputational risk as the risk of negative perception of mBank or its subsidiaries by stakeholders. Reputational risk management identifies, assesses, and mitigates reputational risk in special processes in order to protect and strengthen the reputation of mBank and mBank Group.

mBank has in place an mBank Group Reputational Risk Management Strategy approved by the management board and the supervisory board, which defines the reputational risk management framework. The Strategy covers those areas of mBank's activity which are sensitive to ESG factors.

We use three lines of defence. The first line of defence includes all units of the bank, its foreign branches and subsidiaries, which are directly responsible for reputational risk in their operations. The second line of defence includes specialised units: Compliance, Communications and Marketing Strategy, and Risk. The third line of defence is the Internal Audit Department.

We protect mBank's reputation according to:

- mBank Group Code of Conduct,
- compliance policies and
- other policies (e.g. Policy of servicing sectors sensitive to mBank's reputation risk, Credit policy regarding industries relevant to the EU climate policy).

We monitor press reports, online comments, and social media posts, and react whenever they pose a risk to mBank's reputation. We monitor the image of mBank in an annual employee engagement survey. We focus on long-term customer relationships, speak and write to customers in a friendly and understandable language, and offer products matching their needs and abilities. We analyse satisfaction survey results and clients' complaints. We consider reputational risk in product development. A dedicated team monitors threats to reputation. In the event of a crisis, the team mitigates or eliminates its adverse impact on the reputation of mBank.

In 2021, we also analysed mBank's reputational risk in preparation for the Commerzbank Group's climate stress tests.

In 2018, mBank appointed an Ethics Officer responsible for drafting guidelines, issuing opinions, and supporting employees in the event of ethical dilemmas. We raise employees' awareness of reputational risk by communicating internally any lessons learned and by providing annual e-learning on anti-bribery and corruption, fraud prevention, anti-money laundering, and other compliance training. We educate the general public. We have for years run a social campaign focusing on cybersecurity, which highlights cyber risks and explains how to handle them. A special section of our website: <https://www.mbank.pl/en/security/sme-corporate/> is dedicated to security matters. We act responsibly in all relations with clients, employees, the environment, and local communities. The area is governed by our ESG strategy, which is part of mBank Group's business strategy 2021-25, as well as by the sponsorship policy, and the Statute of the mFoundation.

### **Compliance risk**

Compliance risk is understood as the risk of non-compliance with laws, internal regulations and market standards in processes executed by the bank.

The objective of compliance risk management is to mitigate the risk of non-compliance of the Bank's internal regulations with laws, internal regulations, and market standards accepted by mBank. The compliance function is an element of an effective internal control system.

We manage this type of risk on the basis of our Compliance policy, described in chapter 12.3 "Policies, due diligence and their outcomes".

We mitigate compliance risk with:

- implemented and updated policies;
- mandatory employee training;
- monitoring legal amendments;
- regular assessment of compliance risk;
- the control function;
- the advisory function – we issue opinions on products and operating process regulations in the dedicated application Axiom.

All employees of the bank are responsible for the implementation of the compliance policy according to their responsibilities and powers.

The bank has dedicated units (Compliance Control Units) which are advisory centres supporting compliance processes in the first line of defence. They are responsible among others for raising awareness and building knowledge of compliance in business units and for supporting the execution of processes in full compliance with regulatory requirements.

All cases of non-compliance and fraud can be anonymously reported in the electronic whistleblowing system which is accessible on all internet-enabled devices.

In Q2 2021, we implemented GRC Manager, an application which comprehensively supports the Bank's organisational units in monitoring legal regulations and their implementation into internal regulations. The



application enables effective supervision and co-ordination of the compliance risk management process from a regulatory perspective.

Moreover, in December 2021, as part of strengthening the control function, we implemented the Quality Assurance (QA) function for the process of analysing transactions in terms of AML. The implementation of QA will ensure ongoing control over the quality of the process.

### **FX loan portfolio risk**

FX loan portfolio risk is understood as an actual or potential risk to the bank's profits and equity related to foreign currency mortgage loans granted to unsecured borrowers up to 2012 (unsecured borrowers are retail borrowers in the household segment who are exposed to an FX gap between the currency of the exposure and the currency of the borrowers' assets which secure the loan or the currency of the majority of the borrowers' income). Such risk may arise in particular from the materialisation of credit risk, operational (legal) risk and reputational risk relating to such borrowers.

Details concerning proceedings pending before courts, arbitration bodies, and public administration bodies are presented in note 33 to the mBank S.A. Group IFRS Consolidated Financial Statements 2021.

### **Threats arising from adverse environmental change (mainly climate change)**

Threats arising from adverse environmental change (mainly climate change) and their long-term impact are analysed at mBank Group horizontally. It implies that we review their impact on the bank's operations across the broadest possible spectrum. In particular we refer it to the other risks categories, including reputational risk and credit risk.

Environmental change, fast technological development, and resulting legal changes increasingly impact more and more business sectors. As a result, many clients have to redirect or align the profile of their activity. Reorganisation or alignment of clients' businesses affects their relationship with the Group, which is exposed to client transition risk. We regularly monitor regulatory changes which address climate change and we assess their potential impact on the Group.

We have analysed the risk of mBank's adverse impact on the climate and the risk of adverse impact of the climate on the bank. Our analysis was prepared on the best effort basis and with the use of currently available interpretation of the new regulation. We have prepared these disclosures with use of the non-binding EU Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01),

The functioning of the bank has no material direct impact on the climate. The bank's industry does not generate significant greenhouse gas emissions. In the opinion of the bank, its impact is mainly indirect through financing provided to clients. The bank's impact on the climate derives from decisions to grant financing to clients in different industries. We can reduce the impact mainly by reducing financing for clients in high-emission industries.

The new ESG Strategy is an integral part of mBank Group Strategy for 2021-2025 "From an Icon of Mobility to an Icon of Possibility". One of the pillars of the ESG Strategy is climate protection. In the strategy, we set ourselves ambitious environmental goals. Among others, we undertook to reach full climate neutrality by 2050, and neutrality with respect to direct and indirect emissions by 2030 (scope 1 and 2, respectively). We will implement a decarbonisation path, including intermediate goals and the manner of achieving them, based on scientific evidence. This will allow us to contribute to the implementation of the objectives of the Paris Climate Agreement. Under the strategy, we have upped the limit for the financing of green investments to PLN 10 billion. This includes PLN 5 billion of mBank's own funds and PLN 5 billion from other sources, such as bank syndicates or green bonds issues. We will finance promising sectors, such as renewable energy sources, recycling, waste management and electromobility, and support clients from traditional sectors in their ecological transformation.

We were the first institution in Poland to independently sign the UN's Principles for Responsible Banking. The principles were developed by the United Nations Environment Programme Finance Initiative (UNEP FI). They constitute the global standard adopted by the world's largest financial institutions which are sustainable growth leaders. By joining the initiative, we confirm our commitment to the UN's social and environmental Sustainable Development Goals and the provisions of the Paris Climate Agreement aimed at limiting the temperature increase to a maximum of 1.5-2 degrees Celsius. As a signatory of the Principles for Responsible Banking, we will identify our impact on the society and environment, set and achieve measurable targets in our areas of most significant impact, and regularly report on progress on implementing the Principles.

According to the Supplement on reporting climate-related information, the risk of adverse impact of the climate on a company is either physical risk or transition risk.

Physical risks are risks to the company that arise from the physical effects of climate change, e.g., weather-related events or longer-term changes in the climate, such as rising sea levels. Thanks to mBank's business model, where the key customer service channels are remote channels, i.e., online and mobile banking, mBank is exposed only to the minor extent to direct impact of physical risks, which are typical rather for the manufacturing companies. Energy blackouts constitute potential physical risk identified. At mBank we manage this risk with use of adequate technical solutions, meaning redundancy of power supply and generators. For data center objects, mBank applies requirements of at least TIER III level, ensuring constant energy delivery from two independent sources, also linked to the generator. We manage this risk at mBank according to the Business Continuity Management System.

The geographic location of our offices and branches in Poland, the Czech Republic and Slovakia, in a moderate climate, limits the physical risk to a service provider's operations. This implies an insignificant risk to the functioning of the bank's branches and head offices. Physical risk may affect the Bank indirectly. Developments which pose an indirect risk to the Bank include among others:

- floods, fires and sustained sea level rise causing:
  - impairment of assets and interruption of clients' operations which may result in an increase in their credit risk,
  - damage to transmission infrastructure and interruption or temporary disruption of supply chains preventing or delaying the supply of components, products and services,
- extended periods of hot weather restricting clients' operational productivity (adverse impact on employees' physical and mental performance),
- temporary difficulties in electricity supply caused by strong winds or other violent weather phenomena.

According to our analysis, the bank is mainly exposed to transition risks. Our analysis uses the definition of transition risk provided in the Supplement on reporting climate-related information. According to the Supplement, transition risks are risks to the company that arise from the transition to a low-carbon and climate-resilient economy. mBank's transition risks mainly include climate risks related to our clients, particularly the corporate segment that we finance mainly with loans, leasing, and debt origination and investment. Companies in industries with a significant impact on the climate may carry higher credit risk, i.e.:

- the risk of loss caused by counterparty default and
- the risk of impairment of credit exposures due to the counterparty's deteriorating financial position, for instance, driven by rising costs of mandatory environmental investments.

Risks related to financing of companies in industries relevant to the EU climate policy may involve mainly higher impairment on loans and advances at amortised cost and negative value change of loans and advances measured at fair value through profit or loss, as well as attrition of some income.

The table below presents transition risks identified at mBank.

Risk category	Description	Risk category according to the EU guidelines
Technology risk	Occurs if a technology with a less damaging impact on the climate replaces a technology that is more damaging to the climate. This may be driven by new regulatory requirements and the need for additional investments or higher costs.	Policy risks Technology risks
High capex requirements	Industries relevant to the EU climate policy often require higher investments due to large scale and concentration of projects. With weaker momentum in the business cycle for such industry, that could generate negative cash flows.	Technology risks
More eco-friendly competitors	Occurs if the choices of customers shift towards products and services of competitors that are more environmentally-friendly.	Market risks
Client's reputational risk	Companies perceived as climate adverse could face challenges in customer acquisition and retention, raising funding, and the cost of financing.	Market risks Legal risks

mBank's reputational risk	A company financed by mBank could face protests and criticism from the media and NGOs; it may lack environmental certificates or policies and publish no environmental reports; it may have no carbon footprint reduction strategy. That would affect the reputation of the bank as its financial provider.	Reputational risks
CO <sub>2</sub> allowance costs	Companies in industries contributing to climate change are often required to acquire greenhouse gas emission allowances. The required number of allowances, price trends in the allowance market, and the client's approach to buying allowances could impact the client's financial results.	Policy risks Technology risks

The first step towards limiting the bank's exposure to high-carbon industries was the decision of the Corporate and Investment Banking Risk Committee of April 2019. It excluded, among others the possibility of financing the construction of a coal mine and limited the possibilities of financing coal energy. An extension of this decision was the introduction, from November 1, 2019, of the "Credit policy for industries relevant to the EU climate policy". This policy further limited the possibility of financing high-emission projects and indicated areas preferred for financing at the bank. These include renewable energy installations and electric vehicle charging stations. This policy describes the principles that we apply at mBank to identify and assess climate-related risk. It is part of the credit process. It defines the principles of financing projects from industries with a particularly significant impact on the climate, such as:

- energy and heat;
- chemicals;
- cement and lime;
- ceramics and glass;
- pulp, paper and cardboard;
- coke manufacturing and processing;
- oil refineries;
- coal mining;
- transport.

The policy prohibits financing of construction of hard coal and lignite mines and expansion of the production capacity of existing mines. In the energy and heat industry, we are not allowed to finance:

- construction of new coal fired energy units or boilers;
- investments in construction and development of nuclear power plants;
- shale gas exploration and production;
- new clients whose share of electricity from hard coal or lignite (measured by production capacity) is more than 50%.

We give preference to projects which significantly reduce greenhouse gas emissions, where we recommend preferential pricing.

Climate change provides not only risks but also opportunities for mBank. The key opportunity related to climate protection is the opportunity to expand the bank's offer to address changing needs of clients. For example, we finance projects involving renewable energy sources. mBank's credit policy of financing of renewable energy sources (RES), introduced in 2018, provides PLN 4 billion for wind farms and photovoltaics (the initial target was PLN 0.5 billion, raised to PLN 4 billion in 2020). We were one of the first banks to credit wind energy. We are currently seeing a growing role of photovoltaics in the energy mix, which can be followed by offshore wind energy. The decision to increase the financing limit for renewable energy projects results, inter alia, from high interest in financing and good loan repayments, as well as promising prospects for the industry. We work, among others, on projects based on PPA (Power Purchase Agreement) contracts. In this model, an investor planning to build a green source, most often wind, first signs a ten-year contract for the sale of energy, e.g. with a production company.

In 2021, we opened up more than ever before to the financing of RES in the bank's corporate branches for photovoltaic and wind projects up to 5 MW and 10 MW, respectively. The opening up of RES financing in

the corporate branches is expected to enable increased diversification of the RES portfolio and support more companies at an early stage of development compared to those previously financed. In the case of climate policy, we took a stricter approach towards suppliers of coal mines and coal traders. The policy was extended to cover the fuel sector and electricity traders.

As part of our climate-related ESG efforts we increase the awareness of our employees and customers. In 2021, we organized two conferences for clients, which were also attended by our employees. These events concerned the photovoltaic market and electromobility. We want responsible lending to be based on the knowledge of our employees regarding ESG factors. In the context of providing quality knowledge, it is important to develop and strengthen industry knowledge in the bank thanks to the sector analysis team which supports the bank's employees with materials and workshops to ensure that they make good credit decisions, thus facilitating the development of a loan portfolio at an adequate level of security.

Initiatives to promote knowledge internally in 2021 also included workshops for analysts and sales representatives on the importance of environmental, social and governance factors in the context of credit risk. In addition to the training provided, educational materials are developed in-house and made available to employees to outline regulatory developments, the United Nations Sustainable Development Goals and climate stress testing, among others.

We expand our product offering taking into consideration ESG factors, including those related to the climate change, which limits the potential risk. We do so on the basis of our New product introduction policy, described in chapter 12.3 "Policies, due diligence and their outcomes".

In 2021, mBank implemented a system of ESG analysis of corporate clients based on a standardised set of criteria. It serves as a repository of ESG information enabling us to build up in-depth knowledge of bank employees about clients' needs. ESG assessment is a mandatory element of the credit process, which allows us to consciously build exposure and monitor the ESG profile of the corporate portfolio. This, in turn, will allow us to better define future directions in the transition of our clients.

In H2 2021, we began preparations for the European Central Bank (ECB) climate stress tests, which will be conducted for the first time at the European level in 2022. We worked together with Commerzbank based on the ECB guidelines and methodology. We focused on credit, market, operational and reputational risks. We analysed scenarios provided by the ECB based on the NGFS (Network for Greening the Financial System) scenarios:

- short-term and long-term greenhouse gas emission reduction scenarios,
- drought and flood scenarios.

We also started work on our approach to incorporating climate factors (e.g., changes in the price of carbon/CO<sub>2</sub> certificates) into the estimation of the expected credit loss. The solution to be developed will allow us to estimate the impact of changes related to the energy transition of the economy in line with the NGFS scenarios.

In addition, we started work to define a set of necessary data that we should start collecting in order to be able to estimate the potential impact of the energy transition in the economy or of increasingly frequent extreme climate events. These include data on:

- energy performance certificates for real estate,
- the emission performance of our clients in Scope 1, 2 and 3 according to the Greenhouse Gas Protocol (GHG Protocol).

We will use the data in climate stress test analyses and other internal analyses.

In 2021, we reviewed the potential impact of selected aspects related to the transition risks of our corporate clients. The review used among other things the implemented ESG assessment systems. We conducted an analysis of the impact of an integrated macroeconomic scenario on earnings and the capital position assuming among other things:

- high inflation,
- significant interest rate hikes.

We supplemented the macroeconomic assumptions with sector-specific provisions. Due to the short time horizon (2 years), in the analysis we took into account issues which may have an impact on our clients in the nearest future. From among the aspects related to energy transformation, we focused on the impact of energy prices on the solvency of companies operating in energy-intensive industries. Current and forecast hikes in energy prices increase the costs incurred by clients, which may potentially result in lower short-term liquidity and, in consequence, worse loan repayment rate. A drop in the loan repayment rate

makes it necessary to increase credit provisions and impose an additional capital requirement. To align its product range with changing needs of clients, mLeasing launched financing of photovoltaic panels in 2019. mBank's leasing subsidiary finances companies' photovoltaic systems worth up to PLN 250 thousand with a capacity up to 50kW. The leasing period is up to 7 years and the client's required contribution is at least 10% of the value of the project.

