

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

Dear Shareholders,

The year of 2022 was unprecedented for the Polish banking sector and mBank Group. It brought many events which, even at its beginning, could not have been predicted. Right in the middle of a cycle of interest rate hikes, we expected higher income and significant profitability improvement from the one-digit ROE level observed over the last few years. However, the geopolitical, economic, market and legal situation resulted in a number of additional challenges we had to face while at the same time pursuing our primary objective of responding to the clients' needs and developing our business.

The series of negative events started with the Russian invasion of Ukraine. In order to support people affected by the war, mBank entered into cooperation with the Polish Center for International Aid (PCPM), a renowned organisation with vast experience in providing humanitarian assistance. Our clients could donate any amount to the foundation by using a convenient shortcut in our online banking and mobile application. mBank also arranged two customized living spaces for refugees, a school and day care, and made basic banking solutions available to Ukrainians.

At the end of April 2022, the government surprised us by putting forward a support package for borrowers, which the banking sector had not been consulted on in any way. It comprised three pillars: the widely available "credit holidays", aid for clients with temporary problems granted from the Borrowers' Support Fund and a plan to introduce a new reference rate to replace WIBOR. The first of the said solutions turned out to generate particularly high costs, resulting in extensive and unjustified transfer of the economic value from banks to mortgage borrowers, who could suspend instalment payments regardless of their financial situation. The total impact on the main institutions in the sector is estimated at approx. PLN 13 billion. I am strongly opposed to this form of assistance, also due to potential long-term consequences it may have not only for banks, but in a broader sense as well. It may, among others, substantially limit the economy financing potential or result in growing moral hazard shaping undesirable attitudes in the Polish society.

Another challenge we had to confront in 2022 in order to ensure stability and security of the Polish banking sector was to agree on the right approach to the looming bankruptcy of Getin Noble Bank. The primary goal was to avoid mass deposit withdrawals and secure uninterrupted access to services and funds for clients so as not to generate a general threat to the financial system as a whole and undermine clients' trust in it. In June, together with seven other commercial banks, we announced the launch of a protection scheme serving as an additional mechanism strengthening the sector's resilience. As a result, the member banks were obliged to contribute to an aid fund, which gave rise to yet another unexpected cost. The collected funds in the amount of PLN 3.47 billion were earmarked for the resolution of Getin Noble Bank initiated by the Bank Guarantee Fund at the end of September.

This unfavourable operational environment, aggravated by defective functioning of the Polish judicial system and a negative trend in court decisions in CHF cases, led to mBank Group posting a net loss totalling PLN 703 million in 2022. This second negative result in a row did not again by any means originate from the weakness of our business, but was caused by the government interventions and our decision to book very high legal risk provisions related to foreign currency loans in the amount of more than PLN 3.1 billion. I want to stress very clearly that our pre-tax profit on core business, net of the said burdens, would exceed PLN 4.9 billion and be the best in mBank's history.

Our total revenues reached the record-high level of PLN 7.8 billion, i.e. more by 28% compared to 2021. The largest contributor was net interest income, which grew by 43% year on year to PLN 5.9 billion. The key determinant of this dynamics was a never seen before scale of monetary policy tightening. The Polish Monetary Policy Council raised the reference rate from 1.75% in December 2021 to 6.75% in September 2022. It was accompanied by a strong improvement of margin, which excluding the impact of "credit holidays" in the amount of PLN 1.3 billion stood at 3.7% annually. Higher market rates boosted asset profitability. However, since Q2 2022, we have been observing the materializing effect of deposit repricing and an increase in funding costs, which has already partly reduced positive implications of interest rate hikes. We succeeded to continue a dynamic growth of our net fee and commission income last year. Higher customer activity and transactional turnover allowed to expand

it in a double-digit pace of 14% year on year, to PLN 2.1 billion. Most categories contributed to that development, including payment cards, FX exchange, lending, money transfers and accounts, as well as distribution of insurance products and trade finance.

The total level of mBank Group's costs in 2022 was significantly elevated by the aforementioned payments to the protection scheme (IPS) in the amount of PLN 428 million and the Borrowers' Support Fund in the amount of PLN 171 million. Excluding compulsory contributions, our expenses went up by 11% compared to the basis of 2021, which was lower than domestic inflation (annual average of 14.4%). They stood at less than PLN 2.5 billion, half of which comprised personnel costs that were higher by almost 15% year on year. It was a function of salary adjustments resulting from a wage pressure and our intention to ensure that mBank's employees receive adequate remuneration, as well as some increase of employment. Throughout 2022, the number of FTEs rose by 276, mostly in the compliance-related functions. Maintained budgetary discipline in other areas led to excellent efficiency, which was evidenced by the normalised cost/income ratio at 34.4%. This level is beyond the reach of most local competitors, ranking us among the global leaders in the financial industry.

