Management Board Report on Performance of mBank S.A. Group in 2022

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

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mBank Group in 2022

Universal financial services			
Our clients	**Our employees**	**Mobile application**	**Transactions**
5,642 thou. retail clients **33.0 thou.** corporate clients	**7,014** FTE in mBank Group	**3.3** million users	**12.4%** market share in card transactions (9M 2022)
Mobile banking at its best			
Active users of mBank's services in Poland	**Growing importance of digital channel in daily banking**	**Paynow**	**Personal Finance Manager (PFM)**
Number of monthly active users increased to **3,239 thou.**; active users of BLIK increased to **1,685 thou.**	**82%** of processes in retail banking area are initiated by the clients in digital channels	Online **payment gateway – platform** for e-commerce; volumes processed by Paynow increased by **143% YoY**	**New personal finance management (PFM) functionalities** to give clients the control over their budgets
Key results and indicators			
Revenues	**Cost to income ratio**	**Total assets growth**	**Total capital ratio**
PLN **7,842** million	**42.3%**	**+5.8%** year on year	**16.4%**
Basic facts for investors			
Market capitalisation	**Share price**	**Member of the WSE indices, including:**	**mBank ratings**
PLN **12.6** billion (EUR 2.7 billion)	**PLN 296.0** (as at 30.12.2022)	WIG20 WIG ESG WIG banki	**Fitch**: BBB- **Standard & Poor's**: BBB **Sustainalytics**: low risk **MSCI**: A (ESG rating)

Executive summary

- Superior operating financial performance overshadowed by negative one-off factors:
  - Profit before tax adjusted for the impact of one-off factors at the level of PLN 4,937.6 million.
  - Net ROE of the core business (mBank Group excluding FX Mortgage Loans segment) reached 22.1%, demonstrating robust performance of mBank Group's operating model
  - Reported net loss of PLN 702.7 million under severe negative impact of legal costs related to FX legacy portfolio of PLN 3,112.3 million, public burdens of PLN 1,933.4 million and banking tax of PLN 684.2 million
- Total revenues at the highest level in history, despite the burden of "credit holidays"
  - Record-high total income of PLN 7,842.1 million generated by growth across mBank's client franchises
  - Soaring net interest income of PLN 5,909.2 million, +43.2% YoY, driven by interest rate increases and focus on the profitable client business
  - Significant net interest margin improvement to a level of 3.7% (excluding the impact of "credit holidays")
  - Continued growth of net fee and commission income by 13.5% YoY, benefiting from higher customer activity and transactional turnover
- Capital ratios well above the regulatory requirements and ample liquidity levels
  - Consolidated Tier 1 ratio of 13.8% and Total Capital Ratio at 16.4%
  - Material buffers above KNF requirements of 3.4% for Tier 1 and 3.5% for TCR, similar compared to last year, despite significant impact of one-off factors, as a result of profitable core business and management actions
  - Two synthetic securitization transactions referencing a total portfolio volume of PLN 12.6 billion, improving year-end TCR of mBank Group by 0.9 p.p.
  - Liquidity ratios of mBank Group significantly above the regulatory minima: LCR at 201% and NSFR at 150%
- Excellent efficiency supported by proven cost discipline
  - Cost to income ratio adjusted for the impact of the contribution to the Borrowers Support Fund and „credit holidays" at the level of 34.3%
  - Annual cost dynamics, adjusted for the contributions to the Borrowers Support Fund and protection scheme, below the average inflation rate
- Prudent risk management reflected in a high portfolio quality – lower risk costs at the level of 68 bps, NPL ratio at 4.0%
- Progress in implementing the business and ESG strategy for 2021-2025, strengthening the franchise and competitive position
  - Rising scale of digital sales and service, with the share of non-mortgage loans sold via mobile devices at 55%
  - Focus on customer relationships fulfilling profitability and capital efficiency (AROR) objectives
  - mBank joined the Science Based Targets initiative (SBTi) and has committed to develop a decarbonisation path for the next 5 to 15 years
- Strong protection against legal risks ensured by high provisions; ongoing settlement programme
  - The coverage ratio of CHF portfolio with created provisions for legal risk at 54.3%, significantly higher than market average; together with the capital allocated to the non-core unit of PLN 1.35 B, the implied coverage rises to 66%
  - In Q4 2022 mBank rolled-out its settlement programme and is offering the conversion of the loan into PLN at an attractive fixed rate as well as a reduction of the outstanding loan balance on individually negotiated terms with clients
- Dynamics of loans weakened by slowdown in retail segment and negative adjustments
  - Corporate loans up by 9.1% YoY despite selective approach and focus on capital efficiency
  - Retail loans dynamics pushed to negative territory by adjustments: "credit holidays" and costs of legal risk related to FX loans; slowdown in new sales as a result of interest rate increases

Summary of results of mBank Group core business in 2022

PLN million	Core business	Non-core	mBank Group
Net interest income	5,883.9	75.4	5,909.2
Net fee, trading and other income	1,992.4	-59.5	1,932.9
Total income	**7,826.3**	**15.8**	**7,842.1**
Total costs	**-3,274.6**	**-44.6**	**-3,319.2**
Net impairment losses and fair value change on loans and advances	-795.6	-38.9	-834.5
Cost of legal risk related to FX loans	0.0	-3,112.3	-3,112.3
Operating profit	**3,756.1**	**-3,179.9**	**576.2**
Taxes on the Group balance sheet items	-642.8	-41.4	-684.2
Profit/loss before income tax	**3,113.3**	**-3,221.4**	**-108.0**
Net profit/loss	**2,518.7**	**-3,221.4**	**-702.7**
Total assets	**201,720.5**	**8,171.6**	**209,892.1**
Net interest margin	3.87%		3.70%
Cost/Income ratio	41.8%		42.3%
ROE net	22.1%		-5.3%
ROA net	1.3%		-0.3%

Core business – results of mBank Group excluding the FX Mortgage Loans segment.
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 expenses.
Net impairment losses and fair value change on loans and advances - 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 interest margin – calculated by dividing net interest income by average interest earning assets. In 2022, net interest income calculated for the purpose of net interest margin excludes gains or losses on modification. Gains or losses on modification includes costs of credit holidays. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
Cost/Income ratio – calculated by dividing overhead costs and depreciation by total income (excluding tax on Group's balance sheet items).
ROE net – calculated by dividing net profit/loss attributable to Owners of the Bank by the average equity attributable to Owners of the Bank, net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit/loss attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
ROA net - calculated by dividing net profit/loss attributable to Owners of the Bank 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/loss attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

In order to present the genuine and undistorted performance of mBank Group, the non-core part, comprising of foreign currency mortgage loans, is shown separately from the total business.

Non-core assets are defined as all residential mortgage loans granted to individual customers in Poland that at any point in time were in another currency than PLN. In addition to the FX mortgage loan portfolio, associated provisions for legal risk arising from these contracts are also allocated to the segment.

The capital allocated to the non-core unit amounted to PLN 1.35 B as of December 31, 2022. It is calculated primarily based on:

- risk weight of the portfolio under AIRB method;
- individual FX ML add-on imposed on mBank Group (actual or expected level)

From the managerial perspective, growth of mBank's core business is effectively based on lower capital due to its portion being set aside for FX Mortgage Loans segment.

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 estate, 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.

Personal Banking	Premium Banking	Private Banking	Business	SME and corporates	Young

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, a 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 was most powerful of our brands.

1986	**Establishment of Bank Rozwoju Eksportu as a joint-stock company**
1992	**Listing of BRE Bank on the Warsaw Stock Exchange**
1994	**Signing of a strategic partnership agreement with Commerzbank AG**
1998	**Acquisition and merger with Polski Bank Rozwoju SA**
2000	**Establishment of mBank – the first internet-only bank in Poland – completed in just one hundred days**
2001	**Launch of Multibank, the second retail arm of BRE Bank, targeting affluent customers**
2007	**Foreign expansion of retail operations, the first branches of mBank are set up in the Czech Republic and Slovakia**
2013	**Rebranding – Replacing of three existing brands by one: mBank New mBank transactional platform is launched**
2016	**„mobile Bank" Strategy for 2016-2020 is announced**
2017	**Start of mAccelerator - fund aimed at the development and commercialisation of technology for financial institutions**
2018	**Strategic partnership with WOŚP, launch of e-commerce services via mElements**
2019	**New strategy for 2020-2023**
2020	**Adjustment of internal processes and client offer during the COVID-19 pandemic Systematic increase of Renewable Energy Sources funding**
2021	**New strategy for 2021-2025**
2022	**Development of sustainable banking and significant expansion of our range of ESG banking products and services Two credit risk sharing transactions of mBank's portfolio, landmark for the Polish market**

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 **Personal Finance Manager (PFM)** for retail clients or further development of **Paynow** payment gateway for e-commerce. mBank has been accompanying its retail customers in their everyday lives for 23 years, providing a wide range of additional services based on online or mobile banking. These involve, among others, the possibility to access public administration services from mBank's transactional platform and the possibility to submit an application for benefit programmes such as the "**Family 500+**" benefit in mBank's mobile application. Further benefits include additional services, such as **mOkazje** (mDiscounts) and possibility to pay for car parks in several dozen Polish cities using mBank's application.

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 and businesses. 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** and **mobile application.** 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

Selected financial data (PLN mln)	2018	2019	2020	2021	2022
Total assets	145,781	158,353	178,861	198,373	209,892
Net loans	94,766	104,980	108,271	117,677	120,183
Deposits	98,552	113,184	133,672	157,072	174,131
Equity	15,171	16,153	16,675	13,718	12,715
Total income	5,080	5,524	5,867	6,111	7,842
Total costs	-2,164	-2,329	-2,411	-2,457	-3,319
Loan loss provisions	-694	-794	-1,293	-879	-835
Net profit	1,303	1,010	104	-1,179	-703
Selected financial ratios	**2018**	**2019**	**2020**	**2021**	**2022**
Net interest margin	2.6%	2.7%	2.3%	2.2%	3.7%
Cost/Income ratio	42.6%	42.2%	41.1%	40.2%	42.3%
Cost of risk	0.75%	0.76%	1.20%	0.76%	0.68%
Return on Equity (ROE)	8.9%	6.4%	0.6%	-7.2%	-5.3%
Return on Assets (ROA)	0.9%	0.7%	0.1%	-0.6%	-0.3%
Tier I capital ratio	17.5%	16.5%	17.0%	14.2%	13.8%
Total Capital Ratio (TCR)	20.7%	19.5%	19.9%	16.6%	16.4%
Loan-to-deposit ratio	96.2%	92.8%	81.0%	74.9%	69.0%
NPL ratio	4.8%	4.5%	4.8%	3.9%	4.0%
Coverage ratio	62.5%	60.7%	58.3%	53.1%	52.3%
Selected business data	**2018**	**2019**	**2020**	**2021**	**2022**
Individual customers (thous.)	5,350	5,601	5,660	5,514	5,642
Corporate customers	23,706	26,476	29,083	31,315	33,025
Number of employees (FTEs)	6,524	6,771	6,688	6,738	7,014

Net loans (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.
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 expenses.
Total costs (Total overhead costs (including deprecation)) - calculated as the sum of total overhead costs and depreciation.
Loan loss provisions (Net impairment losses and fair value change on loans and advances) – 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 interest margin - calculated by dividing net interest income by average interest earning assets. In 2022, net interest income calculated for the purpose of net interest margin excludes gains or losses on modification. Gains or losses on modification includes costs of credit holidays. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
Cost/Income ratio - calculated by dividing overhead costs and depreciation by total income (excluding tax on Group's balance sheet items).
Return on Equity (ROE) (Net ROE) - calculated by dividing net profit/loss attributable to Owners of the Bank by the average equity attributable to Owners of the Bank, net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit/loss attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
Return on Assets (ROA) (Net ROA) - calculated by dividing net profit/loss attributable to Owners of the Bank 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/loss attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

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 2022, is presented below:

Segment	**Retail Banking**	**Corporate and Investment Banking**	
Bank	■ Retail customers, Private Banking clients and microenterprises ■ Affluent retail customers (Private Banking and Wealth Management)	■ Corporations and non-banking financial institutions (K1) ■ Large Companies (K2) ■ Small and Medium Enterprises (K3)	■ Banks ■ Corporate clients in scope of trading and sales
Consolidated subsidiaries	■ mLeasing Sp. z o.o. – Retail ■ Asekum Sp. z o.o.[1] – Retail ■ LeaseLink Sp. z o.o.[1] ■ mBank Hipoteczny S.A. - Retail ■ mFinanse S.A. ■ mFinanse CZ s.r.o.[2] ■ mFinanse SK s.r.o.[2] ■ mElements S.A.	■ mLeasing Sp. z o.o. – Corporate ■ Asekum Sp. z o.o.[1] - Corporate ■ mBank Hipoteczny S.A. - Corporate ■ mFaktoring S.A.	
	Other entities	■ Future Tech FIZ	

[1]mBank owns 100% shares in Asekum Sp. z o.o. and LeaseLink Sp. z o.o. indirectly, through mLeasing Sp. z o.o.
[2]mBank owns 100% shares in mFinanse CZ s.r.o. and mFinanse SK s.r.o. indirectly, through mFinanse S.A.