In 2021, mLeasing completed 311 transactions with a total volume of PLN 32.35 million. Clients whose photovoltaic systems are financed by mLeasing have access to preferential financing conditions under the EBI Climate Action programme. In 2021, mLeasing continued to work towards expanding its offer to include financing for photovoltaic systems with a capacity exceeding 50 kW, including systems mounted on land. mLeasing plans to make this offer available to clients in 2022. The financing of hybrid vehicles increased by 2 pps year on year in 2021. Twice as many electric vehicles were financed than the year before. The value of financed eco-drive vehicles (hybrid, electric, gas) accounted for 20% of the total volume of cars financed in 2021.

Since 2019, mBank private banking clients are the first in Poland to invest responsibly in line with the ESG standards. In our financial instrument portfolio management service, we offer ESG model investment strategies. These enable private banking clients to invest in portfolios of shares and bonds of issuers who lead with their positive environmental and social impact.

The value of assets invested in ESG model investment strategies for private banking clients increased by 138% during the year to PLN 192 million at the end of 2021. The assets invested in ESG model investment strategies for private banking clients as a percentage of total assets in model investment strategies for private banking clients reached 28.8% at the end of 2021 as compared to 21.2% at the end of 2021.

Less than 1% of all assets (including assets in ESG investment strategies and other assets) covered by the mBank Brokerage Office management service at the end of 2021 were placed in instruments which we assessed to represent a high level of sustainability risk.

We broadly promote ESG factors in mBank's investment services, including not only management services but also the investment advisory service with webinars for clients and continuous education of employees serving our clients.

For a long time, we were preparing to raise funding in the form of green bonds. The principles of the issue were set out in mBank S.A. Group Green Bond Framework published in May 2020. The document meets the requirements of Green Bond Principles 2018 issued by the International Capital Market Association (ICMA), which has been confirmed by Sustainalytics, an internationally renowned independent rating agency. On September 15, 2021, mBank placed its first issue of green bonds in the form of non-preferred senior bonds worth a total of EUR 500 million. The instruments, which have a maturity of six years, can be redeemed after five years and pay a coupon of 0.966%, i.e. 125 basis points above the Mid Swap rate, were issued at a nominal price. After meetings with investors, mBank built a diversified book including about 110 orders worth a total of over EUR 1.2 billion. This made it possible to close the transaction 25 basis points below the initial margin. The bonds were taken up by institutional investors and are listed on the Luxemburg Green Exchange. It is both the first issue of non-preferred senior bonds (NPS) and the first EUR benchmark green bond issue placed by a Polish financial institution.

The funds from the issue of green bonds are earmarked for the refinancing of a part of the portfolio of retail mortgage loans financing energy efficient buildings. The criteria for the assessment and selection of green mortgage loans meet the requirements of Climate Bonds Initiative (CBI) for low-emission construction of residential buildings in Poland. In line with the CBI assumptions, residential buildings qualify as security for green bonds if their demand for non-renewable primary energy is below the threshold determined in line with the low-emission trajectory set for Nearly Zero Energy Buildings (NZEB) based on the Energy Performance of Buildings Directive (EPBD). To ensure the coherence of the data used, the ultimately developed criterion is based on the technical standard appropriate for the year in which the given building was built. The standards are determined in the Regulation of the Minister of Infrastructure on the Technical Conditions to Be Met by Buildings and Their Location. In order for a given building project to obtain a construction permit, its assumed energy efficiency ratio must comply with the technical standard. The issue qualification criteria have been approved by the Sustainability Committee of mBank Group. Compliance with the CBI criteria has been confirmed by Sustainalytics.

In Q4 2021, we offered our clients an eco-friendly mortgage loan for the purchase or construction of energy efficient real estate. It can be used for the financing of real estate, both on the primary and secondary market. This product enables clients to buy real estate while at the same time taking care of the environment, now and for the future. Moreover, such real estate will be cheaper to maintain and less dependent on increasing raw material and energy prices. In order to check if the given real estate is energy efficient, we use the EP ratio, i.e. a parameter indicating the building's annual demand for non-renewable primary energy. This ratio is expressed in kWh/m<sup>2</sup>\*year and is specified in the energy certificate or the designed energy performance. As part of this solution, we offer a promotional margin (lower by 0.2 pp)



and do not charge the commission for granting the loan. In the terms and conditions of the loan, we adopt various values of the EP ratio, depending on the real estate type and its construction date. To use the special offer, clients append the energy certificate to their loan application. If the building has not been handed over yet, clients submit a statement on the designed energy performance and, upon investment completion, the energy certificate.

## 12.5. Key performance indicators

### Business and CSR indicators:

Key performance indicators	2019	2020	2021
Number of mBank's mobile clients	1.89 million	2.27 million	2.46 million
NPS (corporates)	33	41	34
NPS (retail)	13	19	24
Costs of execution of statutory activities of mBank Foundation	PLN 2.88 million	PLN 2.37 million	PLN 2.35 million

### Employment indicators:

Key performance indicators (mBank Group)	2019	2020	2021
Number of employees (FTEs)	6,771	6,688	6,738
Number of employees (headcount)*	8,224	8,306	8,350
Turnover rate**	18%	16%	18%
Employment rate***	21%	14%	17%
Engagement score	56%	53%	64%

\* Number of people employed at the end of a given year (including employees on long-term leave, excluding: replacements, trainees and interns, employees holding technical part-time positions granting them access to internal systems)

\*\* Turnover rate is the number of employees who left the company divided by the number of new hires

\*\*\* Employment rate is the number of new hires divided by the number of all employees

### Climate-related indicators:

Energy consumption (mBank Group)	2019	2020	2021
Electric energy (GWh)	14.0	12.3	23.9
including renewable energy sources (GWh)	no data	no data	11.8
Gas (thousand m <sup>3</sup> )	216.8	105.3	132.5
Central heating (thermal energy, TJ)	no data	no data	40.5
Gasoline (thousand L)	1,578.3	898.7	613.0
Diesel fuel (thousand L)	216.1	59.7	63.9

In 2021, we used electricity from renewable energy sources in the largest buildings of the bank's head offices in Warsaw (Wieża mBank) and Łódź (Przystanek mBank), as well as in one of our data centres. From January 2022, electricity produced from renewable energy sources, purchased directly from the supplier, has been used also in all mBank branches.

We regularly modernise technical installations at the bank's branches, mainly change light sources to LEDs or old air conditioning and ventilation appliances to appliances based on eco-friendly cooling technology and energy-saving systems (recuperation, inverters). The Covid-19 pandemic forced the bank to transition to working from home, which allowed it to reduce the number of workstations in mBank Tower by 30%.

Greenhouse gas emissions (mBank Group)	2019	2020	2021 narrower scope	2021 broader scope
CO <sub>2</sub> e emissions – scope 1 (metric tonnes)	4,211.39	1,929.77	1,773.21	1,773.21
CO <sub>2</sub> e emissions – scope 2 (metric tonnes)	11,210.61	7,441.65	3,788.38	12,270.38
CO <sub>2</sub> e emissions – scope 1 + scope 2 (metric tonnes)	<b>15,421.99</b>	<b>9,371.42</b>	<b>5,561.59</b>	<b>14,043.59</b>



In 2021, we significantly expanded the scope of reporting on energy consumption and thus CO<sub>2</sub> emissions. For the first time, we measured electricity consumption in our server rooms and mBank branches, in the case of which electrical energy bills are settled with the owner of the building instead of the distributor. For the first time we also measured energy consumption from central heating. The measurements showed that scope 1 and scope 2 CO<sub>2</sub> emissions totalled 14,043.59 metric tonnes. At the same time, the carbon footprint arising from energy consumption in scope, which we reported in previous years, amounted to 5,561.59 metric tonnes, down by 40% compared with 2020.

When calculating our carbon footprint we apply the GHG Protocol<sup>a</sup> standard and emission indicators developed by: DEFRA (for car petrol and natural gas consumption), the National Centre of Emission Balancing and Management (KOBIZE; for electricity consumption in Poland), Energy Regulatory Office (URE, for heating in buildings) and the European Environment Agency (EEA, for electricity consumption in Czech Republic and Slovakia). The reported data cover mBank (including the Czech and Slovak branches), mBank Hipoteczny, mLeasing, mFinanse and mFaktoring. CO<sub>2</sub> emission reporting covers:

- direct emissions from burning fuels in own energy sources and vehicles, and
- indirect emissions from burning fuels in order to generate electrical and heating energy purchased by the organisation.

Emission intensity indicators (mBank Group)	2019	2020	2021 narrower scope	2021 broader scope
Scope 1 + 2 emissions per employee (Mg CO <sub>2</sub> e / person*)	1.88	1.13	0.67	1.68
Scope 1 + 2 emissions per PLN 1 million of income (Mg CO <sub>2</sub> e / PLN 1 million of income)	2.79	1.60	0.91	2.30

\* Number of people employed at the end of a given year (including employees on long-term leave, excluding: replacements, trainees and interns, employees holding technical part-time positions granting them access to internal systems)

**Scope 3 greenhouse gas emissions:** In November 2021 we adopted a new strategy for 2021-2025. One of its elements is climate neutrality. We undertook to reach climate neutrality in relation to scope 1 and 2 emissions until 2030, and to become fully climate-neutral by 2050, also with respect to emissions connected with our credit portfolio. As a partner, we wish to support our business clients in their transition towards zero-emission operations. When developing our scope 3 decarbonisation plan, we will use a methodology allowing us to contribute to the objectives of the Paris Climate Agreement.

### Other environmental indicators

We mitigate our direct impact on the environment thanks to digitalisation of processes, and banking and operating activities. We cut down on energy, water, paper and plastic consumption, and reduce waste. Further information on our direct impact on the environment can be found in chapter 11.2. "Other socially-oriented activities", section "mBank is eco-friendly".

We also encourage our clients to choose eco-friendly solutions. Since 2020 we have been offering fully digital payment cards. Card details are stored in the mobile app, thus enabling contactless and online payments using a smartphone. Since the start of the project we have issued 140,000 such cards, saving 700 kgs of plastic. Only in 2021 we issued 96,500 digital cards, saving 482 kgs of plastic. In 2021 we also implemented fully digital, contactless BLIK payments.

In line with the mBank Group strategy for 2021-25, we are gradually expanding our offer of sustainable products, including "green" products. In December 2021 we added the first product of this kind to our offer, the EKO mortgage loan. It allows our clients to lower financing costs if a building meets certain energy efficiency conditions. In 2022, we will introduce further green products, such as electric car lease subsidised under the "My Electric Car" ("Mój elektryk") programme.

<sup>a</sup> The Greenhouse Gas Protocol; A Corporate Accounting and Reporting Standard Revised Edition; GHG Protocol Scope 2 Guidance

## 12.6. Indicators required under the EU Taxonomy

For the year 2021, for the first time, we publish indicators on environmentally sustainable activities according to the EU Taxonomy. This way we fulfil the obligations of Article 10 of Commission Delegated Regulation (EU) 2021/2178<sup>b</sup> (hereafter: "Delegated Regulation"). These are the KPIs that must be disclosed by credit institutions in the transition period. They refer to two environmental objectives described in Regulation (EU) 2020/852<sup>c</sup>:

- climate change mitigation,
- climate change adaptation.

The indicators reflect mBank Group's assets as on December 31, 2021.

### Taxonomy-eligibility indicators

These interim KPIs include two indicators regarding mBank Group's exposures to Taxonomy-eligible and Taxonomy-non-eligible economic activities. We have calculated both of them solely with respect to the financing granted to undertakings subject to the Non-Financial Reporting Directive (NFRD).<sup>d</sup> This interpretation conforms with Article 7 of the Delegated Regulation and the EU interpretation document regarding voluntary disclosures<sup>e</sup>.

When identifying clients subject to the NFRD and verifying Taxonomy-eligibility of their activities, we could not provide the exact values of both indicators. As at the time of preparation of this report, our corporate clients have not disclosed their own Taxonomy KPIs yet. We also chose not to send them direct inquiries about whether they are subject to the NFRD and what part of their activities is Taxonomy-eligible. Since the vast majority of them are listed companies, they may not be able to disclose these data as inside information, as described by MAR. Pursuant to the EU interpretation document regarding voluntary disclosures<sup>f</sup>, approximations cannot be published as obligatory Taxonomy KPIs. Thus, we determine the value of obligatory indicators as follows:

Type of assets	Proportion within total assets
Exposures to Taxonomy-eligible economic activity	<b>No data</b>
Exposures to Taxonomy-non-eligible economic activity	<b>No data</b>

At the same time, we calculated the value of both of these KPIs in approximation. We publish them as voluntary data.

We determined the estimated value of exposures to corporate clients of mBank Group subject to the NFRD based on:

- the provisions of Article 49b and Article 55 of the Accounting Act<sup>g</sup>, and
- the list of entities subject to the NFRD published on the [website of Fundacja Standardów Raportowania](#) (as on 26 January 2021).

In this group of undertakings, we determined Taxonomy-eligible assets based on the use of proceeds or the client's main activity in accordance with the PKD code.<sup>h</sup> We checked if they correspond with the list of economic activities described in Annexes I and II to Regulation (EU) 2020/852.<sup>i</sup>

The estimated value of the two indicators takes into account financing granted in the form of loans and advances, debt securities, equity instruments, and leasing and factoring. This approach is in line with

<sup>b</sup> COMMISSION DELEGATED REGULATION (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

<sup>c</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, Articles 10 and 11

<sup>d</sup> Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

<sup>e</sup> Platform considerations on voluntary information as part of Taxonomy eligibility reporting APPENDIX 1, p. 5

<sup>f</sup> Platform considerations on voluntary information as part of Taxonomy eligibility reporting APPENDIX 1, p. 5

<sup>g</sup> Accounting Act of 29 September 1994

<sup>h</sup> Polish classification of activities (PKD) 2007; PKD codes transpose the statistical classification of economic activities in the EU (Nomenclature statistique des Activités économiques dans la Communauté Européenne, NACE)

<sup>i</sup> COMMISSION DELEGATED REGULATION (EU) .../... of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

prudential consolidation. The numerator of both indicators covers the gross carrying amount of these items. Their denominator covers net total assets, expressed in line with prudential consolidation, without eliminations.

The approximate value of these voluntary disclosures is:

Type of assets	Proportion within total assets
Exposures to Taxonomy-eligible economic activity	<b>0.93%</b>
Exposures to Taxonomy-non-eligible economic activity	<b>1.05%</b>

Apart from the above data, we also publish both indicators with regard to a broader range of assets assessed in terms of their Taxonomy-eligibility. These disclosures are also voluntary. The scope of these data is consistent with the scope reported by Commerzbank, which is the consolidating unit of mBank Group. The scope of assets we assess in terms of Taxonomy-eligibility under this methodology covers financing granted to:

- all large companies employing more than 250 employees (FTEs),
- households, in the form of mortgage loans and car loans.

This broader catalogue of assets is consistent with the scope, which banks will assess when calculating their green asset ratios (GAR) after December 31, 2023. These assets are listed in Annexes V and VI to the Delegated Regulation. By adopting this approach, we are able to preliminarily determine the proportions of particular parts of our portfolio, which we will look into when assessing Taxonomy-alignment after December 31, 2023. It also allows us to compare the indicators of Taxonomy-eligibility of mBank Group and Commerzbank. Under this methodology, the value of the two indicators is:

Type of assets	Proportion within total assets
Exposures to Taxonomy-eligible economic activity	<b>21.27%</b>
Exposures to Taxonomy-non-eligible economic activity	<b>13.96%</b>

We calculated these indicators based on whether the economic activity financed, that is the use of proceeds, is described in Annexes I and II to Regulation (EU) 2020/852. All assets with a use of proceeds included in these annexes have been classified as Taxonomy-eligible. The assets with other use of proceeds or no use of proceeds at all have been classified as Taxonomy-non-eligible.

For some assets, such as the securities portfolio and general-purpose loans, it has not been possible to reliably determine the use of proceeds. This applies, in particular, to exposures to our corporate clients. As at the time of preparation of this report, they have not disclosed their own Taxonomy KPIs. In line with the conservative approach applied by Commerzbank in this case, we qualify these assets as Taxonomy-non-eligible.

### Other quantitative indicators required under the EU Taxonomy

We also report other indicators required under Article 10 of the Delegated Regulation. These indicators measure the proportion of exposures which are not assessed in terms of Taxonomy-eligibility:

Type of assets	Proportion within total assets
Exposures to central governments, central banks and supranational issuers	<b>30.87%</b>
Derivatives	<b>1.19%</b>
Exposures to undertakings not subject to the NFRD	<b>27.21%</b>
Trading portfolio	<b>0.32%</b>
On demand inter-bank loans	<b>0.07%</b>

The trading portfolio in this table consists of securities held for trading. We factored the non-trading securities in the indicators regarding Taxonomy-eligible or Taxonomy-non-eligible assets. We distinguished derivatives from the trading portfolio.