After a significant reduction in uncertainty regarding the impact of the pandemic on the situation of our clients, new threats to the credit portfolio quality emerged in 2022. The slowing economy and unspecified probability of materialization of negative scenarios concerning the war in Ukraine and the energy crisis in Europe reinforced additionally our prudent and conservative approach to creating loan loss provisions. Nevertheless, mBank Group's risk costs declined to 68 basis points, reflecting the high resilience of the companies and individuals financed by us to the adverse trends in the environment. This is also confirmed by a relatively low NPL ratio, which at the end of 2022 stood at 4.0%. At the same time, we continued an active management of asset quality through regular sales of non-performing receivables.

In 2022, we recorded a visible disproportion between the dynamics of business volumes. Gross loans, net of the FX effect, grew only by 1% to PLN 123 billion. This slowdown was caused by the retail segment as well as the effect of accounting adjustments made to the portfolio due to "credit holidays" and provisions for CHF exposures. mBank's new mortgage sales dropped by 48% year on year to PLN 6.5 billion granted in 2022, while production of consumer loans remained at the similar level as the year before. However, in conjunction with the sector's trends, we managed to increase our market share in household loans to 8.3%. In turn, demand in the corporate area was driven mainly by current financing, with investment credit still being subdued. Customer funds accumulated at mBank rose by 11% against December 2021 to PLN 174 billion. Stronger deposit inflows in H2 2022 were accompanied by the evolution of their term structure. As offered interest rates became gradually more attractive, term deposits were gaining in significance at the expense of current accounts. Our market share in total retail deposits continued on its upward path to 8.8% and in enterprise deposits it amounted to 10.8%. mBank's organic growth will be further fuelled by the constant acquisition of new (primarily young) clients and maturing of the existing base. At the end of 2022, we serviced 5.6 million clients on three markets, of which over 3.3 million active users of our mobile application.

Last year, we paid a great deal of attention to capital management. In order to mitigate the effects of incurred loss and substantial negative change in bond valuation, we undertook a number of countermeasures to strengthen the capital ratios of mBank Group. We focused on reducing the total risk exposure amount (TREA). We successfully executed two synthetic securitisation transactions on the credit portfolio with the total nominal value of approx. PLN 12.6 billion. We reviewed corporate exposures and their collaterals. We also cut unused limits granted to clients. As a result, the consolidated Tier 1 ratio stood at 13.8% and the TCR was equal to 16.4% at the end of 2022. The surplus over the minimum regulatory requirements set by the Polish FSA at 10.4% and 12.9%, respectively, exceeded 3.4 percentage points. We stand by our intention to pay dividends in the medium term. However, in order to restore our own funds, we have already announced that mBank's entire profit for 2023 will be retained. In order to provide investors with actual and undistorted financial performance, we have been applying new segmentation rules for three years now. The non-core part, unrelated to the ongoing operations and comprising of foreign currency mortgage loans granted to individual customers in Poland, is shown separately from the total business. This allows us to present the return generated by our existing platform in a clear and unambiguous manner. In 2022, it would be the ROE of 22%, even with the government interventions included.

In 2022, we followed the Strategy of mBank Group for 2021-2025 titled "From an icon of mobility, to an icon of possibility", adopted in Autumn of the preceding year. We announced that we aspire to be a leading retail banking franchise integrated with client life cycle. Therefore, we are organized around demographic segments to develop a complete offer and value proposition precisely responding to the needs arising at different phases of life activity. We added personal financial management (PFM) functionalities to mBank's mobile application to give users the opportunity of better planning and monitoring of their personal budgets, based on the analysis of inflows and spendings and their categorisation. To strengthen the intensity of relationship with customers, we further developed an ecosystem of value-added services. In cooperation with SkyCash, we introduced the option of paying for car parks in dozens of Polish cities directly in our mobile application. From mid-2022, customers could apply for the benefits from social programme "Good Start (300+)" on the smartphone, while previously the support aimed at purchasing school supplies was available only via the transactional system. Owing to the cooperation with KIR (National Clearing House) and integration with the National Node (login.gov.pl), our clients gained full, remote access to public administration services and offices, using data from online banking. We also completed preparatory work and obtained the necessary approvals for mBank's own investment fund company to start operating in 2023. We believe that our self-designed offering suited to the needs of each client segment will contribute to their long-term asset growth.

Our next strategic goal is to provide the best digital corporate banking for high-potential companies. We focus on initiating and fostering the cooperation with companies from prospective industries and the fastest growing sectors of the economy as well as continued support of energy transformation. Through the adoption of dedicated financing policies and adequately determining the limits, we are becoming more involved in renewable energy sources (RES), e-commerce activity, automation and digitalization solutions, modern technologies as well as healthcare and pharmaceutical industry, gradually increasing their share in mBank's portfolio. Taking care of capital efficiency, we are currently applying a selective approach towards new exposures, strictly based on the analysis of their profitability. As part of an extensive redesigning of the credit process, we developed and implemented a new organizational and operational model for the involved units, ordering the division of tasks and improving efficiency. We are building eWniosek, an integrated platform for electronic documentation exchange and communication with the clients. We are simplifying and standardizing information required from the companies and catalogue of collaterals. In order to increase the satisfaction of daily services, we enhanced mBank's mobile and internet solutions for corporates by eliminating elements reported by customers as unsatisfactory, development of payment and transfer modules, strengthening the security of the application as well as adding further methods of fully remote identity verification (e-ID or the eDO App).