At the beginning of 2021, we have separated FX Mortgage Loans segment from Retail Banking segment. This change aimed to present separately results related to the product, which has been withdrawn from the offer for individual customers, and at the same time is significant from the point of view of the assigned assets and the impact on the Group's results. As a result a more accurate and undistorted image of mBank Group is presented. Additionally, we separated the Treasury and Other segment from the core businesses of mBank Group.

In October 2022, the Polish Financial Supervision Authority issued a license to mTowarzystwo Funduszy Inwestycyjnych S.A. to operate an investment fund company. mTFI S.A. has been established in April 2021 and applied to the Polish Financial Supervision Authority for the license in September 2021. mBank acquired 100% shares of mTowarzystwo Funduszy Inwestycyjnych S.A., which equals 100% of votes on the General Meeting of mTowarzystwo Funduszy Inwestycyjnych S.A.

In Q1 2022 G-Invest Sp. z o. o. has ceased to be consolidated. Moreover, mBank Group has begun to consolidate subsidiaries mFinanse CZ and mFinanse SK, which operate in Czech Republic and Slovakia, through mFinanse S.A.

mBank Group (including consolidated subsidiaries) as at the end of 2022 was composed as presented on the diagram below.

Key subsidiaries of mBank Group from the perspective of client offer

Bank Hipoteczny	▪ the longest track record of issuing covered bonds on the Polish capital market ▪ supporting the stable, long-term and safe funding of the Group with the use of pooling model in co-operation with mBank ▪ rating by Moody's Investors Service for mortgage covered bonds at a level of Aa1, which is the long-term country ceiling for local and foreign currency bond
Leasing	▪ the subsidiary offers leases and loans, as well as car fleet rental and management services addressed to both corporate and retail clients ▪ various leasing products in the corporate segment, including the leasing of private and commercial cars and heavy transport vehicles, car fleet management, leasing of machinery and equipment, and real estate leases ▪ in the retail segment the subsidiary offers products for micro-enterprises and SMEs, which can conclude lease contracts using dedicated lease processes ▪ leasing in e-commerce online payments offered through LeaseLink
Faktoring	▪ the fifth largest player among the members of the Polish Factors Association – the same position as in 2021 ▪ 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 ▪ products offered by mFaktoring are available in all mBank branches providing services to SMEs and corporates in Poland ▪ member of the Polish Factors Association ▪ member of Poland's first factoring consortium
Finanse	▪ the subsidiary is an open platform for selling financial products of various financial entities, including mBank ▪ offer for both individuals and corporates, including loans and advances, accounts, insurance as well as leasing and factoring ▪ it offers products of 17 active external financial entities in 189 points of sale located across Poland and 168 partner outlets

mBank's Authorities

Supervisory Board of mBank

On October 14, 2022, Arno Walter resigned from the function of member of the bank's Supervisory Board as of March 30, 2023. On December 7, 2022, Armin Barthel resigned from the function of member of the Supervisory Board as of December 31, 2022. On December 9, 2022, Hans-Georg Beyer has been appointed as member of the Supervisory Board. Hans-Georg Beyer's tenure will begin on January 1, 2023 for the duration of the present term of office of the Supervisory Board.

As of December 31, 2022, the composition of the Supervisory Board of mBank S.A. was 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 composition and tasks of the Supervisory Board committees are described in chapter 13. "Statement of mBank on application of corporate governance principles in 2022".

Management Board of mBank

There were no changes in the composition of the Management Board in 2022. As of December 31, 2022, 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

On January 17, 2023 Andreas Böger resigned from the function of Vice-President of the Management Board, Chief Financial Officer. The resignation will take effect as of April 30, 2023. The reason for the resignation are plans of Andreas Böger to take on the role of Divisional Board Member responsible for Group Finance at Commerzbank AG. The Executive and Nomination Committee of the Supervisory Board has recommended Pascal Ruhland for the role of Vice-President of the Management Board, Chief Financial Officer.

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 2022". 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. In Poland, retail branches network covers 319 outlets whereas corporate network comprises 43 points of service, additionally supplemented by branches of mBank Group subsidiaries. In 2022 the number of branches in Poland decreased by 3. At the same time we opened 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 how to use mobile and internet banking.

Retail network in Poland:

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

Czech Republic

- 13 financial centres and light branches
- 18 mKiosks

Slovakia:

- 6 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 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 obtain a non-mortgage loan.

1.4. Information for investors

Information on mBank shares and shareholders

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

As at December 31, 2022, mBank's registered share capital amounted to PLN 169,733,980 and was divided into 42,433,495 shares, including 42,422,495 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 2022, the total number of shares increased by 48,611. 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.

mBank shares are included in the following indices:
WIG
WIG-Poland
WIG20
WIG20TR
WIG30
WIG30TR
WIG140
WIG-Banks
WIG-ESG
CEEplus
MSCI Poland

Information concerning mBank shares	2021	2022
Total number of shares	42,384,884	42,433,495
Nominal value per share (PLN)	4.00	4.00
Registered share capital (PLN)	169,539,536	169,733,980
Share price at closing of the year's last trading session (PLN)	433.20	296.00
P/E ratio	-15.6	-17.9
P/BV ratio	1.3	1.0
Maximum share price (PLN)	575.00	499.80
Minimum share price (PLN)	186.00	180.60
Market capitalisation at the year-end (PLN billion)	18.4	12.6
Average traded volume (PLN million)	18.3	15.4
Dividend per share (paid out in the year, PLN)	0	0

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 December 31, 2022, Commerzbank AG held 69.17% of shares and votes at the General Meeting of mBank. The majority of the remaining 30.83% 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 a result of the merger of PTE Allianz Polska S.A. with Aviva PTE Aviva Santander S.A. on December 30, 2022, the share of funds managed by PTE Allianz Polska S.A. in the total number of shares and votes at the General Meeting of mBank exceeded 5%.

As at December 31, 2022, the funds Allianz Polska Otwarty Fundusz Emerytalny, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz Polska Otwarty Fundusz Emerytalny, managed by PTE Allianz Polska S.A. held a total of 2,148,729 shares, constituting 5.06% of the share capital and the total number of votes at the General Meeting of the bank.

As a result of the sale of the bank's shares on February 3, 2023, the share of funds managed by PTE Allianz Polska S.A. decreased to 4.98% of mBank's share capital and the total number of votes at the General Meeting.

For more information about mBank's shareholders read the Statement of mBank on Application of Corporate Governance Principles in 2022, chapter 13.3 "Significant blocks of shares".

Performance of mBank shares on the WSE in 2022

A decline in banks' share prices on the WSE prevailed for over three quarters of 2022. This trend reflected the deteriorating prospects for the banking sector despite interest rate increases, which strongly supported the financial results of banks.

The stock market downturn in 2022 was caused, amongst others, by a declining GDP growth and predictions of a substantial economic slowdown in 2023, economic uncertainty brought about by external factors, in particular the war in Ukraine, and the impact of sanctions imposed on Russia, a halt to Polish import of Russian gas, and an abrupt increase in fuel, gas and electricity prices.

In the banking sector, the aforementioned general factors were coupled with negative consequences of the governmental relief package for mortgage borrowers. Suspension of the performance of PLN mortgage loan agreements ("credit holidays"), contributions to the Borrowers Support Fund (FWK) and costs incurred by eight banks to establish the Commercial Banks Protection Scheme had a negative impact on the results reported by banks. Investor sentiment has also dampened amid concerns over possible further government

initiatives, which may be at the expense of banks, in particular given that 2023 is a parliamentary election year. The uncertainty about how the recent interest rate increases, unprecedented in magnitude, will affect the loan repayments in the future, and consequently, the quality of the credit portfolio, cost of risk and banks' willingness to lend, acted as a brake on investors' enthusiasm.

Their reluctance to invest in the banking sector resulted mainly from the legal risk related to the portfolio of foreign currency housing loans. Moreover, the first lawsuits regarding PLN mortgage loans with WIBOR-based interest rates sparked further concerns among investors. The factors mentioned above weakened the demand for banking stocks and supported the downward trend in the share prices of banks.

In October 2022, the downward trend reversed and bank shares continued on an upward trajectory until mid-November. Since then they remained relatively stable. After a long period of decline, valuations of banks have become more attractive to some investors who are of the view that the share prices have already factored in most negative factors.

In 2022, the WIG-Banks Index fell by 27.6% compared with the end of 2021. The decline in the share prices of listed banks significantly contributed to a decrease in the main WSE indices. When compared with the levels observed at the end of 2021, the broad-based WIG Index and the WIG20 Index dropped by 17.1% and 20.9%, respectively.

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

mBank share price vs. indices	2016	2017	2018	2019	2020	2021	2022
mBank	+6.8%	+38.7%	-8.8%	-8.2%	54.0%	+141.7%	-31.7%
WIG-Banks Index	+2.9%	+35.4%	-12.1%	-9.2%	-29.6%	+81.3%	-27.6%
WIG	+11.4%	+23.2%	-9.5%	+0.2%	-1.4%	+21.5%	-17.1%
EURO STOXX Banks Index	-8.1%	+10.9%	-33.3%	+11.1%	-23.7%	+36.2%	-4.6%

mBank's share price at the close of trading in 2022 (on December 30) stood at PLN 296.0, which represents a decline of 31.7%, compared with the last trading day of 2021. In 2022, mBank reported its highest share price (PLN 499.8) on January 12 and the lowest share price (PLN 180.6) on October 13.

The chart below shows the relative changes in mBank's share price and stock market indices (left axis) and the volume of mBank's shares traded in 2022 (right axis).

Relative changes in mBank's share prices and stock market indices and the volume of mBank's shares traded in 2022
(December 31, 2021 = 100)

From among the bank analysts and brokers actively monitoring mBank's financial performance and issuing recommendations on mBank shares, six analysts advised investors to buy shares in mBank and five issued "hold" recommendations at the end of 2022. For comparison, at the end of 2021 eight analysts advised investors to sell, four to hold and only one to buy mBank shares.

The current consensus regarding mBank Group's results expected in 2022 and in 2023 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.

When communicating with investors, the media and clients, mBank applies the Information Policy, which is based on the principles of open and transparent communication, taking 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.

We have been actively communicating with capital market participants, which includes addressing and adjusting our activities to the information needs of individual groups, in accordance with the best market standards and practices.

Similar to other issuers worldwide, we have adopted a hybrid approach to the IR activities, which combines the advantages of face-to-face shareholder meetings with remote communication.

In 2022, investors and analysts were contacted predominantly via video- or tele-conferences. At the same time, however, there were numerous face-to-face meetings between investors and analysts and the representatives of the Management Board and/or the Investor Relations team.

Information provided via e-mail and the regularly updated content published on the official website of mBank play a significant role in communications with stakeholders.

Investor Relations website (https://www.mbank.pl/en/investor-relations/) features information divided into categories, including: 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.