**Qualitative Taxonomy data**

Implementation of the Taxonomy in our processes, procedures and financial products is one of the objectives of mBank Group's business strategy for 2021-25. The achievement of this goal is supervised by our Sustainability Committee. The Taxonomy is a tool enabling us to implement sustainable development standards, including those related to environmental protection.

In striving to meet the goals of the Taxonomy we use a double-track approach. On the one hand, we adjust our credit process and the IT systems supporting it. We want to be able to verify the Taxonomy-alignment of a given activity already at the time of granting financing and save the results of the verification in our systems for reporting purposes.

On the other hand, we apply relevant credit policies, including our climate policy and RES financing policy. We describe them in Chapter 12.3 "Policies, due diligence and their outcomes". Their goals match the provisions of the European Green Deal and the Taxonomy. They are aimed at facilitating access to financing for activities preventing climate change.

Additionally, in 2022 we will start working on mBank Group's decarbonisation pathway. We have undertaken to reduce our net Scope 3 greenhouse gas emissions to zero by 2050, which also covers our credit portfolio. We will implement a decarbonisation methodology, including milestones and ways to reach them, based on scientific evidence. This will allow us to contribute to the implementation of the objectives of the Paris Climate Agreement. We will support our corporate clients in their green transformation. Moreover, we will create further mechanisms allowing us to redirect the stream of investment capital from high-emission to low-emission sectors and economic activities.

### 13. Statement of mBank on application of corporate governance principles in 2021

#### 13.1. Application of corporate governance principles

The general corporate governance principles applicable at mBank, i.e. regulations and procedures determining guidelines regarding the bank's authorities' actions, in particular towards stakeholders, arise from statutory regulations, in particular from the Code of Commercial Companies and Partnerships and the Banking Law Act, provisions regulating the operation of the capital market, and rules laid down in the following documents: Best Practice for GPW Listed Companies 2021, Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority on July 22, 2014, and the Code of Banking Ethics issued by the Polish Bank Association.

On July 1, 2021, Best Practice for GPW Listed Companies 2021 ("DPSN 2021") adopted by way of Resolution of the Exchange Supervisory Board No. 13/1834/2021 dated March 29, 2021 entered into force. It replaced the previous version of the Best Practice dated 2016. The "comply or explain" rule continues to apply. Listed companies are obliged to publish valid information about the application of individual rules. Moreover, in the case of an incidental violation of the rules, companies must immediately report it.

The text of the Best Practice for GPW Listed Companies 2021 is available on the website of the Warsaw Stock Exchange, in the section dedicated to corporate governance of listed companies ([www.gpw.pl/best-practice](http://www.gpw.pl/best-practice)).

The Principles of Corporate Governance for Supervised Institutions are available on the website of the Polish Financial Supervision Authority ([www.knf.gov.pl/en/MARKET/Regulations\\_and\\_practice/Practice](http://www.knf.gov.pl/en/MARKET/Regulations_and_practice/Practice)).

#### Best Practice for GPW Listed Companies

**The Best Practice for GPW Listed Companies 2016** was in force until July 2021. From among the then applicable rules, we did not apply rule VI.Z.2., which read: "To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years." We stated that the principles for granting variable components of remuneration at mBank are compliant with the Regulation of the Minister of Development and Finance of March 6, 2017 on the Risk Management System, the Internal Control System, the Remuneration Policy, and the Detailed Method for Banks' Internal Capital Assessment (Journal of Laws of 2017, item 637) and EBA Guidelines on sound remuneration policies (EBA/GL/2015/22) of June 27, 2016, which do not provide for the premise indicated in item VI.Z.2. of the Best Practice. We emphasized that the incentive system for the members of the Management Board and key managers at mBank included the payment of part of the remuneration in the form of subscription warrants. Therefore, despite the failure to apply the VI.Z.2 rule, the remuneration system at mBank effectively combines the remuneration of the management staff with the long-term goals of the company.

Moreover, from among the recommendations specified in the Best Practice for GPW Listed Companies 2016, we did not apply recommendation VI.R.3. concerning the remuneration committee. This recommendation required, among other things, that at least a majority of the committee members should be independent. At mBank, however, two out of four members of the Remuneration Committee of the Supervisory Board did not meet the independence criterion in H1 2021; consequently, independent members did not constitute a majority. In the opinion of the Supervisory Board, such a composition of the Remuneration Committee ensured efficient work of the committee and alignment of the basic remuneration principles with long-term objectives of mBank and Commerzbank Group, which controls mBank Group.

From the XXXIV Ordinary General Meeting of mBank, which was held on March 24, 2021, there was no deviation from the application of points 2 and 3 of the recommendation IV.R.2, related to conducting of general meetings with the use of electronic communication means.

**The Best Practice for GPW Listed Companies 2021**, which has been in effect since July 1, 2021, does not contain any recommendations. Each chapter of DPSN 2021 consists of general rules indicating the objectives which a company should strive to achieve in a given area, and detailed rules which are subject to reporting. The Best Practice for GPW Listed Companies 2021 includes new topics important from the point of view of stakeholders, among others practices pertaining to ESG and corporate board diversity.

In line with Article 29 of the Stock Exchange Rules, in July 2021 we presented the GPW with a report on the status of implementation of the rules provided for in the Best Practice 2021. We reported that the only rule we did not apply was rule 2.1:

"Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the General Meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional

experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%."

Our Diversity Policy is part of the Suitability Policy adopted by the Supervisory Board and approved at the Annual General Meeting.

Pursuant to the Suitability Policy, diversity is taken into account when selecting and appointing Members of the Management Board and proposing candidates for Members of the Supervisory Board. When deciding on the composition of the Management Board, the Supervisory Board makes every effort to ensure its diversity, especially in terms of age, education, professional experience and participation of women.

The Suitability Policy stipulates that the total participation of women in the Management Board and the Supervisory Board will be at least 30% by 2028.

In accordance with the interpretation of the Corporate Governance Committee with respect to the application of the Best Practice 2021, the 30% participation of the minority group should be calculated separately for each body. The achievement of this ratio at the level of one body only does not make it possible to assume that the rule is applied. Therefore, we established that we do not comply with rule 2.1 despite having in place a diversity policy approved by the bank's statutory bodies, attaching great weight to diversity and ensuring diversity in many aspects.

As at December 31, 2021, women accounted for 37.5% of the Supervisory Board Members. The Management Board of mBank, however, consists of men only. When selecting Members of the Management Board, the Supervisory Board took decisions based on competences and the Suitability Policy applicable at the bank, with the stability of the company's governance in mind.

A change in the Management Board composition depends on the duration of its term of office, which is five years at mBank. The current term of office of the Management Board ends in 2023, and the subsequent one in 2028. It is worth noting that the development programmes implemented by the bank support women in obtaining qualifications necessary to perform the duties of key position holders.

In accordance with the Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting (2014/208/EU), we provide a description of application of the rules laid down in the Best Practice for GPW Listed Companies 2021 on the topics vital to shareholders.

#### Information policy and communication with investors (chapter 1)

We pursue a transparent, open, and reliable information policy, which builds mutual trust and loyalty of investors. We immediately react to any false information about the company by clearly expressing our stance.

When implementing the information policy, we comply with requirements arising from information confidentiality and security laws, which we must abide by as a public company and a supervised institution.

The main means we apply in our information policy with regard to investor relations include:

- current and periodic reports; the timeline of publication of periodic reports enables investors to familiarise themselves with the financial results of the company as soon as possible after the end of a reporting period;
- quarterly presentations of financial results for investors and analysts, during which Members of the company's Management Board comment on financial and business results of the group, events having an impact on the group's operations and prospects for the future;
- individual and group meetings, tele- and video-conferences of representatives of the Management Board and the Investor Relations team with investors and analysts;
- ongoing contact by phone, email, and via Microsoft Teams with analysts and investors, including sending newsletters on a monthly basis and, if necessary, other informational materials;
- participation of our representatives in domestic and foreign investor conferences, and cycles of meetings with investors in Poland and abroad (roadshows);
- the company's website in Polish and English.

On the bank's website, information and documents arising from the guidelines to the Best Practice in relation to rule 1.1. of DPSN 2021 are published, including the following:

- basic corporate documents, including, in particular, the company's by-laws and the rules of the General Meeting, Supervisory Board, Management Board, and the adopted policies;



- composition of the Management Board, Supervisory Board and Supervisory Board committees, curricula vitae of the members of these bodies, containing, among others, information on the Supervisory Board Members' compliance with the independence criteria;
- information about incentive programmes;
- the company's selected financial and business data in a format enabling their recipients to process them (data starting from 2006 are available);
- presentations discussing the published results of the group and the market environment;
- basic corporate information on the structure of the group;
- data on the number of shares issued, shareholding structure, share capital and dividends;
- recommendations of analysts together with the target share price and the consensus regarding the group's forecast results for the current and next year;
- other presentations and information about topics concerning the strategy, the group's operations and its financial results (Introduction to mBank Group and Factsheet);
- recordings of quarterly meetings of analysts and investors with the Members of mBank's Management Board;
- calendar with the dates of publication of financial reports, meetings with investors and press conferences and other events that are important from the point of view of investors;
- questions asked by the company's shareholders together with the company's answers;
- current and periodic information;
- information on the application of corporate governance principles, and
- information on communication with the company.

Moreover, we publish video recordings of General Meetings and information on ratings and the Euro Medium Term Note Programme (including prospectuses and presentations for investors in debt instruments).

On the company's website, the group's strategy assumptions, objectives and actions taken as part of the strategy are presented. The Management Board Reports on Performance of mBank Group for a given year and the integrated reports provide information on the achievement of the strategy objectives.

Our ESG agenda is part of the mBank Group Strategy for 2021-2025. The Group's actions regarding ESG are described, among others, in the integrated report and in a separate document available on the website.

We present the equal pay index in the integrated report and on the company's website. We pursue a policy of full transparency regarding sponsorship. The activity of mBank Foundation is described in the Management Board's Report, chapter 11. "mBank and corporate social responsibility". We disclose our donations to charity.

Open communication with shareholders during General Meetings manifests itself, among others, in the following aspects:

- providing shareholders with answers and explanations by the members of the bank's governing bodies;
- broadcasting of General Meetings in real time;
- participation of the media in General Meetings.

#### Management Board, Supervisory Board (chapter 2)

All Members of the Management Board and the Supervisory Board have the knowledge, experience, and skills required for their functions.

The position in the managing body constitutes the main area of professional activity of Management Board Members. Some Management Board Members sit also on the supervisory boards of subsidiaries, which contributes to effective operation of the Group. The Supervisory Board grants the Members of the Management Board consent to sitting on management or supervisory boards of companies from outside mBank Group.

The Members of the Supervisory Board devote the necessary amount of time to performing their duties. If a Supervisory Board Member resigned, they were replaced to fill in the vacancy. The Members of the Supervisory Board follow their independent opinion and judgement, acting in the interest of the company.

Suitability of the Members of the Management Board and the Supervisory Board of mBank is assessed on the basis of such criteria as expert knowledge and skills, managerial skills, professional experience, individual suitability, collective suitability, reputation and good repute, honesty and integrity, sufficient time commitment, independence of mind. In the case of the Supervisory Board, the independence criteria are taken into account. As at December 31, 2021 independent Members constituted half of the Supervisory Board composition.

As we indicated above, non-application of rule 2.1 pertaining to diversity policy results from the failure to ensure diversity with regard to the minority quota in the Management Board, whereas the majority of requirements stipulated in this rule are met. Persons taking decisions on the appointment of Management Board or Supervisory Board Members take into account criteria ensuring diversity of these bodies aimed at the achievement of the target minimum participation of the minority group within a planned time horizon.

The Audit Committee of the Supervisory Board is guided by the objectives set by the Supervisory Board and stipulated in the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight. The Chairwoman of the Supervisory Board does not simultaneously act as the head of the Audit Committee. We comply with the DPSN 2021 rules pertaining to the manner in which the Management Board and the Supervisory Board vote. Each year, the Supervisory Board prepares a report on its operations and submits it to the General Meeting.

More information on the qualifications of Management Board Members and Supervisory Board Members can be found in the following sections of this statement.

#### Internal systems and functions (chapter 3)

We maintain effective internal control, risk management, and compliance systems. Tasks within the individual systems are performed by designated organisational units. The Management Board is responsible for the implementation, maintenance, and effectiveness of internal control, risk management, and compliance systems.

The internal audit operates independently. The Internal Audit Department (DAW) and the Compliance Department (DC) are supervised directly by the President of the Management Board. The Audit Committee exercises functional supervision over DAW in respect of audit activities.

The remuneration of persons responsible for risk management and compliance and of the internal audit head, including their variable remuneration, depends on the performance of the tasks assigned to them. It does not depend on the group's financial results.

The Audit Committee of the Supervisory Board reviews and monitors the financial reporting process and operational effectiveness of the internal control system, including the operation of internal audit and compliance.

Key group subsidiaries comply with the DPSN 2021 rules regarding remuneration and reporting lines of persons responsible for risk management, compliance and internal audit. Within mBank Group, the position for internal audit has been created at mBank Hipoteczny S.A.

#### General Meeting, Shareholder Relations (chapter 4)

When setting the date of the Annual General Meeting we take account of the statutory time limits and try to convene the meeting as soon as possible after the release of the annual report. We enable the shareholders to participate in General Meetings by means of electronic communication and broadcast them in real time.

Draft resolutions of the General Meeting concerning matters and decisions other than organisational ones contain a justification and an opinion of the Supervisory Board. If the General Meeting is to discuss the appointment of new Supervisory Board Members or the appointment of the Supervisory Board for a new term of office, candidates for Supervisory Board Members are nominated, at the latest, three days before the General Meeting, and the complete documentation concerning them is published on the company's website.

In accordance with mBank Group's strategy, our objective, as reflected in the multi-year plan, is to pay dividend. The dividend policy ensures the maintenance of the bank's and Group's capital ratios at safe levels. The bank paid the last dividend from profit for 2017. In the recent years, dividend was not paid out as recommended by the Polish Financial Supervision Authority (KNF).

### Conflict of Interest, Related Party Transactions (chapter 5)

mBank has in place transparent procedures for preventing conflicts of interest and identifying cases which may constitute conflicts of interest and governing the company's conduct in the case where such a conflict occurs.

Members of the company's authorities undertake to abstain from professional and non-professional activities which may result in a conflict of interest. The Rules of the Management Board include provisions on avoiding conflicts of interest and specify under which circumstances Management Board Members should be excluded from the decision-making process in the case of a conflict of interest or a potential conflict of interest. In accordance with the Rules of the Supervisory Board, its Members do not engage in activities which could give rise to a conflict of interest or negatively affect their reputation as Supervisory Board Members.

Transactions with related entities are executed on the basis of the applicable internal regulations of the bank in line with market standards.

In accordance with mBank's By-laws, no resolution should be passed without consent of the majority of the independent Members of the Supervisory Board on the following matters:

- any benefits provided by the bank or any entities related to the bank to the Members of the Management Board;
- consent for the bank to enter into a significant agreement with an entity related to the bank, a Member of the Supervisory Board or the Management Board, and entities associated with them.

The Supervisory Board issues opinions concerning transactions with related entities if the planned total value of a single transaction exceeds 20% of the Bank's own funds.

### Remuneration (chapter 6)

mBank Group has in place transparent, consistent, and fair remuneration rules. They support sound and effective risk management in mBank Group and do not encourage employees to take excessive risk exceeding the acceptable general risk level of the bank approved by the Supervisory Board.

Remuneration of Members of the Management Board includes a fixed and a variable part. The Group has incentive programmes compliant with DPSN 2021. An incentive programme based on warrants entitling their holders to take up shares is compliant with rule 6.3. The granting of a bonus for a given year and the decision on the payment of deferred tranches depend on the assessment of the achievement, within at least three years, of the goals set and relevant financial and non-financial objectives of the company by the persons eligible for the programme. The price assumed for the purpose of establishing the number of warrants entitling their holders to take up shares as part of the awarded bonus amount is based on market terms.

The Supervisory Board of mBank has appointed a Remuneration Committee. Remuneration of Management Board Members and key managers is sufficient to attract, retain, and motivate persons having the necessary competences to appropriately manage the company. In the case of the Supervisory Board, the remuneration level makes it possible to select persons with competences needed to supervise the company. Remuneration of the Supervisory Board does not depend on options, derivative instruments, or other variable components and is not tied to the company's performance and the number of meetings held.

More information on the rules of remunerating Management Board Members and Supervisory Board Members can be found in the following sections of this statement.

### **Principles of Corporate Governance for Supervised Institutions**

The Principles of Corporate Governance for Supervised Institutions cover relations with shareholders and clients, issues relating to the organisational structure, issues pertaining to ensuring an effective and efficient internal control system, as well as the risks of business activities.

The bank departed from the application of the principles of corporate governance set out in the provisions of Article 16 (1) and Article 24 (1) of the Principles.