Among the pillars of our strategy, we also concentrate on technology and security as sources of mBank's advantage. We increase the level of maturity of the software development process through continuous monitoring and automation of controls and tests as well as imposition of multi-level quality gates. We are constantly searching for weaknesses in our infrastructure and address vulnerabilities before they are exploited by cybercriminals. We ensure the highest possible protection of mobile application serving as a digital key to all mBank's channels. We are implementing special functionalities and behavioural biometrics as an additional technology supporting authorisation.

When the Covid-19 pandemic receded, in order to avoid potential negative impact of permanent remote work on company culture, innovation and sense of belonging to the organisation, we focused on developing the best-in-class hybrid work environment. The return to offices took place in mBank Group from the beginning of May 2022. It was accompanied by special campaigns encouraging physical presence and facilitating smoother re-adaptation. I believe that we have introduced a model that addresses the needs of employees and meets the expectations of managers. The functioning of staff is to be supported by top practices in management of distributed teams as well as advanced workplace technology and digitized HR processes. We continue to diagnose and develop the capabilities of our employees to make them a competitive advantage for the bank. We are anchoring in strengths-based approach to leverage individual talents, identified according to the Gallup's methodology. Under training activity, we are focusing on future skills needed for the organization to succeed.

In parallel, we made significant progress in pursuing our ESG agenda. In 2022, mBank was the first bank in Poland to join the Partnership for Carbon Accounting Financials (PCAF). Thanks to this cooperation, we will determine the carbon footprint of our loan portfolio in accordance with the best global standards and harmonized approach among financial institutions. As announced, mBank joined the Science Based Targets initiative (SBTi) and has committed to develop a decarbonisation path for the next 5 to 15 years. We will present our near-term targets for official validation in terms of scientific evidence to contribute to limiting global warming to 1.5°C. We also signed the Commitment to Financial Health and Inclusion within the framework of the United Nations Environment Programme Finance Initiative (UNEP-FI).

As the main partner and sponsor, mBank played together with the Great Orchestra of Christmas Charity (WOŚP) during the Grand Finale fundraiser in 2022 for the fifth time in a row. We ensured to make donations as simple as possible. The most convenient and popular ways to support this charitable endeavour were dedicated “heart” icon for quick payments in mBank’s mobile application and contributions via internet website using our Paynow gateway. Together with our clients, we raised PLN 22 million for the Foundation last year. I am proud that we extended our agreement with WOŚP for the years ahead, because this initiative shows the multidimensional involvement of our entire organisation.

We remain aware of our responsibility for climate, society, financial health of the clients and compliance with our declared ESG values. In line with our environment-oriented approach, we support entrepreneurs in green transformation by offering preferential conditions for financing aimed at reducing energy consumption, gas emissions and pollutants. We have lowered the margin for eco-mortgage loans for real estates that meet the increased standards of energy-efficiency. We reduce the usage of plastics by issuing cards made from recycled materials, and the use of paper by offering remote account opening and digital processes. We continue the activities of mBank Foundation (mFundacja), which is focused on mathematical education, and the “m jak malarstwo” fund, which supports young artists.

Finally, I must note with great concern that costly government interventions and overall instability of operating conditions, including the collapse in the judicial system and the geopolitical risk, significantly worsened investor sentiment and perception of Poland in 2022. These circumstances adversely affected the valuation of many companies listed on the Warsaw Stock Exchange, including mBank. Our share price dropped by 31.7%, slightly underperforming the sector index that declined by 27.6%. This year, due to the risks associated with parliamentary election in Poland, including unclear signals regarding encompassing subsequent repayment periods by credit holidays, and the uncertainty related to the upcoming ruling of the Court of Justice of the European Union with regard to remuneration for the usage of capital by Swiss franc borrowers, further negative impact on the sector’s results and sentiment towards banks cannot be excluded. We had one of the highest coverage of CHF portfolio with created provisions for legal risk on the market at 54.3% and we are also deeply involved in a settlement program with the clients in order to limit the implications of departing from the paradigms of banking activity in Poland and the resulting consequences.

I would like to thank our Shareholders for the trust you place in us and your confidence in the strong foundations of our business model and its growth potential, which will allow us to systematically increase the company value in the future.

I would like to thank the Supervisory Board for its close cooperation and support we could always count on throughout the year as we faced an uncertain environment and new challenges.

Yours sincerely,

Cezary Stypułkowski