In 2022, we also developed the Responsible Bank website, containing information on various aspects of our activities related to sustainable development. There you can find our integrated reports and information about our ESG strategy and activities, sustainable products, sustainable development standards (i.e. primarily policies and procedures applicable at the bank), declarations regarding our ESG goals, as well as ratings, indices and awards related to this area. The new website is a response to the growing interest of investors and rating agencies in the subject of ESG, as well as a reflection of the higher level of our ambitions in terms of ESG goals we set for ourselves as part of the current strategy.

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 2022, investors and stock market analysts participated in four **earnings conferences**. 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 2022, mBank participated in nine conferences and in a roadshow in the United States.

In 2022, the Management Board representatives also held meetings with analysts from **rating agencies**. In addition, the bank has been in regular contact with rating agencies through teleconferences and emails.

1.5. Credit ratings of mBank and mBank Hipoteczny

mBank's credit ratings assigned on request

mBank has solicited ratings assigned by S&P Global Ratings (S&P) and Fitch Ratings (Fitch).

Ratings of mBank S.A.	S&P	Fitch
Long-term issuer credit rating (foreign currency)	BBB	BBB-
Short-term issuer credit rating (foreign currency)	A-2	F3
Stand-alone rating (Stand-alone Credit Profile by S&P / Viability rating by Fitch)	bbb	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 - Short-term rating 2. Senior Non-Preferred Debt - Long-term rating - Short-term rating	 BBB A-2 BBB- A-2	 BBB F3 BBB- F3
Outlook of Long-term rating	*developing*	*negative*

S&P Global Ratings

On June 9, 2022, S&P affirmed the bank's 'BBB/A-2'long- and short-term issuer credit ratings and revised the rating outlook to developing from negative.

On October 6, 2022, S&P affirmed mBank's ratings with a developing outlook.

The developing outlook indicates that S&P may raise, lower or affirm the ratings over the next 12-24 months. According to S&P, the bank's rating could benefit from the build-up of additional loss-absorbing capacity (ALAC) buffers to meet MREL targets. At the same time, S&P believes that elevated costs of legal risk related to CHF mortgage loans and rising cost of credit risk due to deteriorating economic environment could weaken the bank's strong capitalization and the 'bbb' stand-alone credit profile.

Fitch Ratings

On August 5, 2022, Fitch placed mBank's ratings on Rating Watch Negative (RWN). The reason for the above decision was the downgrade of the operating environment score for Poland to 'bbb' from 'bbb+' mainly due to the introduction of the statutory loan holidays on local currency mortgages.

On August 26, 2022, Fitch affirmed the bank's Long-Term Issuer Default Rating (IDR) at 'BBB-' and Viability Rating (VR) at 'bbb-' and removed the above ratings from RWN. The rating outlook on the long-term IDR is negative.

The removal of the RWN reflects Fitch's view that the impact of the downgrade of the operating environment assessment coupled with pressures resulting from the bank's exposure to foreign currency mortgage loans are not sufficiently severe to warrant a downgrade of the bank's ratings. The ratings of the bank are also supported by a significant strengthening of the bank's underlying profitability and its superior operating efficiency. The Negative Outlook on the Long-Term IDR reflects still significant downside risks to the bank's credit profile.

Changes in mBank's long-term Issuer Credit Rating since 2015 are presented in the diagram below.

Long-term Issuer Credit Rating assigned for mBank between 2015 and 2022

Other credit ratings

Rating of mBank and mBank Hipoteczny assigned by Moody's Investors Service

Moody's Investors Service (Moody's) evaluates mBank's creditworthiness based on publicly available information. Moody's assigned solicited rating to mBank Hipoteczny and mortgage covered bonds issued by mBank Hipoteczny.

On December 20, 2022 Moody's placed on review for downgrade mBank's long-term deposit rating, Baseline Credit Assessment and Adjusted Baseline Credit Assessment as well as long-term issuer rating of mBank Hipoteczny. Moody's decision was driven by government measures, which materially burdened banks' results in 2022, the weakening macroeconomic environment for Poland and risks related to legacy Swiss-franc mortgages.

Moody's Investors Service	Ratings of mBank [1)]	Ratings of mBank Hipoteczny
Long-term Deposit Rating (foreign currency)	A3	-
Short-term Deposit Rating (foreign currency)	Prime-2	-
Long-term Issuer Rating (foreign)	-	Baa1
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
Outlook of Long-term Deposit Rating / Issuer Rating	RuR – possible downgrade	RuR – possible downgrade

[1)] *Ratings based solely on publicly available information*

mBank's ratings by Capital Intelligence Ratings and EuroRating based on publicly available information

Capital Intelligence Ratings

On April 21, 2022, Capital Intelligence Ratings affirmed the mBank's Long-Term Foreign Currency at 'BBB+' and revised the rating Outlook to Negative from Stable. At the same time the agency affirmed Short-Term Foreign Currency rating at 'A2', Core Financial Strength rating of 'bbb', and Bank Standalone Rating at 'bbb+'.

EuroRating

On April 14, 2022, EuroRating lowered the bank's rating from 'BBB' to 'BBB-' and changed the rating outlook from negative to stable. The rating was affirmed on December 13, 2022.

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, 2022.

Rating agency	Poland	mBank S.A.	Commerzbank AG
S&P Global Ratings	A- (stable)	BBB (developing)	BBB+ (stable)
Fitch Ratings	A- (stable)	BBB- (negative)	-
Moody's Investors Service	A2 (stable)	A3[1)] (RuR for possible downgrade)	A1[1)] (stable)

[1)] *Long-term deposit rating, for mBank based on publicly available information.*
Rating outlook in parentheses

1.6. ESG ratings and indices of mBank

Rating of mBank assigned by Sustainalytics

In May 2022, the research and rating agency Sustainalytics conducted the annual review of the rating initially provided in 2020. Sustainalytics' ESG Risk Ratings measure exposure to industry-specific material ESG risks, and how well a company is managing those risks. Again, mBank Group ESG Risk has been assessed as low (the lower the score, the better the company's ESG performance). We have improved our result (we received 14.8 points against 15.9 previously) which is one of the best scores among Polish banks. Among over 400 diversified global banks that are assessed by Sustainalytics we achieved the 14th position, at the time of the review. In its summary report Sustainalytics writes that "mBank's overall ESG-related disclosure follows best practice" and "The company's overall management of material ESG issues is strong".

ESG is a standard for sustainable business, comprised of 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.

Morningstar Sustainalytics is a globally renowned independent research and rating agency, which provides institutional investors with tools for understanding and management of ESG risk for over 30 years.

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/

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 2022, mBank received a rating of A (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. In 2022, MSCI updated its ESG rating for mBank and increased it to A from BBB. According to MSCI, the upgrade is driven by improvements in mBank's talent management initiatives as well as governance initiatives (e.g. employee training on business ethics standards). Furthermore, MSCI considers mBank to be a global leader in corporate governance, notably ownership and control. mBank is a data protection leader in the sector. The practices that distinguish mBank in this regard include cybersecurity training for all employees.

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

Bloomberg Gender-Equality Index 2023

In January 2023, mBank for the third time became a member of the Bloomberg Gender-Equality Index 2023. The index tracks the performance of publicly listed companies that actively support gender equality in the work environment. Our efforts to ensure equal pay and women's access to promotion, to facilitate women's return to work after maternity or child care leave, as well as our extensive policy for preventing unacceptable behaviour were recognised by Bloomberg experts.

mBank is one of the 418 companies from 45 countries which were distinguished in this year's Bloomberg GEI edition. The organisers of this initiative analyse the performance of listed companies whose value exceeds USD 1 billion, that provide data on the gender of their employees. Gender equality in the work environment is measured in five areas: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, anti-sexual harassment policies and pro-women brand. Only companies with a score that meets or exceeds a globally defined threshold are eligible for the index. 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 2022

Hybrid work model

In 2022, after the pandemic situation stabilised, we enabled the vast majority of our office employees to work in the hybrid model. On average, over 90% of the staff, including call centre employees, now work in this model. We make every effort to ensure that mBank's working environment allows employees to perform their tasks as effectively as possible and, at the same time, enjoy attractive working conditions.

We made sure that the rules governing the new work model are transparent to every employee. That is why in April 2022, the order of the president of the management board on introducing the hybrid-model working rules at mBank S.A. entered into force. It regulates work in the hybrid model and sets forth security and information protection requirements as well as occupational health and safety rules. We also provided more information explaining the rules in the email communication and in a dedicated section in the Intranet. Employees accepted them by submitting a relevant statement. In response to our employees' needs, we also introduced rules for working from abroad.

We started working in a hybrid model at the beginning of May 2022. In order to encourage our employees to work from the office (with the number of office days agreed on with directors and managers), we introduced a range of incentives. They include, among others:

- apps installed on company phones to facilitate moving around the office after the long break caused by the Covid-19 pandemic, such as apps to book desks (there are fewer desks than employees, which helps us save space and costs); apps to book parking spaces for both cars and motorcycles as well as bikes and scooters; apps with maps which help employees find their way around the buildings; an app to adjust blinds and lighting in our Warsaw headquarters of mBank Tower (Wieża mBank);
- the "It's nice to be in the office" programme – incentives for employees, such as a healthy breakfast on selected days in the office kitchens, fresh herbs and teas coupled with workshops on their qualities, or the "Heathy spine office" programme offering consultations with a physiotherapist available to all employees;
- the "renewal" programme dedicated to managers, aimed at facilitating management in the remote and hybrid working model. The programme was launched during the pandemic and continued in 2022. Team managers can choose from a range of workshops and webinars in different areas;
- the "With energy for health" programme – a dedicated team regularly encourages employees to take part in workshops or use "knowledge pills" as well as participate in events improving our physical and mental health.

More information on activities addressed to employees working in the hybrid model can be found in chapter 10.2. Training and development activities.

We want to maintain a constant dialogue between the management board and the employees, therefore we regularly organize meetings between all employees and the management board. For several years, meetings have been held primarily remotely. Participants can submit their questions before the meeting or post them on a live chat. In 2022, we organized three virtual meetings and answered over 400 questions. Each meeting was attended by ca. 3,000 employees. In 2022, four additional meetings were held in the bank's business divisions. They addressed the Group's strategy. On average, each of them was attended by 1.3 thousand employees. In addition, in December we inaugurated the "It's good to meet" series. It is a series of meetings with employees of regional retail and corporate sales networks to discuss current projects.

mBank has launched a full-scale settlement programme for CHF borrowers

In Q4 2022, after completing the pilot stage of the programme, mBank rolled-out an attractive settlement programme to CHF borrowers. The bank will convert the loan from CHF to PLN, while at the same time reducing the remaining principal. This is an efficient way of reaching settlement which does not burden the borrowers with excessive formalities. The settlement conditions are to be set individually and subject to negotiation.

The converted loan can bear either variable interest or fixed interest for a period of time. The fixed rate offered by the bank as part of the settlement is much more attractive than the typical offer for new loans. At the time of drafting this report, the fixed rate interest amounts to 4.99%. The settlement shall allow the clients to eliminate the FX risk once and for all and interest rate risk for up to 5 years (in the future the interest may change depending on the market conditions).

The programme is shaped based on the experiences gathered during the pilot stage. Various settlement solutions have been tested with the representative sample of clients during the pilot programme. The pilot

programme has proved that the clients are interested in an individual approach to the loan conversion. This has also been confirmed during the preferences survey.

The bank aims to offer a settlement proposals to all its CHF borrowers by mid-2023. The bank initiates a contact and provides a client with an offer, i.a. by e-mail. Fast and efficient servicing of all interested clients is a priority for determining the sequence at which the bank contacts next persons. Detailed conditions of the settlement proposal are going to be discussed by the clients with dedicated bank assistant via telephone. Borrowers can sign a settlement in a chosen branch during only one visit. It will not be necessary to confirm the settlement in arbitration court. mBank launched a dedicated website with a detailed description of the proposed settlement programme.

More information on the settlement programme can be found in Note 34 of Consolidated Financial Statements for 2022.