Pursuant to Article 16 (1): "It is proper that meetings of a management body shall be held in Polish. In case of need, necessary assistance of an interpreter should be ensured."

In this case, a departure is justified. All Members of the Management Board speak fluent English. Communication without an interpreter is more efficient as discussions and decisions can be made without the participation of a third party (interpreter). In some circumstances, the participation of an interpreter could make discussions at Management Board meetings more difficult or prolonged due to the complex nature of issues under discussion as well as the use of specialised language. Furthermore, given that during

their meetings the Management Board Members discuss information that constitutes the company's secret, it is legitimate to limit to the bare minimum the participation of non-members of the Management Board in its meetings. At the same time, most of the Management Board Members speak Polish, which means that the bank can be represented whenever participation of Management Board Members is required including communication in Polish without an interpreter. Minutes of Management Board meetings, as well as resolutions of mBank's Management Board, are prepared in two language versions, ensuring compliance with provisions of Article 16 (2) of the "Principles of Corporate Governance for Supervised Institutions".

Pursuant to Article 24 (1): "It is proper that meetings of a supervisory body shall be held in Polish." In case of need, necessary assistance of an interpreter should be ensured." The justification of the departure from this principle is similar to that applicable to the rule stipulated in Article 16 (1). The Members of the Supervisory Board of mBank speak fluent English. Discussions and decisions without the participation of an interpreter are more efficient. Moreover, since the Supervisory Board discusses issues that constitute the company's secret, it is important that only persons whose presence is necessary participate in the Supervisory Board meetings. Minutes of the meetings and all resolutions passed by the Supervisory Board of mBank are prepared in two language versions, Polish and English, which means that the bank complies with the principle laid down in Article 24 (2) of the Principles of Corporate Governance for Supervised Institutions.

In the previous years, we reported our non-compliance with the rule described in Article 8 (4), pertaining to the facilitation of the participation of all shareholders in the meeting of the General Meeting, among others, through ensuring the possibility of electronic active participation. Since the 34th Annual General Meeting of mBank held on March 24, 2021, the above-mentioned rule has been complied with. We currently ensure the possibility of electronic active participation of shareholders in the General Meeting with the use of electronic means of communication. Detailed rules of participation in the General Meeting with the use of electronic means of communication are stipulated in the rules adopted by the Supervisory Board.

The stance of shareholders as regards the "Principles of Corporate Governance for Supervised Institutions" was presented in resolution no. 31 of the 28th Annual General Meeting of mBank S.A. of March 30, 2015. In the above resolution, the shareholders undertook:

- to participate in the performance of the statutory objectives of mBank, ensuring security of its operations and with its interest in mind;
- not to violate the powers of other statutory bodies of mBank;
- to immediately solve any potential conflicts between shareholders to prevent infringing the interest of mBank and its clients;
- not to make decisions resulting in transferring assets from mBank to other entities, and in acquisition or alienation of or in conclusion of other transactions leading to mBank disposing of its assets under conditions other than market conditions or posing a threat to the security or interest of mBank; individual rights will be granted to the given shareholder or shareholders when justified on the grounds of achieving significant objectives of mBank and not causing hindrance to proper functioning of the bodies of mBank or discrimination against other shareholders and reflected in the By-laws of mBank;
- to provide, if needed, additional capital or grant financial support to the bank to the extent to which it is possible and compliant with their authorisations, whereas it will only take place after an analysis of the entirety of reasons which led to such a necessity; the shareholders will consider the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations which the shareholders being regulated entities are bound to respect and considering the best interest of mBank and its clients;
- to make decisions with regard to dividend payment conditional upon the need to maintain an appropriate level of equity and the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities; and
- to follow the recommendations of the KNF regarding the election of Members of the Supervisory Board.

## **Code of Banking Ethics**

Apart from the corporate governance principles, we have for many years complied with the best banking industry practices, developed by the Polish Bank Association (ZBP). The currently applicable version of the Code of Banking Ethics was approved at the 25<sup>th</sup> General Meeting of the Polish Bank Association held on April 18, 2013. The Code of Banking Ethics is a set of principles referring to banks, their employees, and persons acting as intermediaries in banking activities. The Code of Banking Ethics includes two parts: the Code of Best Banking Practice and the Code of Bank Employee Ethics. The Code of Banking Ethics is

available on the website of the Polish Bank Association: <https://www.zbp.pl/dla-klientow/poradniki-i-rekomendacje>.

### **Rules on conduct towards business partners and the model of values and behaviours of mBank employees**

The bank's employees apply the Code of Conduct, which establishes the standards applicable in interactions between the bank's employees and the bank's business partners in order to build mutual trust. The guidelines related to behaviour include, among others, being guided by mBank's values, creating a sustainable corporate culture, corporate social responsibility, pursuing a responsible credit policy, treating relationships with clients in a responsible way, honesty in business relationships, applying established standards in relationships with clients and in internal relationships, avoiding conflicts of interest, responsible use of social media and simplifying communication.

Moreover, we have defined behaviours which are most important from the perspective of the organisation and which facilitate the achievement of individual and team results and contribute to customer satisfaction. mBank's model of values and behaviours, which sets mBank's work standard, is based on the following organisational values: „authenticity”, „empathy”, „responsibility”, „courage” and “co-operation”.

### **13.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank**

mBank's internal control system supports bank management by ensuring efficiency and effectiveness of the bank's operations, reliability of financial reporting, compliance with risk management rules of the bank, as well as compliance of the bank's operation with law, internal regulations and market standards.

The risk management system and the internal control system in place at the bank are based on three independent lines of defence:

- the first line of defence is comprised of risk management in the operations of the bank performed by the bank's business units and units supporting them directly;
- the second line of defence is comprised at least of risk management by designated organisational units and/or designated employees of organisational units, which takes place independently of the risk management in the first line of defence, and the operations of the Compliance Department;
- the third line of defence is comprised of the Internal Audit Department, which is responsible for an independent evaluation of the adequacy and effectiveness of the risk management system and the internal control system in the first and second line of defence.

In all three lines of defence, mBank's employees apply control mechanisms or independently monitor the observance of control mechanisms.

The basis for drawing up the consolidated financial statement of the group are the financial statements of the bank and the subsidiaries subject to consolidation, as well as additional information prepared by these subsidiaries that is necessary in the consolidation process.

The process of preparing financial data for reporting is automated and based on the accounting data of the bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating a collection of accounting balances on the basis of the system of general ledgers of the bank takes place within a process covering respective internal mechanisms and controls. The mechanisms consist, among others, in verification and reconciliation of reporting data with books of accounts, sub-ledger accounts, and other documents on the basis of which financial statements are drawn up, as well as with the applicable legal provisions pertaining to accounting principles and the preparation of financial statements.

The processing of data for financial reporting purposes is strictly governed by control mechanisms which test the correctness and reliability of data. Manual adjustments, including those arising from management decisions, are subject to special controls.

We continuously monitor changes in the law and external regulations related to the preparation of financial statements, update internal regulations on an ongoing basis and adjust our IT systems where necessary.

We have implemented mechanisms which effectively ensure the security of IT systems in the process of monitoring the operational risk which occurs in the preparation of financial statements at the bank. The IT systems used in the process are cyclically analysed and tested in terms of compliance with the IT architecture requirements and cybersecurity, and thoroughly controlled in terms of integrity and data security.



We have in place a business continuity plan which covers also the IT systems used in the process of preparing financial statements.

Financial statements of mBank and the Group are prepared by the Financial Reporting Department. The basis for drawing up the consolidated financial statement of the Group are the financial statements of the bank and the companies subject to consolidation, as well as additional information prepared by these companies, necessary in the consolidation process. With respect to descriptive information concerning risk management at the bank and in the group contained in financial statements, the Financial Reporting Department cooperates with organisational units from the Risk Management Area.

The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The Accounting Department controls the coherence and completeness of the bank's books of accounts and manages the model chart of accounts. Both departments report to the Vice-President of the Management Board, Chief Financial Officer. To ensure the completeness of the disclosures required under IFRS in the annual and semi-annual financial statements, the Financial Reporting Department draws up a disclosure checklist based on the applicable standards.

Upon their verification, financial statements are submitted for approval to the Management Board by the Financial Reporting Department. The statements are approved by all Members of the Management Board of the bank with the use of a qualified electronic signature.

The Audit Committee of the Supervisory Board receives quarterly financial statements before they are published. After consultations with the bank's external auditor and the Members of the Management Board of the bank, the Audit Committee recommends whether the Supervisory Board should approve or reject annual financial statements.

The annual and semi-annual financial statements of mBank are subject to an independent audit and review by a statutory auditor, respectively. The selection of the statutory auditor of the bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor.

The procedures of co-operation of mBank and the external auditor ensure that all the important issues related to the recognition of economic events in the books and financial statements are being consulted on an on-going basis.

The aspiration to ensure the highest standards of financial statements is reflected in the high quality of reporting. In the "Best Annual Report 2020" contest organised by the Institute of Accountancy and Taxes (IRiP), the results of which were announced in October 2021, we won the title "Best of the Best" for the best annual report in the category of financial institutions for the ninth time in a row.

### **Information on the entity authorised to audit financial statements**

We abide by the principle regarding the rotation of statutory auditors. Pursuant to the resolution of the 33rd Annual General Meeting of mBank of March 27, 2020 Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa was selected as the auditor to audit the financial statements of mBank and the consolidated financial statements of mBank Group for the years 2020-2022. The relevant agreement between mBank and Ernst & Young was concluded on April 2, 2020. On September 29, 2021 an agreement on partial termination of the above-mentioned agreement in the part pertaining to the audit of the financial statements of the bank and the consolidated financial statements of mBank Group and the review of the condensed financial statements of the bank and the Group for 2022 and other assurance services for 2022 was concluded.

The reason for the termination of the agreement with Ernst & Young Audyt Polska, which is part of the Ernst & Young network that audits the financial statements of mBank's parent company, Commerzbank AG, and Commerzbank Group, was the intent to change the audit firm that will audit the financial statements of Commerzbank and Commerzbank Group in 2022. 2021 was the last period in which Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements of Commerzbank and Commerzbank Group.

In order to enable the General Meeting of the bank to select an audit firm to audit the financial statements for 2022 and the subsequent years, ensuring the best level of coordination between the audit of the financial statements of the bank and mBank Group and the audit of the financial statements of Commerzbank and Commerzbank Group, it was necessary to terminate the agreement with Ernst & Young Audyt Polska in the part pertaining to 2022.

The decision to terminate the agreement with Ernst & Young taken by the Management Board of mBank obtained a positive recommendation of the Audit Committee of the Supervisory Board and was approved by the Supervisory Board.



The total value of remuneration paid to Ernst & Young Audyty Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa for auditing and reviewing the financial statements and the consolidated financial statements of mBank S.A. amounted to PLN 3,709,000 in 2021 (against PLN 3,509,000 gross in 2020).

The total value of other remuneration paid to Ernst & Young Audyty Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa in 2021 for providing other services to mBank S.A. amounted to PLN 928,000 (PLN 231,000 gross in 2020).

### **Statutory auditor's services other than the audit of yearly financial statements**

A list of services other than the audit of yearly financial statements rendered to mBank S.A. Group by Ernst & Young Audyty Polska spółka z ograniczoną odpowiedzialnością sp. k. in the year 2021 is presented below.

1. Review of the the standalone interim financial statements of mBank S.A.. and the the consolidated interim financial statements of mBank S.A. Group as at and for the 6-month period ended June 30, 2021.
2. Review of the consolidation package of mBank S.A. for Commerzbank AG as at and for the 3-month period ended March 31, 2021, the 6-month period ended June 30, 2021 and the 9-month period ended September 30, 2021.
3. Audit of the consolidation package of mBank S.A. for Commerzbank AG as at and for the year ended December 31, 2021.
4. Verification of the disclosure document regarding the capital adequacy of mBank Group as at June 30, 2021 and December 31, 2021 and verification of the update of the disclosure document regarding capital adequacy with information on variable components of remuneration for 2020.
5. Assessment of compliance with the requirements for storing assets of mBank S.A. clients for the year ended December 31, 2021.
6. Assessment of the remuneration report prepared by the Supervisory Board for the year ended December 31, 2021.
7. Performing the agreed procedures related to the issuance and preparation by the Bank of the Prospectus under the EMTN Program and the issuance of comfort letters.
8. Review of the interim financial statements of the two subsidiaries as at and for the 6-month period ended June 30, 2021.
9. Specific audit procedures on the consolidation package of two subsidiaries, review of the consolidation package of one subsidiary and specific procedures concerning the consolidation packages of three subsidiaries for mBank S.A. as at and for the year ended December 31, 2021.
10. Review of the consolidation package of one subsidiary and specific procedures concerning the consolidation packages of four subsidiaries for mBank S.A. as at and for the 6-month period ended June 30, 2021.
11. Specific audit procedures concerning the consolidation package of one subsidiary and review of the consolidation package of one subsidiary for Commerzbank AG as at and for the year ended December 31, 2021.
12. Review of the consolidation package of one subsidiary for Commerzbank AG as at and for the 6-month period ended June 30, 2021.
13. Performance of an assurance service including the assessment of the design of a risk management system in one subsidiary.
14. Performance of an assurance service including the compliance assessment of the methods and principles of asset valuation for one subsidiary.

### **13.3. Significant blocks of shares**

As at December 31, 2021 mBank's share capital amounted to PLN 169,539,536 and was divided into 42,384,884 shares with a nominal value of PLN 4 each, including 42,373,884 ordinary bearer shares and 11,000 ordinary registered shares.

Commerzbank AG is our majority shareholder.

As at the end of 2021 Commerzbank directly held 29,352,897 shares of mBank. In 2021 the number of shares held by Commerzbank did not change; however, following the admission to trading of shares issued in connection with the implementation of the incentive programmes, Commerzbank's stake was slightly reduced. At the end of 2021 Commerzbank held 69.25% of mBank's share capital and votes at the General Meeting, compared with 69.28% at the end of 2020.

30.75% of mBank shares were in free float. These shares are held by institutional investors, in particular Polish pension funds and Polish and foreign investment funds, as well as individual investors. Until November 23, 2021 Nationale-Nederlanden Otwarty Fundusz Emerytalny S.A. held more than 5% of mBank's shares.

On November 25, 2021, Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. notified mBank about a decrease in the share of Nationale-Nederlanden Otwarty Fundusz Emerytalny in the total number of votes at the General Meeting of the bank to less than 5% as a result of selling the bank's shares in transactions on the WSE on November 23, 2021. After settling the transactions, Nationale-Nederlanden Otwarty Fundusz Emerytalny held a block of shares of mBank accounting for 4.968% of the bank's share capital and entitling it to 4.968% of votes at the General Meeting.

As at December 31, 2021, no shareholder except for Commerzbank exceeded the 5% threshold of shares and votes at the General Meeting of mBank.

In accordance with the lists of shares of WSE-listed companies held in funds' portfolios as at the end of 2021 published by open-end pension funds, open-end pension funds jointly held 17.7% of mBank shares compared with 19.7% at the end of 2020. The largest shareholders of mBank were: Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A (4.8% compared with 5.1% at the end of 2020, AVIVA Open Pension Fund AVIVA Santander (3.7% compared to 4.1% at the end of 2020), Open Pension Fund PZU (3.1% compared to 4.2% a year before) and Aegon Otwarty Fundusz Emerytalny (1.5% compared to 1.8% as at December 31, 2020).

Shareholders as at December 31, 2021	Number of shares	% share in the total number of shares and votes
1. Commerzbank AG	29,352,897	69.25%
2. Other shareholders, including:	13,031,987	30.75%
- Nationale-Nederlanden Otwarty Fundusz Emerytalny		4.8%
- AVIVA Otwarty Fundusz Emerytalny AVIVA Santander		3.7%
- Otwarty Fundusz Emerytalny PZU		3.1%
- Aegon Otwarty Fundusz Emerytalny		1.5%

Pursuant to the By-laws of mBank, each share carries one voting right at the General Meeting. There are no preferred shares. The rights and obligations related to the bank's shares arise from generally applicable laws, in particular laws included in the Code of Commercial Partnerships and Companies. The control rights of Commerzbank AG as the parent entity of mBank arise from the number of shares held, their percentage share in the share capital and in the number of votes at the General Meeting of mBank.

The By-laws of mBank do not impose any limitations on the exercise of the voting right. There are no provisions separating the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on transferring the ownership right to securities issued by the bank.

#### Information on the majority shareholder

Our majority shareholder, Commerzbank AG founded in 1870, is a leading German bank for small and medium-sized enterprises and a strong partner to approx. 28 000 corporate clients and 11 million individual clients and small enterprises in Germany. Its two business segments, Private and Small Business Customers and Corporate Clients offer a comprehensive portfolio of financial services. Commerzbank handles approx. 30% of foreign trade transactions in Germany and supports corporate clients in nearly 40 countries.

The bank focuses on German medium-sized enterprises (Mittelstand), large corporate clients and institutional clients.

As part of its international activity, Commerzbank serves clients with German connectivity and companies operating in selected future-oriented industries.

Since the merger with Comdirect in 2020, individual clients of Commerzbank and small-sized enterprises have been given the opportunity to use a state-of-the-art direct banking system and receive personal advice at the bank's branch.

In 2021, Commerzbank generated gross revenues of approx. EUR 8.5 billion with a headcount of some 46,500 employees.

#### 13.4. Principles of appointing and dismissing Management Board Members

Pursuant to the By-laws of mBank, the Management Board is composed of at least three Members appointed for a joint term of five years.

At least half of the Members of the Management Board, including the President of the Management Board, must hold Polish citizenship, be habitually resident in Poland, speak Polish, and have experience on the Polish market which can be used while managing the bank.

The President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board are appointed and dismissed by the Supervisory Board, which acts pursuant to the provisions of the Banking Law and considers whether they have the relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (KNF) approves two Members of the Management Board of the bank: the President of the Management Board and the Board Member responsible for developing and implementing the bank's credit policy and risk management.

In accordance with the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The mandate of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of that Management Board Member. The mandate of a Member of the Management Board also expires if the Member dies, resigns from his or her position, or is dismissed. The mandate of a Member of the Management Board appointed before the end of the term expires on the expiration date of mandates of the other Members of the Management Board.

### **13.5. Principles of making amendments to the company's By-laws**

Amendments to the By-laws of mBank require adoption of a resolution by the General Meeting of mBank and registration of the adopted amendment in the National Court Register. Before the General Meeting of mBank is presented with a draft resolution concerning amendment to the By-laws, the Management Board of mBank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting. The draft is then presented to the Supervisory Board for approval.

Under Article 34 (2) of the Banking Law Act of 29 August 1997, an amendment to the bank's By-laws requires the authorisation of the Polish Financial Supervision Authority.

#### **Amendments to mBank's By-laws in 2021**

The 34th Annual General Meeting of mBank held on March 24, 2021 passed amendments to the By-laws of mBank. The amendments were registered by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

The amendments to the By-laws of mBank S.A. made in 2021 were as follows:

- adding an option to participate in the General Meeting with the use of electronic means of communication;
- extending the list of standing committees of the Supervisory Board by adding the IT Committee and defining its core tasks,
- updating the amount of mBank's share capital.

### **13.6. General Meeting and shareholder rights**

#### **Procedures and powers of the General Meeting**

The General Meeting is convened pursuant to the provisions of the Code of Commercial Partnerships and Companies, mBank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on mBank's website (<https://www.mbank.pl/o-nas/lad-korporacyjny/>).

The General Meeting convened by the Management Board under the ordinary procedure is held once a year, no later than in June. The Supervisory Board may convene an Annual General Meeting if the Management Board does not convene it within the time limit set out in the By-laws and an Extraordinary General Meeting if the Supervisory Board considers it necessary. In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request for a General Meeting to be convened.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies. One proxy may represent more than one shareholder.

Subject to the cases specified in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at it.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes, unless the Code of Commercial Partnerships and Companies or mBank's By-laws impose a stricter requirement for the passing of resolutions on specific issues. A secret ballot is required in the case of elections and motions to dismiss members of the bank's authorities or liquidators, motions to call members of the bank's authorities or liquidators to account, and motions concerning personal issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system, which also counts the votes. Shareholders have an option to participate in the General Meeting with the use of electronic means of communication. A shareholder or their proxy participating in the General Meeting with the use of the means of electronic communication has the same rights to voice their opinion, propose motions, submit draft resolutions, vote and raise objections to adopted resolutions as a shareholder or their proxy physically present in the room where the General Meeting is held.

The following matters require a resolution of the General Meeting (in addition to other matters set out in the Code of Commercial Partnerships and Companies):

- examination and approval of the report of the Management Board on the bank's operations and financial statements for the past financial year;
- adoption of resolutions on the distribution of profits or coverage of losses;
- vote of discharge of duties for members of the bank's authorities;
- election and dismissal of Members of the Supervisory Board;
- amendment to the By-laws;
- increase or reduction of the bank's share capital;
- adoption of resolutions concerning the redemption of shares, which set the rules of acquiring shares by the bank, in particular the amounts earmarked for the purchase of shares for redemption and funding sources and resolutions on redemption of shares, and in particular setting the rules of share redemption not regulated in the By-laws;
- creation and winding up of special purpose funds;
- issue of convertible bonds or preferred bonds;
- establishment of the principles of remunerating the Members of the Supervisory Board;
- liquidation of the bank or its merger with another bank;
- appointment of liquidators;
- matters submitted by the Supervisory Board;
- matters submitted by the shareholders in accordance with the By-laws;
- selection of an entity authorised to audit financial statements as a statutory auditor of the bank.

The General Meetings of the bank take place in the bank's headquarters in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

### **Shareholders' rights**

Shareholders have the right to participate in the profit reported in the audited financial statements and allocated by the General Meeting to be paid to the shareholders.

The shareholders representing at least half of the share capital or at least half of the total number of votes in the company may convene an Extraordinary General Meeting and appoint the chairperson of this meeting. The shareholder(s) representing at least one-twentieth of the share capital may request that the Management Board convene an Extraordinary General Meeting and that specific items be put on the agenda

for this meeting. A request for convening an Extraordinary General Meeting submitted in writing or electronically should contain proposals of:

- a) the General Meeting agenda,
- b) draft resolutions along with rationale for those resolutions.

If a General Meeting is convened by parties other than the Management Board, the Management Board is obliged to take the necessary actions to ensure that the General Meeting is held.

Only persons who are shareholders of the bank sixteen days before the date of the General Meeting have the right to participate in the General Meeting. The shareholder(s) of the bank representing at least one-twentieth of the share capital may request that specific items be put on the agenda for the Annual General Meeting. The request should be submitted to the Management Board of the bank no later than twenty-one days prior to the date of the Annual General Meeting.

Shareholders may participate in the General Meeting and cast their votes either in person or by proxies.

A shareholder has the right to:

- vote, propose motions and raise objections;
- justify their position briefly;
- stand for election of the Chairperson of the General Meeting and propose a candidate for the Chairperson of the General Meeting to be noted in the minutes;
- take the floor in the course of the General Meeting and make a reply;
- submit draft resolutions concerning items put on the agenda;
- propose amendments and additions to draft resolutions being on the agenda for the General Meeting before the discussion on the item covering the draft resolution concerned by the proposal is closed;
- propose formal motions relating to the proceedings and the voting procedure;
- propose candidates for the bank's Supervisory Board in writing to the Chairperson of the General Meeting or orally to the minutes;
- review the book of minutes and request copies of resolutions authenticated by the Management Board;
- file a statement of claim for repealing a resolution of the General Meeting where the shareholder voted against the resolution of the General Meeting and after its adoption requested that his/her objection be recorded in the minutes or the shareholder was prevented from participating in the General Meeting without a sound reason, or the shareholder was absent from the General Meeting in the event of defective convening of the General Meeting or adoption of a resolution on a matter not included in the agenda;
- file a statement of claim against the company for declaring a resolution of the General Meeting adopted in breach of the law invalid.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information if:

- this could damage the company or its related company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the company;
- this could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

### **13.7. Composition, powers and procedures of the Management Board and the Supervisory Board**

#### **Composition of the Management Board**

The Management Board is composed of at least three members appointed for a joint term of 5 years. At least half of the Management Board Members, including the President, must be Polish citizens, have permanent residence in Poland, speak Polish and have experience in the Polish market necessary to manage



the bank. Members of the Management Board manage selected areas of the bank's operation within the scope determined by the President of the Management Board. The division of powers of Members of the Management Board has been described in detail in the Management Board's resolutions.

In 2021 the composition of the Management Board of mBank remained unchanged. As at December, 31 2021 the Management Board was composed as follows:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer
3. Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and Information Technology
4. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking
5. Marek Lusztyn – Vice-President of the Management Board, Chief Risk Officer
6. Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking

Detailed information on mBank Management Board Members is presented below.

#### **Cezary Stypułkowski – President of the Management Board, Chief Executive Officer**



Cezary Stypułkowski holds a PhD in law from the University of Warsaw. In the second half of 1980s, he studied at Columbia University Business School in New York as a participant in the Fulbright Program.

Starting in 1991, he chaired the management board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. In 2003-2006 he acted as the president of the management board of PZU Group. From 2006 to 2010, he worked for J.P. Morgan in London, from 2007 as the managing director of J.P. Morgan Investment Bank in Central

and Eastern Europe.

Cezary Stypułkowski was also a member of the International Advisory Board for Deutsche Bank Management Board, INSEAD International Advisory Board and the Geneva Association. Since 2012, he has been the co-chair of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IFF).

Cezary Stypułkowski was appointed President of the Management Board of mBank S.A. on August 2, 2010 and took up the post on October 1, 2010. The KNF approved his appointment on October 27, 2010.

#### **Andreas Böger – Vice-President of the Management Board, Chief Financial Officer**



Andreas Böger studied in Frankfurt and San Diego, graduated from the Frankfurt School of Finance & Management and holds the CFA certificate.

He started his professional career in HypoVereinsbank in Munich in 1994, where he headed the team responsible for asset and liability management and capital advisory.

From 2003, Andreas Böger worked in Deutsche Bank in Frankfurt. In 2007-2013, he was a managing director of Global Capital Markets and Capital Solutions Europe & CEEMEA at Deutsche Bank in London.

In 2013, he moved to Commerzbank. Prior to taking up the position at mBank, he managed the Corporate Finance division within Commerzbank's Group Development and Strategy. His duties included preparation of the strategic balance sheet and management of Commerzbank Group's capital, as well as other tasks related to finance and regulatory activities.

Vice-President of the Management Board of mBank S.A., Chief Financial Officer since July 1, 2017.

#### **Krzysztof Dąbrowski – Vice-President of the Management Board, Head of Operations and Information Technology**



Krzysztof Dąbrowski graduated from Warsaw University of Technology, Faculty of Electronics and Information Technology. In 2011, he completed the Executive MBA programme at the University of Warsaw and the University of Illinois.

He obtained extensive knowledge regarding IT in several industries. In 1995-2003, he worked in the Internet and telecommunications industry for Polska Online and TDC Internet, where he was responsible for the development of hosting systems and services. In 2004-2011, as the head of the Software Development Department, he co-created the Polish service centre of F. Hoffman-La Roche. In the following years,

as the CTO of Allegro Group, Krzysztof Dąbrowski supervised one of the biggest agile transformations in the region. Since 2014, he performed the function of the Managing Director for IT and Technology at mBank. In 2021 Krzysztof Dąbrowski was named the Most Inspirational European Digital Leader of the Year 2021.



He has been the Vice-President of the Management Board of mBank S.A., Head of Operations and Information Technology since April 1, 2017.

**Marek Lusztyn – Vice-President of the Management Board**

Marek Lusztyn holds a PhD in economics from the Warsaw School of Economics (SGH). He completed the Executive MBA programme at the University of Illinois and the University of Warsaw. He also graduated from INSEAD and is an IT engineer. He completed a number of international managerial training courses and programmes in banking, finance and management organised, among others, by: Singularity University, Stanford Graduate School of Business and Bocconi University.

Marek Lusztyn embarked on his professional career at Bank Handlowy w Warszawie S.A., where he worked in the cash management and treasury department from 1996 until 2000.

For the following 20 years he worked for Bank Pekao S.A., a subsidiary of UniCredit Group from 1999 until 2017. From 2000 to 2008 he was the director of the market risk management division and then the director of the financial market management department. Then, for nearly 10 years he was responsible for global risk management in international structures of UniCredit Group in London, Munich and Milan. From 2017 to 2020 he acted as the vice-president in charge of risk, and then as the president of the management board of Pekao S.A.

He was a member of the board of the Warsaw School of Economics from September 2019 to the end of 2020. He is an author of numerous publications on banking and risk management and a long-standing lecturer in the subject.

He has been the Vice-President of the Management Board of mBank S.A. since October 22, 2020. On March 3, 2021 the Polish Financial Supervision Authority unanimously approved the appointment of Marek Lusztyn as Member of the Management Board supervising the management of material risk in the operation of mBank.

**Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking**

Cezary Kocik graduated from the University of Łódź with a degree in Banking and Finance. He completed the Advanced Management Program (AMP 189) at Harvard Business School in 2015 and the Strategic Management in Banking program at INSEAD in 2018. Holder of a securities broker license.

From 1994 to 1996, Cezary Kocik was employed with the Brokerage House of Bank PBG as a securities broker. Starting in 1996, he worked for Bank PBG in the investment banking, debt collection and restructuring divisions. In 1999, Cezary Kocik was employed with the debt collection and loan restructuring department of Bank Pekao

S.A. In 2000-2004 he was director of Pekao S.A.'s branch in Łódź.

He has been shaping mBank's Retail Banking since 2004: first in the retail credit risk area, and then in the sales and business processes area.

He has been the Vice-President of the Management Board of mBank S.A., Head of Retail Banking since April 1, 2012.

**Adam Pers – Vice-President of the Management Board, Head of Corporate and Investment Banking**

Adam Pers graduated from the Faculty of Economics of the Academy of Economics in Poznań. In 2008, he completed an MBA programme organised by the Warsaw School of Economics (SGH). He gained expertise in the field of banking both at university and in three institutions operating on the Polish market.

He commenced his professional career as an intern in Wielkopolski Bank Kredytowy S.A., then he worked in Raiffeisen Bank Polska S.A. Group for many years, at first in back office, then in Corporate Banking, and finally in Financial Markets. He was responsible for strategic projects concerning the reshaping of the dealing room and for one of the pillars of the bank's strategy and during the financial crisis, as the operational committee member, he was responsible for the bank's liquidity. In RBI Group, he was awarded the TOP Performer and Leader of the Year title. He joined BRE Bank/mBank Group in 2012, where at first he was responsible for restructuring in the area of the financial markets sales. Then, as a managing director he also supervised the integration of the area of cooperation with financial institutions and finally, the integration with the trading area.

Vice-President of mBank S.A. Management Board, Head of Corporate and Investment Banking, since October 26, 2017.

**Powers and procedures of the Management Board**

Members of the Management Board are jointly liable for the overall operations of the bank. They work collegially and inform each other about the most important matters concerning the bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the bank or to perform specific tasks.

The following committees led by Members of the Management Board operate at mBank:

- Resource Management Committee (chairperson: Andreas Böger)
- Capital, Assets and Liabilities Committee (chairperson: Andreas Böger)
- Data Quality and IT Systems Development Committee (chairperson: Andreas Böger)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of mBank Group (chairperson: Marek Lusztyn)
- Retail Banking Risk Committee (chairperson: Marek Lusztyn)
- Corporate and Investment Banking Risk Committee (chairperson: Marek Lusztyn)
- Financial Markets Risk Committee (chairperson: Marek Lusztyn)
- Model Risk Committee (chairperson: Marek Lusztyn)
- Investment Banking Committee (chairperson: Marek Lusztyn)
- IT Architecture Committee of mBank Group (chairperson: Krzysztof Dąbrowski)
- Sustainability Committee of mBank S.A. Group (chairperson: Marek Lusztyn).

The Management Board manages the bank's business, represents the bank and defines the guidelines for the bank's operations, especially for the areas subject to risks, including the credit policy, the investment policy, the bank's assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board on a regular basis comprehensive information on all significant aspects of the bank's operations and related risks as well as risk management methods.

The Management Board operates pursuant to its Rules approved by the Supervisory Board. The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution by the Management Board.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote.

Rules and levels of remuneration of Members of the Management Board are determined by the Remuneration Committee of the Supervisory Board. The rules of the incentive programme for the Management Board as well as the principles of allocating bonuses to Management Board Members are defined in Resolutions of the Supervisory Board.

The remuneration principles applicable to Members of the Management Board are laid down in the Remuneration Policy for Employees Having a Material Impact on the Risk Profile of mBank S.A. (Risk Takers Remuneration Policy).

Remuneration of Members of the Management Board includes a fixed and a variable part. For Members of the Management Board the relation between variable remuneration and fixed remuneration should not exceed 100% of the annual basic remuneration, with the proviso that variable remuneration exceeding 100% (not more than 200%) of the annual basic remuneration is subject to approval by the Annual General Meeting of the bank.

The basic remuneration of Members of the Management Board is determined by the Supervisory Board of the bank, taking into account the following information:

- resolution of the Management Board of mBank on the division of powers between Members of the Management Board of the bank (with a particular focus on changes in powers),
- long-term results achieved as at the assessment date,
- available internal market data (e.g. internal comparison of mBank Group),
- available external market data (e.g. information on remuneration of management board members of other WSE-listed companies, additional market benchmarks).

A detailed description of the rules of the incentive programmes for the Management Board based on shares is presented in Note 43 to mBank S.A. Group IFRS Consolidated Financial Statements for 2021.