Two credit risk sharing transactions – securitisation

In 2022 mBank completed its first credit risk sharing transactions. The bank concluded two transactions and has transferred a significant part of the credit risk of a selected securitised portfolio to the investors. These selected portfolios remain on the balance sheet of the bank. The risk transfer of the securitised portfolio is performed through a recognized credit protection instrument, in the form of credit linked notes (CLN). Both transactions meet the requirements for significant risk transfer specified in the CRR Regulation.

First transaction took place in March 2022. The transaction related to a PLN 8.9 billion portfolio of loans to large, medium and small Polish corporates. It marks the first partnership with a Polish bank for the Dutch pension fund PGGM, and mBank's first securitisation transaction overall. The transaction represents a significant milestone for the Polish market, due to its value (it is the largest securitised portfolio in Central and Eastern Europe), innovation and complexity - it is the first synthetic securitisation in Poland that complies with the 'Simple, Transparent, and Standardised' (STS) criteria in accordance with Regulation 2021/557. It is also the first transaction in the Polish market concluded only with a private investor and the first trade with a credit-linked note issued directly by the bank. The transaction resulted in an approx. 0.6 pp increase in CET1 ratio when referenced to reported figures for mBank Group at the end of 2021.

The second transaction was concluded by the bank in December 2022. It was based on a corporate loans portfolio with a total value of EUR 801.1 million as of October 31, 2022, which is an equivalent of approximately PLN 3.7 billion based on average NBP exchange rate as of December 23, 2022. The bank issued CLN with a total nominal value of EUR 64 million and the sole investor was a fund managed by Christofferson Robb & Company. The transaction increased the Common Equity Tier 1 (CET1) capital ratio by approximately 0.28 percentage points at the consolidated level, when referenced to reported figures for mBank Group at the end of September 2022.

More information on the securitisation transaction can be found in Note 29 of mBank S.A. Group Consolidated Financial Statements 2022.

mBank supports victims of war in Ukraine

In 2022, mBank and its employees actively supported the victims of the war in Ukraine. In March 2022, mBank facilitated donations to the Polish Center for International Aid Foundation (PCPM). mBank clients could make a quick donation in the online transactional service and in the mobile application to aid Ukrainians fleeing the war. The bank, in cooperation with Paynow payment operator, also launched a special "Pomagam" ("I help") button on a dedicated website www.mbank.pl/ukraina. By the end of 2022, mBank clients raised nearly PLN 13.8 million. The PCPM Foundation will allocate these funds to humanitarian aid in Ukraine and to refugees in Poland. The funds will be also used to support Ukrainian children in education, as well as for the future reconstruction of destroyed Ukrainian cities, schools, hospitals and other critical infrastructure.

Immediately after the outbreak of the war, transferring funds to Ukrainian banks became exempt from fees at mBank. Transfer fees were returned automatically, up to two weeks after the transaction was completed. In April, mBank launched the eKonto UA personal account for citizens of Ukraine. A simplified procedure for opening an account based on an Ukrainian ID card or passport was introduced. Both the account and the card attached are free-of-charge. In addition, mBank launched a special helpline where it assists clients in the Ukrainian language.

mBank provided care for refugees and education for Ukrainian children. Together with PCPM, the bank opened an Educational and Creative Center in mBank's office building in the center of Warsaw. The Ukrainian school Materynka with 8 classes also operated in the same location. Moreover, in Warsaw and Zbeniny, mBank arranged a temporary place of residence for refugees from Ukraine. Volunteers from mBank were involved in these activities, supported the refugees and provided them with material assistance. Several dozen children attended the educational and creative center of PCPM and mBank every

day. About 120 students took part in the classes conducted by the Materynka school. 60 refugees found shelter in temporary places of stay organized by mBank.

Our employees - Ukrainians - received 5 additional days off to take care of their families. Those of them who chose to fight in the war had a legitimate, paid absence from work. We provided additional psychological care to employees from Ukraine, Belarus and Russia. Together with the works council, we have created a fast track for providing support from the bank's social fund.

Our subsidiary mLeasing provided free of charge rent of vehicles to the employees of mBank Group, who used them to help Ukrainians. Our employees, for example, transported refugees who crossed the border. The cars were insured and the company provided fully paid fuel cards.

For our employees, we organized a remote meeting "How to separate fiction from truth? The situation in Ukraine and its impact on the environment". It was led by Krzysztof Dąbrowski, Vice-president of the Management Board, Head of Operations and Information Technology and Chief of mBank Crisis Command. The interlocutors were experts in geopolitics, economics, financial markets, disinformation and cybersecurity. Members of mBank management board met with the employees in a separate meeting, where they discussed how the bank and its clients may be affected by the dramatic events surrounding Russia's invasion of Ukraine. Our employees eagerly attended the meetings.

The situation in Ukraine and its potential impact on the operations of mBank and mBank subsidiaries is monitored by mBank Crisis Command. It has been operating on an ongoing basis since 2020 an initially was established due to the coronavirus pandemic. The Command is monitoring key indicators, including liquidity ratios or IT systems-related ratios. These indicators provide an operational overview and highlight areas for decision of particular importance. They are very important to financial institutions and their clients. 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.

Wide scope of ESG products and services for clients

Eco mortgage loan

In 2022 mBank introduced eco mortgage loan to its offer. Customers can apply for this loan to finance a house, apartment in block of flats, or single-family housing with low energy use. The offer attracts clients with zero provision for granting a loan as well as for earlier partial repayment, and lower margin. Customers who choose eco mortgage loan care both for the environment and the economic considerations. Eco loan is not only more attractive than a standard offer, but at the same time it allows to buy a real estate that is cheaper in maintenance.

Eco cash loan for companies

In June 2022 mBank offered its corporate clients preferential conditions for cash loans dedicated to ecological purposes. This product is characterised with no fee and lowered margin for loans from PLN 30,000 to PLN 200,000. The condition to obtain preferential loan is to provide to the bank documentation which proves that money has been spent on environmentally-friendly purposes. Companies can get the money within 15 minutes from signing an agreement. Corporates can use the loan, amongst others, to purchase renewable energy sources, electric cars and bicycles, materials and systems for thermo-modernisation of buildings. Installation of heat recuperation, energy-saving lightening and household appliances of water-saving fittings also fall into scope of the offer.

Cards from recycled plastic and virtual

mBank consequently moves on to the cards manufactured from recycled plastic. Over half a million cards have already been delivered to our customers. They consist of 85% waste-originated material. Thanks to this change, mBank saved over 2 tons of plastic for the environment. In 2023 mBank plans to issue cards made totally from recycled materials. At the same time, the bank expands its offer of cards issued exclusively in a virtual form.

Education website www.twojaspokojnaglowa.pl (*your peace of mind*)

mBank released new, educational website www.twojaspokojnaglowa.pl (your peace of mind) at the end of 2022. It serves clients to determine their priorities in scope of healthy finance. Readers can use guidance materials and easily access mBank's website to familiarise themselves with financial services offer suited for taking care of their financial condition. The website presents six rules what comprehensively cover clients' perspective. They assume that a person who has healthy finances:

- first: uses Internet safely,
- second: consciously spends his/her money,
- third: keeps financial cushion,

- fourth: indebts himself/herself only for absolutely necessary things,
- fifth: cares for his/her own and relatives' safety, insures what's the most precious for him/her,
- six: invests for the future.

Progress towards decarbonisation – mBank joins PCAF and Science Based Targets initiative

In 2022 mBank, as the first Polish bank, joined the Partnership for Carbon Accounting Financials (PCAF). This alliance will allow the bank to determine the carbon footprint of its credit portfolio in line with the best standards. The decision was a necessary step towards reaching climate neutrality by 2050. mBank has committed to reduce net scope 1 and 2 greenhouse gas emissions, i.e. direct emissions from owned or controlled sources and indirect emissions from the generation of purchased energy, to zero by 2030. Climate neutrality in scope 3, which covers all the remaining emissions, is to be reached by 2050. PCAF brings together over 240 financial institutions all over the world. The organisation has developed a harmonised global approach for the financial sector to assess and disclose the greenhouse gas (GHG) emissions. The PCAF methodology measures the GHG emissions associated with corporate loans, securities, mortgages and motor vehicle loans.

In October 2022 mBank made another move towards climate neutrality and joined the Science Based Targets Initiative (SBTi). It is a worldwide initiative that assists companies to set ambitious decarbonisation targets. Membership in SBTi shall allow mBank to check whether its decarbonisation path aligns with the current scientific knowledge on climate change. By joining the initiative we obliged ourselves to determine a path for the next 5 to 15 years within the next two years. Our plan shall support the Paris Climate Agreement targets. It means that the progress in reducing our own carbon footprint and footprint of our clients, whom we finance, shall be consistent with the pace the whole world should maintain in order to keep the global temperature increase under 1.5 – 2 Celsius degrees.

mBank signed the Commitment to Financial Health and Inclusion, as part of the United Nations Environment Programme Financial Initiative (UNEP-FI)

mBank aims to promote healthy finances of its clients and wants to help address financial exclusion. For this reason we joined the UN initiative which supports banks in this pursuit. This is an elaboration of the UN Principles for Responsible Banking, which mBank adopted in October 2021. Signatories of the Declaration bound themselves to adopt targets which significantly contribute to financial health and financial inclusion. Within 18 months from signing the document they need to report on financial health and inclusion of their clients as well as progress made. mBank is the first Polish financial institution to sign the Declaration. We want our clients to have deeper and more mature knowledge of finances. This shall allow them to manage their liabilities smoothly and shape a safe financial future for themselves. At the same time we prioritise a wide and equal access to our offer for various client groups.

Third edition of Digital Revolutions with mBank

On June 24, 2022 mBank launched the third edition of Digital Revolutions. The focal point of the campaign is the website 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 400,000 in total. The aim of the contest is to help the winning companies carry out a digital revolution. The contestants are asked to present their idea of an online business and justify why it has the potential to succeed in e-commerce. Both companies with long-standing experience and newly established businesses can participate in the contest (participants have to present their turnover for the last three months). The award package includes tools necessary to thrive in e-commerce, which will help the winners set up an online store, master email marketing, tackle legal issues, reach clients, deal with logistics and online payments. The winning companies will also be offered expert knowledge during training courses organised by DIMAQ and mentor support. MasterCard is the strategic partner of the contest.

mBank continues to play with the Great Orchestra of Christmas Charity (WOŚP)

mBank, the main partner of WOŚP, prepared a special offer for the 30th Grand Finale of the Great Orchestra of Christmas Charity held on January 30, 2022. To mBank the 30th Grand Finale was exceptional, as it marked the fifth anniversary of cooperation with WOŚP. Last year's fundraising was held to ensure the best standards of diagnostics and treatment of eye diseases and disorders in children. The clients could order collectible payment cards designed by Jurek Owsiak, including fully mobile eco-cards. As always, mBank made a financial contribution to increase the donations of clients. A dedicated heart-shaped icon was added in the mobile app available on Android and iOS enabling its users to make quick donations. All those willing

to support WOŚP could also make donations at terminals in our branches and mKiosks. Also mLeasing prepared a special offer supporting the WOŚP fundraising. The subsidiary donated PLN 10 to WOŚP for every picture posted on Instagram or Facebook with a dedicated filter and the hashtag #GramyRazem2022. In addition, mBank and Paynow, an innovative payment services provider, set up an online payment gateway at mBank.pl/WOŚP enabling various forms of payments.

New features of mBank's online banking and app

In 2022 we focused on improving the functionalities of our online banking and mobile app. The most important changes made in this period include:

- **PFM (Personal Finance Manager)**: we added a finance manager to our services. This tool allows our clients to consciously manage their money and motivates and encourages them to bring their plans and dreams to life. The first version of PFM offers the transaction history analysis feature, which gives an overview of the incoming and outgoing payments and access to transaction details sorted by categories. We actively promote this service due to its educational value. We want our clients to establish a habit of using PFM regularly.