On April 9, 2018, the 31st AGM of mBank adopted Resolution No. 37 on the Introduction of the Incentive Programme and the Programme Rules and Resolution No. 38 on the Issue of Subscription Warrants, Conditional Share Capital Increase with Exclusion of the Existing Shareholders' Pre-emptive Right to the

Subscription Warrants and Shares, Amendments to the Company's By-laws and on Applying for the Admission of the Shares to Trading on the Regulated Market and Dematerialisation of the Shares.

The above Incentive Programme replaced two other programmes: the employee programme dated October 27, 2008 and the incentive programme of mBank dated March 14, 2008 for Members of the Management Board. will be implemented until December 31, 2028 or until all shares are taken up, whichever is earlier.

The Supervisory Board determines the bonus amount for a given calendar year for each Management Board Member individually, based on the assessment of MbO achievement with respect to a period of at least three years, with the proviso that the individual bonus amount depends on the bonus pool amount. The bonus pool amount is a total of the base amounts calculated for each Management Board Member. The base amount is calculated as a multiple of the basic remuneration and depends on the Economic Profit (EP); EP is calculated for a period of three years pursuant to the rules specified in the Risk Takers Remuneration Policy of mBank S.A. MbO takes into account team quantitative objectives (at mBank Group level), individual quantitative objectives and individual qualitative objectives.

The bonus consists of:

- non-deferred part totalling 40% of the bonus, and
- deferred part totalling 60% of the bonus.

Both the non-deferred part and the deferred part are divided into equal portions: 50% paid in cash and 50% paid in subscription warrants.

The non-deferred part in cash is paid in the year when the bonus is awarded. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than after 12 months from the AGM date.

The deferred bonus (the part paid in cash and the part paid in subscription warrants) is paid in five equal tranches in the five subsequent calendar years. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year are approved, and the subscription warrant portion is paid not earlier than after 12 months from the date on which the consolidated financial statements for the previous calendar year are approved. The value of one subscription warrant equals the average market price per share in the reference period set in line with the Remuneration Policy minus PLN 4.00.

In particularly justified cases, it is allowed to pay out a part or all of cash tranches (non-deferred and deferred) in the form of subscription warrants upon the decision of the Supervisory Board.

The remuneration of the Members of the Management Board in 2020-2021 is presented in the following tables.

**2021:**

		Remuneration paid in 2021 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2020	Deferred bonus*
1.	Cezary Stypułkowski	3,526,223	374,669	-	469,233
2.	Andreas Böger	1,742,442	218,882	-	169,750
3.	Krzysztof Dąbrowski	1,656,000	185,438	-	201,000
4.	Cezary Kocik	1,656,000	256,045	-	269,000
5.	Marek Lusztyn	1,656,000	230,337	-	-
6.	Adam Pers	1,656,000	157,899	-	169,333
<b>Total</b>		<b>11,892,665</b>	<b>1,423,271</b>	<b>-</b>	<b>1,278,316</b>

<sup>1</sup> In 2021, the third deferred tranche as part of the settlement of the cash portion of the bonus for 2017, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2018 and the first deferred tranche as part of the settlement of the cash portion of the bonus for 2019 were paid. Adam Pers was also paid a deferred tranche as part of the settlement of the cash part of the bonus granted during his term as Managing Director, the payment date of which was in 2021. The 2020 bonus was allocated entirely in subscription warrants.

		Remuneration paid in 2021 (in PLN)				
		Basic remuneration	Other benefits	Bonus for 2020	Deferred bonus*	Compensation (competition clause)

**Remuneration of former Members of the Management Board who ceased to perform their functions in 2020**

1.	Lidia Jabłonowska-Luba		2,835		189,000	1,400,000
2.	Frank Bock				156,166	828,000

**Remuneration of former Members of the Management Board who ceased to perform their functions in 2017**

1.	Christoph Heins	-	-	-	37,500	-
2.	Jarosław Mastalerz	-	375	-	25,000	-
3.	Przemysław Gdański	-	-	-	83,334	-

\* In 2021, Members of the Management Board, who ceased to perform their functions in 2020, received the third deferred tranche as part of the settlement of the cash part of the bonus for 2017, the second deferred tranche as part of the settlement of the cash part of the bonus for 2018 and the first deferred tranche as part of the settlement of the cash part of the bonus for 2019. Christoph Heins, Jarosław Mastalerz, Przemysław Gdański received the third deferred tranche as part of the settlement of the cash part of the bonus for 2017.

**2020:**

		Remuneration paid in 2020 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2019	Deferred bonus*
1.	Cezary Stypułkowski	3,449,871	377,605	440,000	567,648
2.	Frank Bock	1,729,075	337,941	200,000	96,166
3.	Andreas Böger	1,764,359	227,926	220,000	103,750
4.	Krzysztof Dąbrowski	1,676,000	190,365	220,000	161,666
5.	Cezary Kocik	1,676,000	264,420	240,000	322,000
6.	Marek Lusztyn	320,516	1,192	-	-
7.	Adam Pers	1,676,000	162,493	240,000	129,000
<b>Total</b>		<b>12,291,821</b>	<b>1,561,942</b>	<b>1,560,000</b>	<b>1,380,230</b>

\*In 2020, the third deferred tranche as part of the settlement of the cash portion of the bonus for 2016, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2017 and the first deferred tranche as part of the settlement of the cash portion of the bonus for 2018 were paid. Krzysztof Dąbrowski and Adam Pers were paid deferred tranches (with due dates in 2020) as part of the settlement of the cash portion of the bonus awarded when they were acting as Managing Directors.

		Remuneration paid in 2020 (in PLN)				
		Basic remuneration	Other benefits	Bonus for 2019	Deferred bonus*	Compensation (competition clause)

**Remuneration of former Members of the Management Board who ceased to perform their functions in 2020**

1.	Lidia Jabłonowska-Luba	1,359,355	183,647	200,000	254,000	309,951
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**Remuneration of former Members of the Management Board who ceased to perform their functions in 2017**

1.	Christoph Heins	-	-	-	100,000	-
2.	Jarosław Mastalerz	-	2,250	-	150,000	-
3.	Przemysław Gdański	-	-	-	208,334	-

**Remuneration of former Members of the Management Board who ceased to perform their functions in 2016**

1.	Jörg Hessenmüller	-	-	-	62,500	-
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\*In 2020, Members of the Management Board who ceased to perform their functions in 2020 and 2017 were paid the second deferred tranche as part of the settlement of the cash portion of the bonus for 2017. The third deferred tranche as part of the settlement of the

*cash portion of the bonus for 2016 was paid to Lidia Jabłowska-Luba, Christoph Heinz, Jarosław Mastalerz, Przemysław Gdański. Jörg Hessenmüller, Lidia Jabłowska-Luba and Frank Bock were paid the first deferred tranche as part of the settlement of the cash portion of the bonus for 2018.*

**The bank's shares held by the Members of the Management Board:**

As at December 31, 2021, four Members of the Management Board held mBank's shares: Cezary Stypułkowski – 25,230 shares, Andreas Böger – 1,646 shares, Krzysztof Dąbrowski – 892 shares and Cezary Kocik – 256 shares.

As at December 31, 2020 six Members of the Management Board held mBank's shares: Cezary Stypułkowski – 23,250 shares, Frank Bock – 766 shares, Andreas Böger – 819 shares, Krzysztof Dąbrowski, 1,682 shares, Cezary Kocik – 2,161 shares, and Adam Pers – 158 shares.

**Assessment of the adequacy of internal regulations regarding the functioning of the Management Board and self-assessment of the effectiveness of the Management Board**

Pursuant to rule 8.9 of Recommendation "Z" issued by the Polish Financial Supervision Authority concerning the principles of internal governance in banks, the Management Board of mBank performs a self-assessment of the adequacy of internal regulations relating to the functioning of the Management Board and the effectiveness of the Management Board.

In the opinion of the Management Board, the By-Laws of mBank S.A., the Regulations of the Management Board and other internal regulations concerning, inter alia, meeting the conditions of suitability, managing conflicts of interest and division of competences between Management Board Members, ensure the proper functioning of the Management Board and adequate performance of its tasks. They enable effective bank management, incl. planning, making decisions about the current activities, human resource management, monitoring results and reacting to changes in the external environment.

In 2021, the Management Board as a whole and its members actively, with due diligence and commitment performed their duties regarding management of affairs of the Bank. In 2021, the Management Board held 65 meetings and adopted 139 resolutions. The Management Board positively assesses the effectiveness of its activities.

The effectiveness of the Management Board's operations is confirmed by the Group's achievements in 2021, including the Group's income, cost efficiency, return on capital achieved by the Core Business of the Group (i.e. the Group excluding FX mortgage loans segment", ROE at 11.9%), the dynamics of loans and deposits, growth of market shares in important areas of operations, maintaining a strong capital and liquidity position, development of products and services, in particular those available in remote channels, process optimization and progress in the field of green transformation. In addition, in 2021, the Management Board set the directions for the Group's development in the strategy for 2021-2025 approved by the Supervisory Board.

**Composition of the Supervisory Board**

The Supervisory Board acts on the basis of the adopted Rules and performs the functions provided for in the By-laws of mBank, the Code of Commercial Partnerships and Companies, and the Banking Law.

The By-laws of mBank provide that the Supervisory Board consists of no less than five Members elected by the General Meeting for a joint term of three years. A Member of the Supervisory Board whose mandate expired in the course of the joint term of the Supervisory Board may be replaced with another person, elected by the Supervisory Board. The term of a Member of the Supervisory Board so elected expires on the expiration of the terms of the other Members of the Supervisory Board. Appointment of Supervisory Board Members in the course of the joint term of office of the Supervisory Board must be approved by the next General Meeting.

At least half of all Supervisory Board Members, including the Chairperson, must hold Polish citizenship, permanently reside in Poland, speak Polish and have experience on the Polish market which can be used while supervising the bank's operations. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent.

In 2021, the composition of the Supervisory Board of mBank changed. On March 15, 2021, Sabine Schmittroth resigned from the Supervisory Board, the Executive and Nomination Committee, and the Remuneration Committee with effect on March 25, 2021. On March 24, 2021, the Supervisory Board of mBank appointed Arno Walter as Member of the Supervisory Board for a period from March 25, 2021 to the end of the current term of office of the Supervisory Board.



Moreover, on August 27, 2021, Jörg Hessenmüller resigned from the Supervisory Board of mBank, the Audit Committee, the Executive and Nomination Committee, the IT Committee, and the Remuneration Committee, with effect on September 30, 2021. Jörg Hessenmüller's resignation from the Supervisory Board of mBank followed his decision to resign from the Management Board of Commerzbank.

By way of resolution dated October 25, 2021, mBank's Supervisory Board appointed Armin Barthel, PhD, as Member of the Supervisory Board of mBank until the end of the current term of office of the Supervisory Board.

As at December 31, 2021, the Supervisory Board of mBank S.A. was composed of the following members:

1. Agnieszka Słomka-Gołębiowska – Chairwoman of the Supervisory Board
2. Bettina Orlopp – Vice-Chairwoman of the Supervisory Board
3. Armin Barthel – Member of the Supervisory Board
4. Tomasz Bieske – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Mirosław Godlewski – Member of the Supervisory Board
7. Aleksandra Gren – Member of the Supervisory Board
8. Arno Walter – Member of the Supervisory Board.

Detailed information on the Members of the Supervisory Board of mBank who performed their functions as at December 31, 2021 is presented in the table below.

#### **Agnieszka Słomka-Gołębiowska – Chairwoman of the Supervisory Board**

Agnieszka Słomka-Gołębiowska is a Professor in the Department of International Comparative Studies of the Warsaw School of Economics (SGH). She holds a master's degree in Banking and Finance and Management (CEMS programme) at the Warsaw School of Economics and Copenhagen Business School. She holds a PhD in economics. She attended a number of Executive Education courses, e.g. the IESE/Harvard Business School's "Value Creation Through Effective Boards" programme. She completed an MBA programme organised by the French Management Institute in Warsaw.

Between 2000 and 2002, she worked for the audit firm Arthur Andersen. In 2006, Agnieszka x was appointed as the director of the Department of Privatisation at the Industrial Development Agency (ARP), where she was responsible for corporate governance until 2009. In 2006-2008, she held the position of the vice-president of the supervisory board of Bumar. In 2008-2014, she was a member of the supervisory board and the audit committee of Bank BPH. In 2018-2019, Agnieszka Słomka-Gołębiowska held the position of the vice-president of the supervisory board of TransEU. Since 2014, she has been a Member of the Supervisory Board and the Audit Committee of mBank S.A. In 2017, she became a member of the audit committee of the United Nations World Food Program (WFP). She has been a Member of the Supervisory Board and the Audit Committee of Budimex S.A. since 2019.

She participated in numerous academic internships, e.g. in Cambridge (MIT), Tucson (UoA), Münster, Birmingham (BBS), Berlin (HSoG), Genoa (UoG – Law School), Vienna (WU) and Florence (UniFi). She received a scholarship of the Alexander von Humboldt Foundation and Fulbright Fellowship at the University of California, Berkeley, where she collaborated with Prof. Oliver Williamson, recipient of the Nobel Memorial Prize in Economic Sciences.

Since 2005, she has been a member of the Polish Institute of Directors, a founding member of the board of experts of the Forum of Supervisory Boards established in cooperation with PwC and SEG, and cooperated with the Institute of Accounting and Taxes, disseminating the current state of knowledge about the functioning of authorities of public companies. In 2019, she received the Corporate Governance Personality Award. She is an ambassador of the Bank of America and Vital Voices Partnership Programme on women entrepreneurship and empowerment.

#### **Bettina Orlopp – Deputy Chairwoman of the Supervisory Board**

Bettina Orlopp holds an MBA degree in finance and production awarded by the University of Regensburg, where she also obtained her doctor's degree.

She worked for McKinsey from 1995 (from 2002 as a partner). In 2014, she became a Managing Director of the group development and strategy segment at Commerzbank AG. She was responsible for strategy, mergers and acquisitions, corporate finance (strategic balance sheet and capital management), corporate investment, Central and Eastern Europe (CEE) region, and CommerzVentures (corporate unit). In 2016, Bettina xxx was appointed a Managing Director responsible for compliance, human resources, and legal issues. From November 2017, she was a Member of the Board of Managing Directors of Commerzbank, supervising the aforementioned areas.

Since March 1, 2020, Bettina Orlopp has been a Member of the Board of Directors of Commerzbank, Chief Financial Officer. She is a Member of the following committees of Commerzbank AG: Asset and Liability Committee (ALCO) responsible for managing capital, liquidity and balance sheet of Commerzbank Group, Strategic Risk Committee, Portfolio Risk Management and Control Committee, and the Group Operational Risk Committee.



**Armin Barthel – Member of the Supervisory Board**

Since April 2016, Armin Barthel has been holding the positions of the Chief Compliance Officer (CCO) and Anti-Money Laundering Officer of Commerzbank AG Group. He is responsible for all compliance units of Commerzbank Group, including the compliance units in the foreign branches and subsidiaries of Commerzbank.

After graduating in law in Marburg and the United Kingdom, passing the bar exam and receiving a PhD in law in Hamburg, Dr Armin Barthel began his career in 2003 in the Frankfurt branch of the Hengeler Mueller law firm.

In 2005, he joined the legal department of Commerzbank AG in Frankfurt, where he held various positions. From 2012 he worked as the General Counsel and the Head of Legal for North America in the New York branch of Commerzbank.

**Tomasz Bieske – Member of the Supervisory Board**

Tomasz Bieske holds a Master's Degree in economics and is a graduate of the University of Cologne, Germany. After graduating, he worked in Dresdner Bank's head office in Frankfurt for six years. In 1988, Tomasz Bieske worked for Arthur Andersen in Frankfurt, and a year later he co-founded Arthur Andersen in Poland, where he became a partner and the Head of Financial Markets Group. He was responsible for working with clients from the financial sector, auditing the financial statements of leading banks in Poland, sale of banks' non-performing loan portfolios, and valuation of private banks' shares. He participated in a number of due diligence processes commissioned by foreign investors. From 2001, he continued his career at Ernst & Young as a partner and the Head of the Financial Markets Group. He participated in the majority of key projects in the financial services sector, including the preparation of public offerings of PKO BP S.A. and Kredyt Bank S.A. as well as audits of financial statements of the National Bank of Poland, PKO BP S.A., Pekao S.A., Getin Holding and a number of other banks and the Social Insurance Institution (ZUS). He managed many advisory projects in the banking sector. In 2011, he participated in the work of the committee for legal and business regulatory changes of the cooperative banking sector.

He has been closely cooperating with the Polish Bank Association (Związek Banków Polskich) and the National Association of Cooperative Banks (Krajowy Związek Banków Spółdzielczych). Tomasz Bieske holds a Polish licence of a statutory auditor. In 2011, he received the gold medal of the Polish Bank Association for his contribution to the development of banking in Poland between 1991 and 2011. Since June 2013, he has been a member of the supervisory boards of companies listed on the GPW (currently KRUK S.A. and mBank S.A.). In 2019, he completed the 3-month Oxford Fintech Programme. Since 2019, he has been a member of the Association of Independent Supervisory Board Members.

**Marcus Chromik - Member of the Supervisory Board**

Marcus Chromik studied physics in Göttingen, Kiel and Munich. He also engaged in scientific research at Michigan State University in the United States. Marcus Chromik holds a PhD in nuclear physics.

He started his professional career with McKinsey & Company in 2001. In 2004, he joined Postbank Group, where he held various executive positions, being responsible for, among others, new share issues and syndication, liquidity management and credit treasury. Later he served as the Chief Market Risk Officer in Commerzbank's markets and corporates segment for more than three years, where he was responsible for market and liquidity risk management. In 2012, Marcus Chromik became a Divisional Board Member, Chief Credit Risk Officer at Commerzbank.

On January 1, 2016, he was appointed Member of the Board of Managing Directors at Commerzbank AG, Chief Risk Officer.

**Mirosław Godlewski – Member of the Supervisory Board**

Mirosław Godlewski holds a Master of Science degree awarded by the Faculty of Industry Management of the Warsaw University of Technology. He also holds an MBA degree from Ashridge Management College and AMP Harvard Business School.

He is a senior advisor at BCG, a member of the supervisory board of Absolvent.pl, and the chairman of the supervisory board of Eubioco Sp. z o.o. and a partner at Hedgehog Fund.

Mirosław Godlewski was a member of the supervisory board of Netia S.A., Celon Pharma S.A., ABC Data S.A., and a member of the Nomination and Remuneration Committee. Between 2007 and 2014, he acted as president and CEO of Netia S.A. He also held executive positions with Opoczno S.A., DEC Sp. z o.o., Pepsi-Cola Polska, and MEMRB Polska.

#### **Aleksandra Gren – Member of the Supervisory Board**

Aleksandra Gren graduated from Harvard Business School (Negotiations), London School of Economics (European Policy and Politics), and University of British Columbia (International Relations). She has over 22 years of professional experience in technology and banking. Her career started in Royal Bank of Canada, Vancouver. She worked for American fintech companies in the US, the Middle East, and Europe. She boasts 15 years of managerial experience gained by holding positions of a member of the management board and an advisor.

Aleksandra xxx has a proven track record of successful partnerships and transformational initiatives in the banking sector. She was recognised by the London-based Banking Technology Awards and PayTech Leadership Awards as one of top 10 women in tech in 2016 and 2018.

She was named Global Ambassador and Mentor by Bank of America GAP Global Leadership Development and Mentoring Program for Entrepreneurs in the US in March 2019.

#### **Arno Walter – Member of the Supervisory Board**

Arno Walter studied business management at the Goethe University in Frankfurt am Main until 1995. His career began in Dresdner Bank's retail banking.

From 2000, he worked in Deutsche Börse Group, and from 2002 in Commerzbank AG where he held managerial positions in various areas. He was responsible for retail, private and corporate banking based on a network of branches in north-western Germany, and held a position of the Managing Director for Private Clients.

From 2015 Arno Walter chaired the Management Board of Comdirect Bank AG, where he was responsible for development and business strategy, corporate communications, treasury and business partners, and audit.

Since the beginning of 2020 Arno Walter has been the Managing Director for Wealth Management and Small Business Clients at Commerzbank AG, and has been responsible for integrating Comdirect Bank with Commerzbank. Additionally, he is the Vice-President of the Supervisory Board of Commerz Direktservice GmbH.

Four Members of the Supervisory Board of mBank (Agnieszka Słomka-Gołębiowska, Tomasz Bieske, Aleksandra Gren and Mirosław Godlewski) meet the independence criterion. Armin Barthel, Marcus Chromik, Bettina Orlopp and Arno Walter are not independent members due to their relationship with the main shareholder of mBank.

#### **Responsibilities and procedures of the Supervisory Board**

The responsibilities of the Supervisory Board include, in particular, the following matters:

- Exercising supervision over the implementation and operation of an adequate and effective risk management system and internal control system at the bank;
- Advising and supervising the Management Board in defining internal guidelines for the activity of the bank, especially for the areas subject to risks, including the bank's credit policy, investment policy, guarantee policy, compliance policy, and approving the Management Board's proposals concerning the general organisational structure of the bank;
- Supervising compliance of the bank's risk-taking regulations with the strategy and financial plan of the bank;
- Approving the disclosure policy rules concerning risk management and capital adequacy adopted by the Management Board;
- Approving strategies and procedures for the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning, as proposed by the Management Board;
- Assessing the adequacy and effectiveness of the risk management system and the internal control system;
- Reviewing regular and exhaustive reports presented by the Management Board on all relevant issues related to the activity of the bank, the risks of its activity, and the methods and effectiveness of risk management;
- Preparing a concise assessment of the position of the bank to be presented to the Annual General Meeting and attached to the annual report of the bank for the previous financial year;
- Approving the bank's annual financial plans, multi-year growth plans, as well as the strategy of the bank and the rules of prudent and stable management of the bank;

- Reviewing any motions and matters which are subject to resolutions of the General Meeting, including draft resolutions of the General Meeting. The Supervisory Board draws up grounds for draft resolutions to be tabled for approval by the General Meeting;
- Issuing and approving rules provided for in the By-laws of mBank;
- Appointing and dismissing the President of the Management Board, the Vice-Presidents of the Management Board and other Members of the Management Board subject to the procedures laid down in the Banking Law Act and other generally applicable laws;
- Defining the terms of contracts and remuneration of the Management Board;
- Authorising the Chairperson of the Supervisory Board to represent mBank in agreements with the Management Board Members, including the conclusion of management contracts with Management Board Members;
- Receiving, in advance, information on creating, acquiring, closing and managing branches, permanent representations and parts of the enterprise, and initiating and terminating undertakings and fields of operations;
- Approving conclusion or amendment of any significant contract or agreement with the Members of the Management Board or the Supervisory Board;
- Approving conclusion, amendment or termination of any significant affiliation or co-operation agreements;
- Receiving information on the expected deviations from the annual budget;
- Analysing reports of the Directors of the Internal Audit Department received at least once per year;
- Issuing guidelines for the Management Board Members regarding the level and structure of remuneration for the senior management;
- Approving the policy of variable remuneration components of persons holding managerial positions in mBank;
- Approving the operational risk management strategy developed by the Management Board, assessing implementation of the strategy and, if necessary, commissioning its review;
- Granting the Members of the Management Board of mBank consent to sitting on management or supervisory boards of companies outside mBank Group;
- Granting consent to appointment and dismissal of the directors of the Internal Audit Department and the Compliance Department and approval of their remuneration;
- Approving the organisational rules of the Internal Audit Department and the Compliance Department; and
- Presenting a report on the assessment of the functioning of the bank's remuneration policy to the Annual General Meeting to allow the Annual General Meeting to assess this policy.

Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board on his or her own initiative, or on request of the Management Board, or on request of a Supervisory Board Member, no less frequently than three times a year. All Management Board Members participate in the meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted by a simple majority of votes. In the case of an equal number of votes, the Chairperson of the Supervisory Board has the casting vote.

There are five Supervisory Board Committees: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Committee, and the IT Committee.

Members of the Committees as of December 31, 2021 are presented below (in the first place the Chairperson of each Committee).

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee	IT Committee
<u>Prof. Agnieszka Słomka-Gołębiowska</u>	<u>Dr Marcus Chromik</u>	<u>Tomasz Bieske</u>	<u>Dr Bettina Orlopp</u>	<u>Aleksandra Gren</u>
Dr Marcus Chromik	Mirosław Godlewski	Aleksandra Gren	Tomasz Bieske	Mirosław Godlewski
Dr Bettina Orlopp	Dr Bettina Orlopp	Dr Armin Barthel	Mirosław Godlewski	Dr Marcus Chromik
	Prof. Agnieszka Słomka-Gołębiowska		Dr Marcus Chromik	

The work of the entire Supervisory Board is made more efficient by delegating selected Members of the Supervisory Board to perform particular supervisory activities at mBank within the Committees. Many resolutions of the Supervisory Board are adopted in line with the recommendations of the Committees which first analyse and discuss various issues from each area of the bank's operations.

### **Executive and Nomination Committee**

The tasks of the Executive and Nomination Committee involve, in particular, exercising ongoing supervision over the bank's activity in the periods between meetings of the Supervisory Board. The Executive Committee authorises the Management Board to acquire, encumber or dispose of real estate, perpetual usufruct rights or interests in real estate, shares in companies and partnerships, and other fixed assets if the value of a transaction exceeds 1% of the bank's own funds. Such authorisation is not required if the aforesaid acquisition took place as part of enforcement or bankruptcy proceedings, including bankruptcy proceeding with the possibility to make an arrangement or other settlement with the bank's debtor or in the case of disposal of assets so acquired. The Committee is also responsible for initial recruitment of Management Board and Supervisory Board Members of mBank.

In addition, the Executive and Nomination Committee defines the scope of duties for candidates for Members of the Management Board and the Supervisory Board of the bank as well as the requirements that must be met by the candidates. Moreover, the Committee defines the target gender representation ratio for the Management Board and the Supervisory Board of the bank and develops a diversity policy to facilitate the achievement of the target ratio. The Committee assesses the structure, size, composition, and operational effectiveness of the Management Board at least once a year and can recommend changes in this respect to the Supervisory Board.

In 2021, the Executive and Nomination Committee held five meetings.

### **Audit Committee**

The Audit Committee issues opinions concerning the selection of a statutory auditor by the General Meeting, recommends the Supervisory Board to approve or reject financial statements, develops the policy and procedures for the selection of an external auditor and provision of other permitted services by the auditor, monitors the financial reporting process as well as the effectiveness of internal control systems, risk management systems and internal audit, and recommends the Supervisory Board to grant or refuse consent to appointment/dismissal of the head of the Internal Audit Department and the head of the Compliance Department. Moreover, the Audit Committee presents the Supervisory Board with the opinion on the annual assessment of adequacy and effectiveness of the control function, the Compliance Department and the Internal Audit Department, recommends the Supervisory Board to approve or reject the principles of mBank's information policy concerning capital adequacy and recommends the Supervisory Board to approve or reject mBank's compliance policy and annual report on compliance risk management in the bank.

Pursuant to the Rules of the Supervisory Board, the Audit Committee is composed of at least three members of whom at least one member has to possess knowledge and skills in the scope of accounting or financial statements audit. The Rules of the Audit Committee of the Supervisory Board stipulate that the majority of the Audit Committee Members, including the Chairperson, are independent.

As at the end of 2021 the Audit Committee was composed of three members.

Tomasz Bieske and Aleksandra Gren meet the independence criteria. The independence criteria are specified in Article 129 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

The Members who have knowledge and skills in the scope of accounting and financial statements audit as well as extensive expertise in banking include:

- Tomasz Bieske – a certified auditor of financial statements, co-founder of Artur Andersen in Poland, partner and director of the Financial Markets Group; then in Ernst & Young he continued his work as the partner and director of the Financial Markets Group. He implemented many significant projects in the banking sector.
- Aleksandra Gren – she started her professional career in the Royal Bank of Canada; she has more than 20 years of experience in banking technologies and fintech in EMEA (Europe, Middle East and Africa).
- Armin Barthel – holder of a doctorate in law, Chief Compliance Officer and Anti-Money Laundering Officer responsible for compliance units in Commerzbank Group. He possesses the competences to manage risks at the bank, interpret financial and accounting data, and has extensive knowledge regarding the financial market, legal requirements and regulatory framework.

The Audit Committee recommends the external auditor to audit the financial statements of mBank S.A. and the consolidated financial statements of mBank S.A. Group to the Supervisory Board. The external auditor is selected by the General Meeting based on a recommendation of the Supervisory Board. The recommendation is prepared in accordance with a selection procedure that meets the requirements set out in the applicable laws. The procedure for selecting an audit firm to audit mBank's financial statements approved by the Audit Committee in 2018 meets the requirements set out in Article 16 (2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of financial statements of public-interest entities.

The policy for selecting an audit firm at mBank S.A. approved by the Audit Committee meets the requirements set out in the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 (Regulation No. 537/2014). The policy incorporates the principle regarding the rotation of statutory auditors. The maximum duration of uninterrupted statutory audit engagements referred to in Article 17 (1) paragraph 2 of Regulation (EU) No. 537/2014 carried out by one audit firm or an audit firm related to this audit firm, or any member of the network operating within the European Union to which these audit firms belong, must not exceed five years. The key statutory auditor may carry out another statutory audit at the bank after at least three years of the completion of the last statutory audit. In the case of a statutory audit, the first agreement on statutory audit is concluded with an audit firm for a period not shorter than two years with an option to extend it for another period of at least two years.

The policy on the provision of permitted non-audit services to mBank S.A. by the audit firm carrying out the audit, by entities related to the audit firm and by a member of the audit firm's network, approved by the Audit Committee meets the requirements set out in the Act on Statutory Auditors, Audit Firms and Public Oversight and Regulation No. 537/2014.

Pursuant to the policy on the provision of permitted non-audit services to mBank S.A. by the audit firm carrying out the audit, by entities related to the audit firm and by a member of the audit firm's network, a statutory auditor or an audit firm carrying out the statutory audit, or any member of the network to which the statutory auditor or the audit firm belongs, do not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union:

- any prohibited non-audit services in the period between the beginning of the period audited and the issuing of the audit report;
- any services that consist in designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

Under Article 136 of the Act on Statutory Auditors, prohibited services do not include the following:

1. services that consist in:
  - a. conducting due diligence procedures with regard to economic and financial condition,
  - b. issuing comfort letters in connection with prospectuses issued by the audited entity, in accordance with the national standard of related services and by means of agreed procedures,
2. assurance services with regard to pro forma financial information, forecasts of results or estimated results, published in the prospectus issued by the audited entity,
3. auditing historical financial information to be included in a prospectus,
4. verification of consolidation packages,
5. confirmation of fulfilment of conditions of the concluded loan contracts on the basis of analysis of financial information coming from financial statements audited by a given audit firm,

6. assurance services in reporting concerning corporate governance, risk management and corporate social responsibility,
7. services consisting in the assessment of compliance of information disclosed by financial institutions and investment companies with the requirements for disclosing information concerning capital adequacy and variable remuneration components,
8. certification concerning financial statements or other financial information for supervision bodies, the supervisory board or another supervisory authority of the company, or owners, exceeding the scope of the statutory audit, to help these authorities to perform their statutory duties.

Provision of the said services is possible only in the scope not related to the tax policy of the bank, after the Audit Committee evaluates hazards to and safeguards for an audit firm's independence.

The audit firm selection procedure has been developed by the Audit Committee of the Supervisory Board of mBank. For the purposes of organising and conducting tender proceedings to select an audit firm, at the request of the Vice-President of the Management Board, Chief Financial Officer the Audit Committee appoints the Evaluation Committee which conducts tender proceedings to select an audit firm. The selection criteria applied when assessing bids submitted by bidders are clear and do not discriminate against any bidder. The Audit Committee presents the Supervisory Board with a recommendation regarding the appointment of an audit firm containing a justification and at least two recommended audit firms, one of them indicated as the preferred choice with reasons for the preference. The Supervisory Board recommends one of the audit firms indicated in the Audit Committee's recommendation to the Annual General Meeting of mBank S.A.

The audit firm auditing the financial statements of mBank and mBank Group provided permitted non-audit services to mBank. Therefore, the Audit Committee each time assessed the independence of the audit firm and granted its consent to the provision of the services.

In 2021, the Audit Committee held six meetings.

### **Risk Committee**

The Risk Committee has, among others, the following tasks: exercising permanent supervision over credit risk, market risk, liquidity risk and non-financial risks, including operational risk. Moreover, the Risk Committee issues recommendations for approval or rejection of exposures posing single entity risk, in accordance with the parameters defined by the Supervisory Board. The Committee discusses matters related to corporate, financial markets, and retail portfolio risk. In addition, the Committee discusses non-financial risks, such as cyber risk, reputational risk, and legal issues.

Moreover, the Risk Committee provides the Supervisory Board with recommendations for approval or rejection of transactions, provided for in the Banking Law, concluded between the bank and Members of the bank's authorities, and recommendations for approval or rejection of the bank's disclosure policy regarding risk management. The Risk Committee is also responsible for recommending the Supervisory Board to approve or reject strategies and policies created by the Management Board, issuing opinions on the bank's current and future readiness to take risk and issuing opinions on the strategy of risk management in the bank's operating activity prepared by the Management Board of mBank and information on the strategy implementation submitted by the Management Board.

In 2021, the Risk Committee held four meetings.