- **Quotes of foreign instruments**: clients using the brokerage service gained access to the latest quotes of foreign instruments. The quotes are updated in real time without any additional fees. The service can be accessed both in the eMakler online service and in the mBank Giełda mobile app.
- **English version**: To increase the accessibility of our services, in Q4 2022 we prepared the English version of online banking, which covers more than 50% of the website. We also unified language settings of our platforms so that when a client changes their language preferences in online banking, the language of the mobile app changes as well, and vice versa. As of now, nearly 80,000 mBank clients use the English version of our online banking and mobile app.
- **Improvements to applications**: we implemented a solution that plays a sound alert to remind clients that the active session in the application module is running out. The functionality lowers the number of unfinished applications due to logouts. Additionally, we prepared parameterised information sheets containing detailed product descriptions or special offer conditions that our clients can read when filing an application.

- **Savings retention**: To address the competitive pressure on the term deposit market, in mid-2022 we created a dynamic offer which presents the client our best deposit conditions. We built a tool using the Synerise technology, which is based on AI in data processing. The tool allows to flexibly choose the interest rate on the saving product which helps clients invest their funds profitably.
- **mBiscuit**: we implemented a new tool for collecting cookie consents. The solution can be used in all mBank services in Poland, Czechia and Slovakia. It provides accurate and transparent information about data processing, which translates into a 98% consent rate for analytics and marketing cookies in Poland. The implementation of mBiscuit allowed us to resume our online analytics and sales activities, including on TikTok and Google.

We implemented a **new NPS** in online banking: using an AI-based tool we display an NPS survey to our clients directly after they log out of online banking.

The main changes to the **mobile app** include:

- **Product market**: We began working on presenting products and services to clients directly under the lists of products already held by them. We have already implemented the solution in the first product tabs.
- **Optimised website navigation**: we modified website navigation to make sure that our clients do not feel lost even for a split second. We shortened the path to reach the key features and improved app navigation. The most important task was to ensure our clients' comfort both during the transition phase and after the change has been implemented.
- **Expanded scope of value added services**:
  - Clients can now pay the parking fee in many cities across Poland using our mobile app. We launched the solution in cooperation with SkyCash.
  - E-administration: clients can now use our mobile app to file applications for state aid, including 500+, 300+, Family Welfare Capital (RKO) and a subsidy for a child's stay in a nursery. Our clients filed 23.5% of such applications via the mobile app.

- Since December 2022, our clients have been able to go to gov.pl, IKP and ZUS websites from our mobile app. After logging in, they can check their data in the Register of ID Cards (RDO), check their vehicle history or medical records, change their primary care physician, file an application for the European Health Insurance Card (EHIC) and obtain information about their insurance policies, benefits and contributions to the Social Insurance Institution (ZUS – PUE).

- **Increased security**: The many improvements we made in this area include:
  - confirmation of identity in the mobile app during a phone call with a bank employee,
  - onboarding using an ID card with an electronic layer that can be securely read using the NFC module,
  - active communication about threats. As soon as we identify a threat, we inform our clients about it in a pop-up message on the dashboard, in a message sent to the inbox, and in a push notification,
  - security checker,
  - new pairing process, i.e. connecting the mobile app with the account, that effectively limits phishing attempts,
  - combating online and social engineering attacks, e.g. bank employee impersonation scams. The mobile app displays the first name and surname of the mBank employee contacting the client. The scammer is unable to do this in the mobile app, thus losing all credibility. We also counteract scammers spoofing mBank's phone number,
  - clients can also use CyberRescue and buy insurance for secure online payments in the mobile app. These services protect our clients from seller fraud and allow them to get their money back.

Thanks to regular changes, we increased the number and involvement of app users in 2022. Our mobile app had 2.89 million users in December 2022 (+12% YoY, 2.59 million at the end of 2021). Moreover, the app has 1.27 million average daily active users. In 2022, our clients logged in to the app more than 1 billion times. This represents 36 logins on average per month, while the most active users log in more than 75 times a month.

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.

There are currently 7 companies in the fund's portfolio:

- 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).

At the end of May 2022, Biuro Informacji Kredytowej (Credit Information Bureau, BIK) added the Digital Fingerprints brand to its portfolio. Digital Fingerprints was one of the first investments of mAccelerator. The company is a Polish start-up founded in 2017 providing cybersecurity solutions based on behavioural biometrics. It has developed a security system based on a biometric profile of customer behaviour, which includes the way a client types on the keyboard, moves a computer mouse or uses a mobile application. The algorithms used to build profiles have been developed with the use of an artificial intelligence and machine learning processes. The biometric model detects anomalies in a user's behaviour, which makes it possible to identify a fraudulent operation and warn a bank against an unauthorised transfer from an account or false credit application. This technology will allow BIK to strengthen its competences in building sectoral anti-fraud systems and services.

1.8. Awards and distinctions

Leaders of the Banking and Insurance World competition

mBank has been recognised as the most innovative bank in the Leaders of the Banking and Insurance World competition. The jury acknowledged mBank's contribution to the development of the financial market, in particular its wide range of mobile payments and other innovations, which set trends for the whole market. The main aim of the competition is to reward people who meaningfully contributed to the development of the banking and insurance sector in Poland, as well as the most efficient banks and insurance companies and the most interesting solutions.

Mobile Trend Awards

In the first quarter of 2022 mBank received three Mobile Trends Awards. The mBank Junior app won the main prize in MTA 2021 and the first place in the Banking and Finance for Children category. In addition, the mBank app was ranked second by votes of clients. The Mobile Trends Awards are granted to mobile technology projects based on the criteria of innovation, creativity, flawlessness and customer-friendliness. The competition jury consists of experts with many years of experience in the mobile industry.

e-Commerce Polska Awards 2022

mBank won the main prize in the Best Adaptation to New Digital Reality B2C category of the 2022 e-Commerce Polska Awards. The jury recognised mBank for its mobile onboarding process, which enables clients to easily open an account in the app without the need to visit a branch or call the bank's helpline. mBank was the first bank in Poland to use the e-ID and PIN in an effort to improve the security of the remote process for opening a bank account. The solution is available not only to clients in Poland, but also in the Czech Republic and Slovakia.

Best Private Bank for client acquisition, CEE

mBank was also named the Best Private Bank for Client Acquisition, CEE, in the international contest organised by Professional Wealth Management, a magazine published by the Financial Times Group. The magazine is yet another institution to appreciate mBank's remote onboarding process using the e-ID, as well as our modern model of cooperation with clients based on digital solutions. The jury decided that we are also distinguished by our care for the quality of service and the international style of investment management. The contest organised by Professional Wealth Management was open to institutions from the Central and Eastern Europe.

Best Private Bank in Poland 2022

For another year in a row, our private banking has been recognized in an international competition organized by the British *The Banker* and *Professional Wealth Management* magazine, published by the Financial Times group.

We received the award for the development of digital processes, an unconventional approach to customer service, as well as innovation in managing assets of mBank clients.

Fintek.pl readers' choice, Fintech Awards 2022 gala

mBank received the "Fintek.pl Readers' Choice" award during the second edition of Fintech Summit Poland. Readers appreciated additional functionalities of MojeID tool which is integrated with public administration services. Thanks to the new implementation, mBank clients can remotely confirm their identity in public services via a solution provided by KIR. The editors of the Fintek.pl magazine indicated five new implementations which attracted the largest number of readers in Fintek.pl since the beginning of the year. Then, readers could vote in a special form for the company/project which, in their opinion, should be awarded.

„Financing Bank of the Year", the Polish Private Equity & Venture Capital Association

mBank won its fifth award from Polish Private Equity & Venture Capital Association (PSIK) 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 and the society. The award is all the more valuable to mBank as it is given by PSIK members representing the market. This year mBank received widespread recognition from private equity funds.

World's Best Corporate Digital Bank in Poland 2022

Global Finance magazine named mBank the best digital bank in Poland in the World's Best Corporate Digital Bank in Poland 2022 contest. For the ninth time the international jury appreciated mBank's efforts to ensure customer satisfaction and offer diverse product range and top quality service. Over the last few years the international magazine has hailed mBank the best bank in Poland or even in the Central and Eastern Europe (in 2020).

The Best Annual Report

For the tenth time in a row mBank won a special prize "The Best of the Best" in the Best Annual Report contest organised by the Institute of Accountancy and Taxes (IRiP) for the best annual report in the category of financial institutions. In the recent years mBank's reports have been appreciated by market commentators, who stress their practical usefulness for shareholders and investors.

Golden Banker 2022

mBank received awards in four categories in the Golden Banker 2022 league table organised by Bankier.pl and *Puls Biznesu*. mBank won:

- 1st place in the Mortgage Loan category,
- 1st place in the Cash Loan category,
- 3rd place in the Social Media category,
- distinction in the Secure Bank – Best Practice category.

Stars of Banking

With a score of 96.7 points out of 100 mBank triumphed in the ESG category and ranked among top three in the innovation category in the Stars of Banking competition organised by Dziennik Gazeta Prawna daily and PwC Polska. This way the bank moved up to the second place in the general league table. 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 main prize is awarded based on individual categories and the jury's assessment. mBank is particularly proud of its score in the ESG category as it attaches great importance to actions supporting the environment, social responsibility and corporate governance standards.

"The Deal of the Year" at the SCI Capital Relief Trades Awards

mBank's inaugural synthetic securitization transaction "Projekt K2" received an honorable mention at the SCI Capital Relief Trades Awards gala. The K2 project is a breakthrough transaction for the credit risk transfer market in Poland. This is the largest SRT (Significant Risk Transfer) transaction completed so far in Central and Eastern Europe. The transaction was concluded in March 2022. It introduces many pioneering solutions to the Polish market, which is why we are glad that during its implementation we were able to push the boundaries of innovation in the field of securitization. This is a huge credit to the entire transaction team, which included representatives of finance, risk, corporate business and mBank's legal team. More information about the transaction can be found in chapter 1.7 "Key events and projects of mBank Group in 2022".

Diversity IN Check 2022

mBank was named on the Diversity IN Check 2022 list. The list compiled by the Responsible Business Forum covers employers that are most advanced as regards inclusion and diversity management in Poland. This year mBank adopted the Diversity and Inclusion Policy at mBank S.A. The policy not only sums up mBank's activities so far, but it is also an important part of the strategy for upcoming years and it is connected with ESG goals regarding social responsibility. mBank believes that through diversity and inclusion, it contributes to its own social responsibility. As a signatory of the Diversity Charter we want to build a corporate culture where everybody feels good and unrestrained.

The main prize of the Diversity Charter

mBank won the Diversity Charter in the DEI (diversity, equity, inclusion) category in business, in the employee volunteering subcategory. mBank's initiative "mBank helps victims of war in Ukraine" was awarded. The jury appreciated mBank's responsiveness to grassroots initiatives of volunteers and the use of the brand's power to strengthen activities for those in need. Another distinguishing activity of mBank was the development of the support programme from ad hoc measures to systemic support in accordance with the identified needs.

The Diversity Charter Award recognizes employers who support DEI area. The competition is organized by the Diversity Chart organization supported by the Responsible Business Forum.

CSR Leaves

In the CSR Leaves competition, Polityka weekly, Deloitte and the Responsible Business Forum granted mBank a Silver Leaf and a special prize for best practises as regards support for Ukraine. This year, mBank's efforts relating to ESG were rated higher than in 2021. Special thanks should be given to our clients and employees, who have helped Ukrainian refugees with dedication. Together we managed to collect over PLN 10 million on behalf of PCPM – the Polish Centre for International Aid, provide shelter for over 60 people

and room for an Ukrainian school "Materynka" and PCPM's centre of education and creativity for children from Ukraine.

Climate Awareness Survey 2022

mBank's commitment to the fight against global warming was recognised by the organisers of the Climate Awareness Survey 2022. mBank ranked 9th out of 152 Warsaw Stock Exchange listed companies included in the survey. The experts took into account 10 different categories. mBank received 8.09 points out of 10 possible. Therefore, mBank found itself among the Climate Conscious Companies. The survey was organised by the Fundacja Standardów Raportowania (Reporting Standards Foundation), the Polish Association of Listed Companies and Bureau Veritas Poland.

mBank's press office hailed the best among Polish banks

Based on the assessment conducted by financial journalists from top Polish media outlets, ARC Rynek i Opinia recognised mBank's press office as the best one in the Polish banking sector. They recognised our press office's quick and active responses, high awareness of the specificity of journalists' work, relationship building skills and an interesting method of presenting topics.

Polish Contact Centre Awards

mBank's Contact Centre was distinguished in the Polish Contact Centre Awards again. mBank received as many as six awards. Contact centres from many industries (finance, e-commerce, energy, central government and other) take part in the competition. mBank won main prizes in the Best Contact Centre Consultants Team and Best CC Employer categories. Moreover, mBank was distinguished in the following categories: Live Chat Support, Best Contact Centre Support Team, Internal Advancement in the Organisation, WOW Effect During a Conversation.

GPW Benchmark Award for mBank Hipoteczny

mBank Hipoteczny received an award from GPW Benchmark. The subsidiary was recognized for the promotion of indices and benchmarks in development of the covered bond market and modern forms of real property financing in 2021. The award was granted during the annual Stock Exchange Summary gala, which honours leading capital market companies. The WSE representatives distinguished the best performing institutions which distinctly contributed to the development of the Polish capital market in 2021.

mBank's Brokerage Bureau awarded by market commentators

In 2021, mBank's Brokerage Bureau gained 60,000 new clients. Now, the highest quality of our products has been confirmed by market commentators. In February 2022, mBank's eMakler account was ranked first in the 10th league table featuring the best brokerage services compiled by *Puls Biznesu*. In April, mBank's Brokerage Bureau was distinguished by the Warsaw Stock Exchange as the capital market leader in the category of trading on New Connect in 2021.

Employer Branding Excellence Awards

The jury recognised mBank's actions in terms of recruitment with four distinctions during an EB Summit organised by HRM Institute for our online campaigns, image film for the project related to IT in banking industry and a career page for IT specialists.

Trustworthy Brand

mBank has been awarded the Trustworthy Brand by My Company Polska in two categories: Bank Offering Company Accounts and Bank Offering Corporate Loans. Thus, mBank received a distinction for the sixth time. The award is based on questionnaires submitted by Polish entrepreneurs and reflects their trust and appreciation for mBank as a business partner.

Golden Clip in „employer branding" category

The mBank campaign "MIT czy HIT?" ("Myth or Hit") was awarded first place during the 20th Golden Clips 2022 gala. The protagonists of the campaign are mBank employees from the IT area. In the campaign they present their everyday work. The organiser of the gala is the Polish Public Relations Consultancies Association. More information on the campaign can be found at: www.itwmbanku.pl.

Effie Awards 2022 Gala

At the Effie Awards gala, mBank received a bronze statuette in the Young Audience category. The organisers of the gala awarded mBank for its campaign for young "mBank i możesz" ("mBank and you can"). The "ogarniam" ("got it") campaign as part of the "imożesz" platform was based on showing a product in a context relevant to young people, as a very useful tool. The campaign resulted in an increase in sales of personal accounts compared to the previous year, as well as increases in the most important company's

image indicators from the bank's perspective. As a result, mBank significantly increased its competitive advantage.

AD WO/MAN 2021

Rafał Jakubowski, marketing director at mBank, was awarded in the 10th AD WO/MAN 2021 contest in the Ad Marketer of the Year category. Rafał has been working as marketing director at mBank since November 2014 and has more than 20 years of experience in company and brand marketing management. The AD WO/MAN of the Year title is awarded for accomplishments in the industry, innovative approach, creativity and promotion of the highest standards. The contest is organised by Press magazine, and the winner is selected in a vote by advertising, media and PR agencies, interactive companies, production, post-production and sound studios.

Ranking Universum 2022

The Universum Ranking is the largest and most prestigious survey of students' professional preferences worldwide. Among the companies in Poland, mBank was ranked 7th in the business category for the second time in a row and advanced from 13th to 11th place in the IT category. Approximately 15,000 students in Poland complete the survey about their dream employer every year.

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

2. mBank Group's environment

2.1. Macroeconomic environment

Economy and the banking sector in Poland

Key macroeconomic indicators	2022	Banking sector parameters	2022
Real GDP growth rate	4.9%	Base interest rate	6.75%
Nominal GDP per capita (EUR)	15,060[1]	Loan to Deposit ratio	75.6%[2]
GDP per capita in PPS (EU-27=100)	77%[1]	NPL ratio	5.4%[2]
Average annual inflation rate	14.3%	Total Capital Ratio (TCR)	18.2%[3]
Average annual unemployment rate	5.4%	Net Return on Assets (ROA)	0.47%[2]
Population	37.8 mln	Net Return on Equity (ROE)	6.4%[2]

Source: Statistics Poland (GUS), Eurostat, Polish Financial Supervision Authority.
[1] Data as at the end of 2021
[2] Data as at December 2022 (as released on February 14, 2023)
[3] Data as at September 30, 2022

Summary of developments

According to preliminary data from the Statistics Poland, the Polish economy grew by 4.9% last year. Compared to the previous year (6.8%), both the growth rate and its structure deteriorated. Consumption was mainly responsible for the slowdown. At the same time, the largest contribution to growth came from inventories. This is the result of their substantial accumulation during the post-pandemic recovery. So far, the pace of their reduction has been rather slow. Nevertheless, in an environment of high interest rates, their further reduction is likely (cost of working capital). However, it seems reasonable to assume that the average annual level of inventories may be higher than before the pandemic, as a precautionary measure. The Polish economy has also shown resilience in recent quarters. Indeed, the slowdown in domestic demand has been largely offset by higher export activity. Moreover, the state of play in the labour market should prevent unemployment from rising significantly during the second half of the year, despite the slowdown of growth momentum.

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

Source: Own calculations based on Macrobond.

Solid growth momentum came along with high inflation, which averaged at 14.3% for the year. Although energy and food prices were largely responsible for this (the effect of the war shock), core inflation also accelerated. Its average annual increase was 9.1%. The momentum in core prices was supported by the good position of consumers (the labour market), who were able to absorb price increases.

Decomposition of CPI inflation

Source: Own calculations based on GUS.

2022 brought a very aggressive tightening of monetary policy. The Monetary Policy Council (MPC) raised interest rates from 1.75% at the end of 2021 to 6.75% in September 2022. At the end of 2021, the MPC raised the reserve requirement rate to 2%, and then to 3.5% in the spring of 2022. As a result, the rate returned to its pre-pandemic level. The move helped reduce excess liquidity in the banking sector. Excess liquidity, however, remained very high, exceeding PLN 300 billion at the end of 2022. High and rising inflation and the resulting uncertainty about the interest rate target increased volatility in the government bond market. Bond yields rose significantly, partly due to the outbreak of the war in Ukraine (higher credit risk). Such a picture did not favour the zloty which weakened. The deadlock between Warsaw and Brussels regarding the Recovery Fund also was not supportive of the zloty.

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.

As a consequence of a sharp increase of interest rates, there was a significant shift from current to term deposits last year. Current deposits decreased by more than PLN 150 billion during the year. Pre-payments of mortgage loan instalments played a role as well. These pre-payments also accelerated as a result of the introduction of the so-called credit holidays. At the same time, demand for mortgages collapsed, driven not only by high costs but also by the FSA's implementation of a new regulation, significantly reducing creditworthiness. Both factors led to an unprecedented decline in the volume of PLN mortgage loans.

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	2022	Banking sector indicators	2022
Real GDP growth rate (forecast)	2.5%	Base interest rate	7.00%
Nominal GDP per capita (EUR)	22,270[1]	Loan to Deposit ratio	69.5%
GDP per capita in PPS (EU-27=100)	91.6%[1]	NPL ratio	2.0%
Average annual inflation rate	15.1%	Total Capital Ratio (TCR)	21.8%[2]
Average annual unemployment rate	2.4%	Return on Assets (ROA)	1.2%[2]
Population	10.5 mln	Return on Equity (ROE)	15.9%[2]

Source: Eurostat, Česká národní banka (CNB), Český statistický úřad.

[1] Data as of end of 2021
[2] Cumulative data for 9 months (as at September 30, 2022)

GDP, inflation, interest rates and FX rates

Czech GDP index is still at levels close to those recorded before the pandemic (Q4 2019). It has not yet fully returned to its pre-pandemic trend. After a good 2021, in which Czech growth was observed to be recovering (and even to be overheating), 2022 brought weaker growth (CNB estimates it at 2.5% y/y) which resulted from weaker external demand, problems in supply chains at the beginning of the year, the impact of interest rate hikes on domestic demand, declining consumer purchasing power (as a consequence of high inflation) and high global uncertainty (related to the war in Ukraine). As a result, according to CNB estimates, household consumption fell by 0.3% y/y in 2022 (in constant prices), while investment recorded an increase of 6.8% y/y.

In 2022 inflation was accelerating, but inflationary pressures began to fade in Q4 2022. The largest contribution came from core inflation. While food prices and administered prices also contributed significantly, the impact of fuel prices was lesser. The decline in inflation in the fourth quarter was associated with a decline in global inflationary pressures and administrative actions (changes in tariffs on energy prices). According to CNB forecasts, the beginning of 2023 should bring an increase in inflation, led mainly by administrated prices, and then a gradual decline. The CNB forecast indicates a return of inflation to target in the second half of 2024.

In the first half of 2022, the Czech central bank continued the process of raising interest rates. It ended in June 2022 - since then rates have remained unchanged. CNB forecasts suggest interest rate cuts starting in Q2 2023, but statement after the February meeting provides information that, the CNB Executive Board favours keeping key interest rates unchanged for longer (than the forecast indicates).

The Czech koruna remained relatively stable against the euro throughout 2022, strengthening slightly at the end of the year. The stability of the exchange rate was supported by interest rate hikes and CNB actions in the foreign exchange market.

Banking sector

The Czech financial sector in 2022 returned to its favourable development observed in years preceding the outbreak of Covid-19 pandemic. After almost two years of lower profitability, when local banks massively increased the provisions for expected credit losses and suffered from the reduction of monetary policy rates, their return on equity (ROE) improved significantly and again exceeded 15%. The growth of earnings was mainly driven by supportive operating environment. Interest rate hikes, initiated by the Czech National Bank already in June 2021 and concluded in mid-2022, were the key contributor to record-high revenues. Customer activity rebounding after lockdowns translated into positive dynamics of net fee and commission income. Good cost discipline allowed for keeping the rise of operating expenses below the inflation pace, while loan impairment losses continued at low level from 2021.

Despite the geopolitical uncertainties and slowing economy, asset quality remained very resilient in the Czech Republic as demonstrated by a decrease of NPL ratio to 2.0% at the end of 2022 from 2.4% 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 69.5%. Czech banks have also been very well-capitalized, despite a resumption of dividend payouts related to the end of profit distribution restrictions. In response to the pandemic, the ČNB lowered the countercyclical capital buffer (CCyB) to 0.5% in H1 2020 and kept it at this level until mid-2022. Following an assessment of financial cycle indicators, banking sector vulnerability and other factors, the central bank's board decided to gradually increase the CCyB rate to 1.0% with an effect from July 2022, 1.5% from October 2022 and 2.0% starting from 2023, while from April 2023 the rate of 2.5% will be applied.

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

The dynamics of total loans to households amounted to a stable 6% throughout the entire 2020. With the volumes of new and refinanced housing loans reaching consecutive monthly records in 2021, the growth of total retail exposure went up markedly to above 10% in Q1 2022. Then, credit activity slowed down substantially due to the reflection of high market rates in pricing and declining demand. The portfolio of non-mortgage loans was rising steadily at the annual pace oscillating within the range of 4-6% in 2022. Based on an assessment of the risks associated with the provision of consumer loans secured by residential property and the real estate market, the ČNB Board decided to leave the upper limits on the LTV (loan-to-value), DTI (debt-to-income) and DSTI (debt service-to-income) ratios at the levels applicable since April 2022 (i.e. the standard thresholds for LTV up to 80%, DTI at 8.5 times net annual income and DSTI at 45% of net monthly income). 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 1.3% in December 2022, compared to 1.5% at the end of 2021. Starting from March 2020, along with precautionary accumulation of money and reduced consumption, growth of retail deposits accelerated significantly up to 13% in Q1 2021. Rising expenditures, driven by reopening of the economy and inflation, caused it to slow down visibly. Due to interest rate hikes, the maturity structure was evolving, with demand deposits falling at single-digit rate and term deposits rising considerably in H2 2022. These trends resulted in the dynamics of total customer funds at 4% at the end of the year.