### **Remuneration Committee**

The tasks of the Remuneration Committee include among others: considering matters related to the remuneration principles applicable to Members of the Management Board and the level of their remuneration, setting rates of remuneration, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competing activity and issuing recommendations to the Supervisory Board regarding general guidelines for the Management Board on the level and structure of remuneration for the bank's senior management. In addition, the Committee monitors the level and structure of remuneration paid to senior management, issues opinions on and monitors the remuneration policy adopted by mBank, and assists the bank's bodies in developing and implementing this policy.

In 2021 the Remuneration Committee held four meetings.

### **IT Committee**

The main tasks of the IT Committee include: ongoing supervision over the bank's IT and IT security operations in the periods between meetings of the Supervisory Board, analysing periodic IT and IT security reports of mBank presented to the Supervisory Board, presenting the Supervisory Board with conclusions from reviews of the bank's periodic reports on IT and IT security, recommending the Supervisory Board to approve or reject IT and cybersecurity strategies. Furthermore, the IT committee monitors the



implementation of the Strategic IT Road Map and introduction of Strategic IT Initiatives, and the effectiveness of the IT, IT security and internal IT governance operational risk management system.

In 2021 the IT Committee held four meetings.

Standing committees of the Supervisory Board make reports on their activity in the past reporting year available to the shareholders. The aforesaid reports are appended to the set of materials for the Annual General Meeting and can be found on mBank's website (<https://www.mbank.pl/relacje-inwestorskie/walne-zgromadzenia/>).

In accordance with the Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of mBank S.A., Members of the Supervisory Board perform their functions on the basis of appointment and are entitled to remuneration only on this account. Remuneration of a Supervisory Board Member is not linked to the company's performance and is not awarded in financial instruments. The company does not grant the Members of the Supervisory Board any exceptional variable remuneration components.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 50 regarding the remuneration rules for the Members of the Supervisory Board of mBank S.A. adopted by the 30<sup>th</sup> Annual General Meeting of mBank S.A. held on March 30, 2017. The Chairperson of the Supervisory Board earns PLN 17,000 monthly, the Deputy Chairperson – PLN 14,500 monthly, while Members of the Supervisory Board earn PLN 12,000 monthly each.

Additional monthly remuneration is granted for the participation in standing committees of the Supervisory Board: 50% of monthly remuneration of a Supervisory Board Member for the first standing committee and 25% for participating in a second committee. No additional remuneration is paid to a Member of the Supervisory Board who sits on three or more standing committees of the Supervisory Board. However, a Supervisory Board Member performing the function of the Chairperson of the Audit Committee of the Supervisory Board of mBank is entitled to additional remuneration equal to 80% of their remuneration.

The remuneration of the Supervisory Board for 2020-2021 is presented in the table below.

	Remuneration paid in 2021 (in PLN)	Remuneration paid in 2020 (in PLN)
Members of the Supervisory Board who performed their functions in 2021		
1. Agnieszka Słomka-Golebiowska	383,829	341,493
2. Jörg Hessenmüller <sup>1)</sup>	-	-
3. Tomasz Bieske	429,349	429,228
4. Marcus Chromik	-	-
5. Mirosław Godlewski	255,780	246,645
6. Aleksandra Gren	246,645	163,620
7. Bettina Orlopp	-	-
8. Sabine Schmittroth <sup>2)</sup>	-	-
9. Arno Walter	110,710	-
10. Armin Barthel	40,065	-
Supervisory Board members who did not perform their functions in 2021		
1. Michael Mandel	-	-
2. Maciej Leśny	-	91,544
3. Gurjinder Singh Johal	-	54,000
4. Teresa Mokrysz	-	55,094
<b>Total</b>	<b>1,466,378</b>	<b>1,381,624</b>

<sup>1)</sup> Jörg Hessenmüller resigned from the Supervisory Board as at September 30, 2021.

<sup>2)</sup> Sabine Schmittroth resigned from the Supervisory Board as at March 25, 2021.

## Activity of the Supervisory Board in 2021

The Supervisory Board held nine meetings and adopted 111 resolutions in 2021. The resolutions covered all areas of the bank's operation and were consistent with the scope of supervisory functions specified in generally applicable laws, the Banking Law, recommendations of the Polish Financial Supervision Authority (KNF), corporate governance principles, and mBank's By-laws and the Rules of the Supervisory Board.

The ongoing COVID-19 epidemic had an impact on the activities of the Supervisory Board in 2021. In addition to regular meetings, members of the Supervisory Board were in constant contact with the Management Board and monitored the bank's situation in the context of pandemic and economic developments and regulatory conditions in the context of the pandemic, economic developments and regulatory conditions.

In 2021, the Supervisory Board discussed and assessed the current results of mBank Group and business lines in comparison with the financial plan. The Supervisory Board also discussed and accepted other detailed reports required by the law concerning different areas of the bank's activity, including regular risk, compliance, audit, bancassurance and IT security reports.

A special document adopted by the Supervisory Board in October 2021 is the "Strategy of the mBank Group for 2021-2025 - From an icon of mobility, to an icon of possibility", setting the directions of mBank Group development in the coming years. The Management Board presented to the Supervisory Board the proposed assumptions of the new strategy at a special workshop in September 2021.

During their regular meetings in 2021, the Supervisory Board Committees discussed in detail the key issues concerning individual areas of the bank's activity, which, pursuant to the applicable regulations, must be approved by the Supervisory Board.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2021 is presented in the table below.

	Attendance <sup>1</sup>
Agnieszka Słomka-Gołębiowska	9/9
Bettina Orlopp	9/9
Armin Barthel (Supervisory Board Member from 25 October 2021)	3/3
Tomasz Bieske	9/9
Marcus Chromik	9/9
Mirosław Godlewski	9/9
Aleksandra Gren	8/9
Jörg Hessenmüller (Supervisory Board Member until 29 September 2021)	5/6
Sabine Schmittroth (Supervisory Board Member until 24 March 2021)	1/3
Arno Walter (Supervisory Board Member from 25 March 2021)	6/6

<sup>1</sup> Attendance at meetings/number of meetings during the term of office

The attendance of the members of the Supervisory Board Committees is presented in the table below<sup>1</sup>:

Executive and Nomination Committee				
Prof. Agnieszka Słomka-Gołębiowska	Dr Marcus Chromik	Dr Bettina Orlopp	Jörg Hessenmüller	Sabine Schmittroth
5/5	2/2	3/3	2/3	2/2

<sup>1</sup> Attendance at meetings/number of meetings during the term of office in the Committee

Risk Committee			
Dr Marcus Chromik	Mirosław Godlewski	Dr Bettina Orlopp	Prof. Agnieszka Słomka-Gołębiowska
4/4	3/4	4/4	4/4

<sup>1</sup> Attendance at meetings/number of meetings during the term of office in the Committee

Audit Committee			
Tomasz Bieske	Aleksandra Gren	Dr Armin Barthel	Jörg Hessenmüller
6/6	6/6	2/2	3/4

<sup>1)</sup> Attendance at meetings/number of meetings during the term of office in the Committee

Remuneration Committee					
Dr Bettina Orlopp	Tomasz Bieske	Mirosław Godlewski	Dr Marcus Chromik	Jörg Hessenmüller	Sabine Schmittroth
3/3	4/4	4/4	2/2	2/2	1/1

<sup>1</sup> Attendance at meetings/number of meetings during the term of office in the Committee

IT Committee			
Aleksandra Gren	Mirosław Godlewski	Dr Marcus Chromik	Jörg Hessenmüller
3/3	3/3	0/1	2/2

<sup>1</sup> Attendance at meetings/number of meetings during the term of office in the Committee

### 13.8. mBank's Diversity Policy

The basic elements of the diversity policy have been incorporated in our HR policy for many years. We are guided by the principle that diversity creates value added for the organisation. Elements of the diversity policy are present in various regulations, procedures and processes.

Diversity arising from experience, knowledge, education, interests and a number of other qualities encourages creativity, favours the search for non-standard solutions and optimisations, helps build the company's competitive advantage, and translates into service quality and economic results.

mBank treats people equally regardless of their sex, age, material status, family background, physical abilities, nationality, country of origin, sexual orientation, and political and religious beliefs, that is all the factors that may give rise to direct or indirect discrimination. We offer a workplace that helps the management make use of and develop their unique features, skills and interests, for example, through participation in training activities and clubs that bring together people with similar interests. Diversity management contributes to creating an organisational culture based on openness and tolerance where everyone feels appreciated and respected, and is offered career development opportunities.

Pursuant to the gender equality policy, we try to ensure that both men and women take part in external and internal recruitment and in the succession planning regarding the key functions at the bank, taking into account the principles of equal treatment in hiring new employees. Our recruitment process involves a selection method that ensures objective assessment of candidates' skills. Each employee of the bank can be promoted to a managerial position, if they have a relevant professional track record. Evaluation of job positions is based on objective criteria, which prevents discrimination.

The average remuneration of men at mBank remains higher than the remuneration of women. The structure of earnings is affected by the fact that more women hold operational positions, while most managers are men. Initiatives taken at the bank aim at reducing the gender pay gap and promoting women. The solutions introduced should eliminate, in the long term, the gap between the average remuneration of women and men.

With regard to the Management Board and the Supervisory Board, we apply the Policy for the Assessment of Qualifications (Suitability) of Members of the Supervisory Body, Management Body and Key Function Holders at mBank S.A. The policy aims at introducing principles which must be fulfilled so that key functions at the bank are held by individuals who have relevant qualifications, knowledge, skills, professional experience, predispositions and reputation that are suitable for the function. Details concerning the Suitability Policy with regard to the Management Board and the Supervisory Board are described in the chapter 13.1 "Application of corporate governance principles".

The Supervisory Board makes every effort to ensure diversity in the Management Board, especially in terms of age, education, professional experience and participation of women.

In accordance with the Suitability Policy, the age structure of the Supervisory Board Members should be diverse. Moreover, the Supervisory Board aims at ensuring that its members have diverse educational background and professional experience. The number of female Members is taken into account as well.

The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

At the end of 2021, there were three women among the eight Supervisory Board Members, making up 37.5% of the total number of Members.

Supervisory Board of mBank										
	Dec 31, 2017		Dec 31, 2018		Dec 31, 2019		Dec 31, 2020		Dec 31, 2021	
	number of members	%	number of members	%	number of members	%	number of members	%	number of members	%
Women	2	17%	2	17%	2	20%	4	50.0%	3	37.5%
Men	10	83%	10	83%	8	80%	4	50.0%	5	62.5%
<b>Total</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>	<b>10</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>8</b>	<b>100%</b>

The six members of the Management Board of the bank are all men. Until October 22, 2020 there was one woman in the seven-member Management Board of mBank.

Management Board of mBank										
	Dec 31, 2017		Dec 31, 2018		Dec 31, 2019		Dec 31, 2020		Dec 31, 2021	
	number of members	%	number of members	%	number of members	%	number of members	%	number of members	%
Women	1	14%	1	14%	1	14%	0	0%	0	0%
Men	6	86%	6	86%	6	86%	7 (6*)	100%	6	100%
<b>Total</b>	<b>7</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>7 (6*)</b>	<b>100%</b>	<b>6</b>	<b>100%</b>

\*As at 1 January 2021

By 2028, women will account for at least 30% of the Management Board and the Supervisory Board Members.

mBank's managers graduated in different fields of study in Poland and abroad, including economics, technology, IT, law, philology and other. The management consists of people with diverse experience in Polish, European and American financial and non-financial institutions. The management team is aware of the importance of diversity to the work environment. In 2018 we signed the Diversity Charter, an international initiative for social cohesion and equality launched in Poland by the Responsible Business Forum. As signatories of the Charter, we have undertaken to support diversity and counteract workplace discrimination. In January 2022, mBank was included in the Bloomberg Gender - Equality Index (GEI) for the second time in a row. The bank was among 418 companies awarded for gender equality.

## 14. Glossary

**ABB** – Accelerated book building

**AIRB** – Advanced Internal Rating-Based

**BFG** – Bank Guarantee Fund

**BGK** – Bank Gospodarstwa Krajowego; it is a Poland's only state-owned bank which primary business covers providing banking services for the public finance sector

**BRRD** – Banking Recovery and Resolution Directive, Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

**BPV** – Basis Point Value, a measure that represents how much money the portfolio will gain or lose for a 0.01% (one basis point) parallel up movement in the yield curve. IR BPV is an interest rate basis point value and CS BPV is a credit spread basis point value. BPV of PLN – 100,000 shows that the 0.01% increase in interest rates will cause a PLN 100,000 fall of the value of the portfolio.

**CEE** – Central and Eastern Europe

**CET 1 ratio** – Core Tier 1 ratio, core equity capital ratio, calculated as: Tier 1 capital (calculated with accordance with CRR resolution)/total risk exposure amount

**CNB** – Czech National Bank

**CRD IV** – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Capital Requirements Directive IV).

**Cross-selling** – a trade technique of selling a product or service combined with purchase of another product to an existing customer

**CRR** – 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 (Capital Requirements Regulation).

**ECB** – European Central Bank

**Economic Profit (EP)** – measure of shareholders' value added, defined as the difference between gross profit and nominal cost of equity (understood as equity multiplied by required annual rate of return fulfilling minimum expectations of investors, set internally in the bank).

**EIB** – European Investment Bank

**ESG** – Environmental, Social and Governance criteria and aspects

**Fed** – US Federal Reserve

**FTE** – Full Time Equivalent

**GDP** – Gross Domestic Product – a monetary measure of the value of all final goods and services produced in a country or region over a given period

**Guarantee de minimis** – A form of security of a loan, which dedicates funds to guaranteeing the repayment of loans in case of non-timely repayment

**GUS** – Polish Central Statistical Office

**ICAAP** – Internal Capital Adequacy Assessment Process

**IPO** – Initial Public Offering, shares of stock in a company are sold to the general public on stock exchange market for the first time

**K1** – Large enterprises (annual sales exceeding PLN 1 billion)

**K2** – Mid-sized enterprises (annual sales of PLN 50 million – PLN 1 billion)

**K3** – Small enterprises (annual sales below PLN 50 million, full accounting)

**KSF** – Financial Stability Committee

**KUKE** – Export Credit Insurance Corporation

**LIBOR** – London Interbank Offered Rate – the reference rate of interest on deposits and loans in the interbank market in London. Libor rates are set for the following currencies: USD, EUR, CHF, GBP, JPY, for 1 day, 1 week, 1 month, 2 months, 3 months, 6 months and 1 year loans

**LtV ratio** – Loan to Value ratio, expressing a relation between an amount of a loan and a value of its collateral (usually mortgage)

**M&A** – Mergers and Acquisitions

**MBA studies** – Executive Master of Business Administration postgraduate studies offered in Polish and addressed to working professionals with higher education who have several years of experience in business, mainly occupying middle and higher management positions

**MbO** – Management by Objectives

**MPC** – Monetary Policy Council (in Polish: RPP)

**MREL** – Minimum requirement for own funds and eligible liabilities, determined in BRRD

**MS** – Mid-swap, the reference rate used as benchmark to calculate total interest rate cost for variable rate bond

**NPL** – Non-Performing Loans – impaired loans

**NSFR** – Net Stable Funding Ratio

**P/BV ratio** – Share Price/Book value per share

**P/E ratio** – Share Price/Earnings per share

**PD** – Probability of Default

**PFR** – Polish Development Fund Group

**PFSA** – Polish Financial Supervision Authority (pol. KNF)

**PPS** – Purchasing Power Standard

**RWA** – Risk Weighted Assets

**SME** – Small and Medium Enterprises; entities employing up to 250 employees

**ST** – Stress Test – a potential loss on the portfolio which would occur as a result of rapid adverse changes in market parameters. ST is a sum of ST Base and ST CS. If ST equals PLN 1m and stress scenario conditions occur, probable loss will be PLN 1m (ST value).

**Tier 1** – Tier 1 capital, calculated according to article 25 of CRR Regulation (CET1 capital + the instrument eligible for AT1)

**Tier 2** – Tier 2 capital, calculated according to part II, title 1, chapter 4 of CRR Regulation

**Total capital ratio** – calculated as own funds (Tier 1 + Tier 2)/total risk exposure amount

**TREA** – Total Risk Exposure Amount

**VaR** – Value at Risk

**WIBOR** – Warsaw Interbank Offered Rate; Polish equivalent of LIBOR determined for Polish Zloty in Warsaw

**WIG** – Warsaw Stock Exchange Index, covering shares of entities listed on the primary market

**WSE** – Warsaw Stock Exchange (in Polish: GPW)

**ZBP** – The Polish Bank Association



## **15. Statements of the Management Board**

### **True and fair picture in the presented reports**

The Management Board of mBank S.A. declares that according to their best knowledge:

- The annual consolidated financial statements, the annual financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of mBank S.A. Group and mBank S.A. as well as their financial performance.
- The Management Board Report on Performance of mBank S.A. Group in 2021 (including the Management Board Report on Performance of mBank S.A.) presents a true picture of the developments, achievements, and situation of the mBank S.A. Group and mBank S.A., including a description of the main risks and threats.