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

Having passed the contraction phase in H1 2021, corporate loans in the Czech Republic started rebounding and reached the growth pace of around 10% in Q3 2022. As regards sectors, wholesale and retail trade as well as property developers recorded the highest dynamics. Due to a difference in interest rate levels, the currency mix of new financing for enterprises has changed, with falling lending in koruna and rising fraction of loans granted in euro. 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%, which went further down to 3.4% in 2022. 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% in H2 2021. The dynamics of corporate deposits were volatile in 2022, slowing to below 5% in December.

Economy and the banking sector in Slovakia

Key macroeconomic parameters	2022	Banking sector indicators	2022
Real GDP growth rate (forecast)	1.5%	Base interest rate	2.50%
Nominal GDP per capita (EUR)	18,110[1]	Loan to Deposit ratio	108.5%
GDP per capita in PPS (EU-27=100)	69.4%[1]	NPL ratio	1.6%
Average annual inflation rate	12.8%	Total Capital Ratio (TCR)	19.2%[2]
Average annual unemployment rate	6.4%	Return on Assets (ROA)	0.5%[2]
Population	5.4 mln	Return on Equity (ROE)	6.7%[2]

Source: Eurostat, Národná banka Slovenska (NBS).

[1] Data as of end of 2021
[2] Cumulative data for 9 months (as at September 30, 2022)

GDP, inflation and interest rates

GDP index remains close to what was observed before the pandemic. It is below the pre-pandemic trend. Annual GDP growth is estimated at around 1.5% y/y according to the Slovak central bank forecast. Both consumption and investment recorded growth around 4.5% y/y. Net exports and government consumption contributed negatively. The beginning of 2023 may bring a slight slowdown, but the estimated growth rate for all of 2023 remains close to that for 2022 (1.6% y/y according to Slovak central bank). Stronger declines should be counteracted by government action on energy prices. The main source of the slowdown will be household consumption impacted by negative real wages.

As in the eurozone as a whole, 2022 was a year of accelerating inflation. Food prices were responsible for approximately half of the increase in inflation. As indicated in the Slovak central bank's report, this was due to high energy prices, high food prices on the European market and rising costs for domestic producers. High energy prices also translated into prices in other areas (increased producer prices, increased prices in wholesale and retail trade). Moreover, tight labour market still had a pro-inflationary effect.

According to the Slovak central bank's forecasts, inflation will remain elevated in 2023 (estimated average annual HICP of 10% y/y), driven by persistently high food prices, core inflation and energy prices.

Eurozone interest rate hikes will have an anti-inflationary effect. The ECB has begun the process of monetary tightening and is continuing it in early 2023.

Banking sector

In the years prior to 2022, the profitability of Slovak banks remained weaker than in many countries of the CEE region. The protracted period of ultra-low interest rates put pressure on their business model and resulted in experiencing long-lasting gradual compression of net interest margin. The second most prominent factor reducing the earnings was the bank levy, originally introduced in 2012. The government agreed for its abolition effective from July 2020 in order to boost financing of the recovering economy. The environment of rising interest rates has been easing pressure on banks' income. Lending rates in 2022 started climbing relatively quickly, while deposit offering was kept low. On the other hand, steeper yield curves and higher risk premia were increasing the cost of long-term funding, what was clearly illustrated by the situation in the covered bond market. Growth of total revenues, supported also by higher net fees and commissions, was partially absorbed by rising loan loss provisions and a moderate expansion of administrative expenses, lowering the positive dynamics of net profit.

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 1.6% at the end of 2022 and dropping from 1.7% a year earlier. The overall loan-to-deposit ratio continued to be above 100% in 2022. Although the sector's total capital ratio decreased slightly due to a growth in risk-weighted exposures, the buffers are sufficient and banks remain well poised to absorb potential losses if necessary. In June 2022, Národná banka Slovenska decided to increase the countercyclical capital buffer (CCyB) rate from 1.0% to 1.5% with effect from the beginning of August 2023, aimed at strengthening the banking sector's resilience. In addition, the central bank partially adjusted the regulatory limit on the debt-to-income (DTI) for loans extending into retirement (concerning contracts maturing after the borrower reaches 65), with the new rules taking effect from January 2023.

Slovakia: Household Loans and Deposits (YoY dynamics)

After being on a decelerating path over recent years, total loans to households broke the trend in March 2021. The annual growth rate was increasing until mid-2022, when it exceeded 11%. Then, along with interest rate hikes, it started weakening to 10% at the end of the year. The portfolio expansion was predominantly driven by mortgage loans. In H1 2022, many households accelerated their decision to apply for a financing for the purchase of flat or house or for an early resetting of the rate fixation period for an older loan. Anticipating a rise of lending rates, borrowers more frequently chose contracts with longer tenors. Of the new mortgage loans granted during the spring, one in three had a fixation period of more than five years, while in the past it accounted for only 7% on average. In contrast, consumer credit stopped shrinking in H2 2022 and reached the highest dynamics from the outbreak of Covid-19 pandemic, supported partly by inflation. The share of non-performing loans in the total volume of loans to households declined during 2022 to 1.8% from 2.0% at the end of 2021. Growth of retail deposits in Slovakia dropped from 10% observed in Q2 2021 to even a small contraction of customer funds recorded at the end of 2022. This notable slowdown stemmed mainly from a decrease in savings (partly accumulated during the pandemic), rising inflation, and the impact of increasing expenditures (including living costs).

Slovakia: Corporate Loans and Deposits (YoY dynamics)

Development of corporate credit volume remained subdued in 2021. It rebounded considerably during H1 2022 and continued above 10% for the remaining part of the year. This strong growth was driven mainly by the lending to the commercial real estate sector (reflecting the impact of rising prices of construction work and materials) and by short-term financing (with the highest dynamics recorded in the trade and industry sectors as well as temporarily in the energy sector). After experiencing a slow downward trend for several years, interest rates on the stock of corporate loans surged, as almost 60% of them have been provided at variable rates, mostly linked to the EURIBOR, while residual maturities for fixed-rate loans have also been relatively short. Higher costs of servicing debt have not affected the portfolio quality so far. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 2.4% at the end of 2022 from 2.8% in 2021. The annual growth of corporate deposits accelerated from close-to-zero level in December 2021 to above 15% in Q4 2022 owed to cash inflows.

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 2022 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.

Act of July 7, 2022 on Crowdfunding of Business Undertakings and Support for Borrowers

The new act enables a consumer to request suspension of the performance of their PLN mortgage loan agreement. The group of eligible borrowers includes individuals who took out one mortgage loan in PLN to meet their own housing needs, regardless of their financial standing. The credit vacations can last up to four months in both 2022 and 2023. During this period no interest or fees other than insurance-related fees connected with the agreement will be charged.

Moreover, the act amends the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System by introducing a definition of the "key benchmark" and authorising the PFSA to present to the Financial Stability Committee its stance on the need to determine a replacement for the key benchmark. Upon familiarising itself with the PFSA's stance, the Committee issues a recommendation on the need to determine a replacement or presents a stance on its refusal to issue the recommendation. A replacement or replacements for the key benchmark and other major adjustments are set out in a regulation of the minister competent for financial institutions.

The act also provides for higher contributions to the Borrowers Support Fund (Fundusz Wsparcia Kredytobiorców, FWK). The Fund was set up is 2015. Its operation is governed by the Act on Assistance to Home Loan Borrowers in a Difficult Financial Situation. The Fund, which is financed from banks' contributions, supports mortgage borrowers facing financial difficulties. The Act on Crowdfunding of

Business Undertakings and Support for Borrowers obliges the banking sector to contribute an additional PLN 1.4 billion to the Borrower Support Fund in 2022.

Institutional Protection Scheme (IPS)

On April 22, 2022, the Act on Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts was announced. The law, allowing commercial banks to set up institutional protection schemes (IPS), was subsequently amended by the Act of August 5, 2022 on Coal Allowance. The provisions of the act governing IPS entered into force on May 7, 2022.

The purpose of IPS is to support the liquidity and solvency of the scheme members as well as the restructuring and acquisition of other banks. Banks can join the schemes voluntarily. The amendments to the Act on Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts also provide for suspending the obligation to make contributions to the Deposit Guarantee Scheme due for 2022 until October 31, 2022. The contributions to the Deposit Guarantee Scheme due for Q2 and Q3 2022 were calculated and paid in Q4 2022.

On June 7, 2022, eight largest banks, i.e. mBank S.A., Alior Bank S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., Millennium Bank S.A., Bank Polska Kasa Opieki S.A., PKO Bank Polski S.A. and Santander Bank Polska S.A., started the process of setting up an institutional protection scheme. Following the approval of the scheme agreement by the PFSA, the banks established a joint-stock company that manages the system (Commercial Banks Protection System, SOBK). In total the banks contributed PLN 3.47 billion to the system, which accounts for 0.438% of guaranteed deposits.

On September 30, 2022, the Bank Guarantee Fund (BFG) decided to initiate the resolution of Getin Noble Bank S.A., and SOBK supported this process with the funds collected.

Act of August 5, 2022 on Coal Allowance

In addition to introducing a coal allowance for households, the act amends the Banking Law Act and the Bank Guarantee Fund Act. The key amendments to the regulations on banks improve the resolution mechanism. This includes extending the circumstances in which the Commercial Banks Protection System referred to in the section "Institutional Protection Scheme (IPS)" can provide support. Another change pertains to the entity entitled to apply for support. Under the new act also the Bank Guarantee Fund (BFG) can apply for support, not only the entity interested in acquiring a bank under resolution as has been the case so far. This made it possible to set up a bridge bank in the resolution process of Getin Noble Bank S.A. Also the rules whereby the PFSA issues permissions for conducting a banking business for entities taking over banks under resolution were changed. The process of granting a banking licence, which is a legal prerequisite for a financial institution that wants to carry on a banking business, has been designed so as not to interfere with the resolution process. The amendments enable the application of a range of various tools provided for in Directive 2014/59/EU establishing a framework for the recovery and resolution and in the Bank Guarantee Fund Act.

Act on Guaranteed Housing Loan

Under the new act individuals who have a good credit score and can afford to repay a mortgage loan but do not have savings to make a downpayment will be able to take out a mortgage loan to build a house or buy a flat. The loan will be granted in PLN for a minimum of 15 years. The new law provides for an option to partially cover a mortgage loan taken out to buy a flat with a guarantee. The part covered by the guarantee cannot be lower than 10% and higher than 20% of the expenditures (real estate value) financed from the loan. The guarantee, which will be provided by Bank Gospodarstwa Krajowego, replaces the requirement for a downpayment. The act entered into force on May 26, 2022.

Regulation of the Minister of Finance on the Provision of Contributions to the Bank Guarantee Fund by Banks, Branches of Foreign Banks, Investment Firms, Cooperative Savings and Credit Unions, and the National Cooperative Savings and Credit Union (SKOK), in the Form of Commitments to Pay

The regulation, effective since March 12, 2022, sets out additional conditions that must be met by agreements between entities making contributions in the form of commitments to pay and the National Bank of Poland (NBP), the Central Securities Depository of Poland (KDPW) or a company to which KDPW entrusted the performance of certain activities connected with trading in financial instruments. The new conditions include provisions on placing an irrecoverable block in favour of BFG on assets pledged as collateral for such commitments to pay and funds from their redemption until the purchase of new assets. In addition, the regulation sets the minimum ratio of the value of assets in which the funds securing the commitments to pay are invested to the value of the commitments, and caps on the share of individual assets in the total amount of the commitments to pay. Banks and other entities referred to in the regulation are obliged to inform the Fund about these amounts and assets in the manner and scope defined in the regulation and to valuate the assets pledged as collateral for the commitments to pay in the manner specified in the regulation.

Regulation of the Minister of Finance Amending the Regulation on Higher Risk Weight for Exposures Secured by Mortgage on Real Property

The regulation entered into force on March 29, 2022. It sets new risk weights for exposures backed by mortgage on residential property, applicable until September 30, 2023. The regulation applies to agreements that meet several conditions. These include agreements where the amount of the principal or interest instalment depends on changes in a foreign currency exchange rate. A bank must inform clients that it will join proceedings before a court of arbitration in order to present to debtors an offer to change the terms and conditions of their loan agreements so as to make the loan instalment amounts independent of changes in a foreign currency exchange rate. If a bank created total provisions, impairment losses on receivables and gross carrying amount adjustments for changes in the estimated cash flows from these credit exposures that cover the expected losses resulting from these exposures at least at the level of:

- 35% of gross exposures before adjustments – a risk weight of 50% is assigned, except for an exposure or any part of an exposure that exceeds the mortgage value of the residential real property, which is assigned a risk weight of 75%;
- 28% of gross exposures before adjustments – a risk weight of 75% is assigned;
- 20% of gross exposures before adjustments – a risk weight of 100% is assigned.

New Recommendation A on Managing Risk of Derivatives Trading at Banks

In October 2022, the PFSA adopted new Recommendation A that will supersede the previous version issued in 2010. Recommendation A comprises 14 recommendations. It aims at aligning the best practices contained in the recommendation with the currently applicable laws. The practices pertain to:

- duties and responsibility of the management board and the supervisory board
- identification and assessment of risk
- monitoring, internal control system, inspecting and reporting on risk in the area covered by the recommendation.

When drafting the recommendation, the PFSA took a proportionality-based approach. This means that solutions are tailored to the specificities and operational profiles of individual banks and their risk exposure. The entities bound by the recommendation must ensure full compliance with its provisions by the end of 2023.

Regulations obliging financial service providers to incorporate ESG factors in their activities

The amendments to delegated acts to MIFID II arising from the strategy on ESG for financial services entered into force in H2 2022. Most of all they address the need to integrate sustainability factors into product governance and assessment of the appropriateness of offered or recommended financial instruments.

The first amendment obliges providers of investment advice or portfolio management services to identify clients' individual sustainability preferences and include them in the appropriateness assessment, and to have in place adequate policies and procedures to ensure that they understand any sustainability factors of financial services and instruments selected for the clients. The amendment entered into force on August 2, 2022 under Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

The second amendment entered into force on November 22, 2022 under Regulation of the Minister of Finance dated August 11, 2022 on Amending the Regulation on the Procedure and Conditions of Conduct of Investment Firms, Banks Referred to in Article 70 (2) of the Act on Trading in Financial Instruments, and Custodian Banks. It resulted from the implementation of Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations. The directive obliges investment firms to integrate ESG factors into their product governance processes.

Moreover, Article 56 (9) (a) of the aforesaid Act of July 7, 2022 on Crowdfunding of Business Undertakings and Support for Borrowers amended the wording of Article 83b (10) of the Act of July 29, 2005 on Trading in Financial Instruments by redefining the target group of buyers of financial instruments. The new wording lists the sustainable development goals as the potential goals of buyers. The principle of sustainable development is enshrined in the constitution and reflected in a number of statutory legal acts, in particular in environmental protection laws. At the same time, it is an EGS pillar adopted by the EU legislator.

On December 16, 2022, the Corporate Sustainability Reporting Directive (CSRD) was published**.** The CSRD requires all large companies and listed small and medium-sized enterprises to report on sustainability issues such as environmental and social issues, human rights and governance factors. The directive will be implemented by member states and is of key importance for incorporating ESG into the corporate sector.

The aforesaid regulations force in-scope companies to adjust their internal procedures, rules, documentation and IT systems.

Act of August 5, 2022 on Amending the Act on Mortgage Loans and Supervision of Mortgage Brokers and Agents and the Act on Amending the Personal Income Tax Act, the Corporate Income Tax Act and Certain Other Acts

The act, effective since September 17, 2022, governs the so-called "bridge margin" charged from mortgage borrowers awaiting an entry in the land and mortgage register. In accordance with the act, the bank is entitled to impose an extra charge on a mortgage borrower by the time mortgage is entered in the land and mortgage register. This extra charge, however, is returned to the consumer or counted towards mortgage loan repayment after the mortgage established as loan collateral is entered in the land and mortgage register.

Act of April 7, 2022 on Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts

The amended rules on covered bonds entered into force on July 8, 2022. They result from the implementation of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU into Polish law. The aim is to unify the rules of functioning of the covered bond market in member states. The changes are expected to make covered bonds more attractive to investors as well as to banks, which can use covered bonds to raise long-term capital.

The act, among others, defines covered bonds as instruments with dual recourse, which includes recourse against the issuer and the cover pool used to secure covered bonds (segregated as separate insolvency estate in the case of bankruptcy). Compared to the previous regime, the scope of eligible cover assets has been expanded. Issuers are allowed to extend the maturity of covered bonds only in the case of bankruptcy. Banks issuing covered bonds must have procedures in place to monitor that the real estate used as collateral is adequately insured against the risk of damage. The insurance coverage should continue throughout the period in which such real estate is entered in the register of collateral for covered bonds. Based on the new regulations, the PFSA will monitor the covered bonds programmes and cyclically reassess the conditions under which a permission to issue covered bonds was granted.

Act of October 6, 2022 on Amending Acts to Combat Usury

The act significantly reduces the limits on non-interest costs of consumer credit. The non-interest costs independent of the lending period were reduced from 25% to 10% of the total loan amount. The non-interest costs dependent on the lending period were reduced from 30% to 10% of the total loan amount. A separate cap on non-interest credit costs was set for loans with a repayment period of less than 30 days – at a maximum of 5% of the total loan amount.

Moreover, the limit on non-interest costs of consumer credit in the entire lending period was significantly reduced from 100% to 45% of the total loan amount. The new limits on non-interest costs of consumer credit entered into force on December 18, 2022; however, they do not apply to agreements signed before this date.

Court rulings connected with CHF mortgage and housing loans granted to individuals

The key information about regulations and court rulings connected with mortgage and housing loans granted in CHF to individuals is provided in Note 34 to the mBank S.A. Group Consolidated Financial Statements 2022.

2.3. mBank Group's market position of segments

Performance indicators[1]: mBank vs sector

Net interest margin 3.7% vs 2.8%
Cost-to-income ratio 48.9% vs 53.3% (including banking tax)
Return on Assets -0.34% vs 0.47%
Return on Equity -5.3% vs 6.4%
Loans to deposits 69.0% vs 75.6%

Business category *(# - market position)*	**Market share**				
	2018	**2019**	**2020**	**2021**	**2022**
Corporate Banking					
Corporate loans	7.9%	8.6%	8.5%	8.2%	**8.1%**
Corporate deposits	9.0%	9.9%	9.4%	10.7%	**10.8%**
Leasing	7.4%	6.8%	7.6%	7.4%	**6.8%**
Factoring *(**#5** on the market)*	7.9%	7.9%	8.2%	8.2%	**7.8%**
Retail Banking in Poland					
Total loans	6.5%	7.0%	7.4%	7.9%	**8.3%**
of which mortgage loans	6.9%	7.4%	7.9%	8.4%	**8.8%**
Non-mortgage loans	5.8%	6.5%	6.6%	7.1%	**7.2%**
Deposits	6.4%	7.0%	7.8%	8.3%	**8.8%**
Retail Banking in the Czech Republic					
Total loans	1.4%	1.3%	1.6%	1.8%	**1.7%**
of which mortgage loans	1.6%	1.4%	1.7%	1.9%	**1.7%**
Non-mortgage loans	0.9%	1.0%	1.2%	1.4%	**1.7%**
Deposits	1.7%	1.6%	1.8%	1.8%	**1.8%**
Retail Banking in Slovakia					
Total loans	0.6%	0.7%	1.0%	1.4%	**1.3%**
of which mortgage loans	0.6%	0.7%	1.1%	1.3%	**1.1%**
Non-mortgage loans	0.7%	0.8%	1.0%	1.6%	**2.1%**
Deposits	1.8%	1.9%	2.1%	2.2%	**2.3%**
Investment Banking					
Financial markets					
Treasury bills and bonds	14.3%	11.3%	10.6%	11.0%	**9.6%**
IRS/FRA	10.7%	14.3%	20.7%	19.9%	**14.3%**
Brokerage					
Equities trading *(**#11** on the market)*	4.1%	3.4%	5.3%	5.0%	**4.0%**
Futures *(**#1** on the market)*	15.6%	13.0%	17.6%	27.7%	**18.6%**
Options *(**#10** on the market)*	12.0%	9.4%	4.4%	3.1%	**1.7%**

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.
[1] mBank Group ratios calculated as defined in chapter 4. "Financial position of mBank Group and mBank in 2022", except for Net Interest Margin which was adjusted to sector calculation (net interest income divided by average total assets). Below presented are definitions for the sector data.
Sector data as at December 31, 2022 (released on February 14, 2023). 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.

2.4. Outlook for the banking sector and mBank for 2023

What will 2023 be like for the Polish economy?

Key macroeconomic parameters	2021	2022	2023P
GDP growth (YoY)	6.8%	4.9%	0.4%
Domestic demand (YoY)	8.4%	5.5%	-1.2%
Private consumption (YoY)	6.3%	3.0%	0.6%
Investment (YoY)	2.1%	4.6%	0.7%
Inflation (EOP)	8.6%	16.6%	9.4%
NBP reference rate (EOP)	1.75%	6.75%	6.75%
CHF/PLN (EOP)	4.42	4.73	4.46
EUR/PLN (EOP)	4.59	4.69	4.52

Source: mBank's estimates as at February 3, 2023. YoY – year on year, EOP – end of period.

The economic outlook for the new year is not very optimistic. Economic growth is expected to slow significantly to around 0.4%. Domestic demand will be primarily responsible for this, with both private consumption and investment likely to noticeably reduce growth momentum. Consumption will be weighed down by negative real wage growth, which is likely to persist in the first half of the year. Meanwhile, the pace of investment growth will be held back by the high borrowing cost and uncertainty about the war in Ukraine. Growth should be supported by exports, which remain competitive despite the significant rise in energy prices and labour costs in Poland. As a result, a positive contribution from foreign trade is expected. The path of inflation looks relatively optimistic, at least in terms of direction. After a likely increase at the beginning of the year, inflation is expected to fall relatively quickly. However, it will remain elevated even at the end of the year. An additional risk factor appears to be the robust labour market and high nominal wage growth. In such an environment, there is room for interest rate cuts. As a result of the expected broad-based weakening of the US dollar, the zloty should also appreciate slightly.

Banking sector and monetary aggregates

Banking sector - monetary aggregates	2021	2022	2023P
Corporate loans	3.9%	11.6%	2.2%
Mortgage loans	7.1%	-2.6%	-2.7%
Non-mortgage loans	1.1%	-4.8%	-4.6%
Corporate deposits	10.4%	10.1%	-1.4%
Household deposits	6.7%	2.1%	3.6%

Source: mBank's estimates as at February 3, 2023.

In 2023, lending to households will be constrained by both the demand side (high interest rates, reduced creditworthiness due to a change of FSA regulations) and the supply side. The latter includes a depletion of capital in the banking sector, fuelled by rising bond yields and the credit holidays. Weak investment prospects should also dampen credit growth to the corporate sector. The normalization of margins and strong nominal wage growth should act towards a decline of corporate deposits and an increase of household deposits.

Outlook for mBank

Net interest income & NIM	**(slightly negative)[1]**	▼

- With significantly increased rates translating into rising deposit costs, potential for further margin improvement exhausted
- Decelerating loan volumes may impact dynamics of interest income

Net Fee & Commission income	**(neutral)**	■

- Uptrend in customer base and transactionality may be offset by slowing economy and weaker demand for banking products
- Relevant adjustments to tariff of fees already implemented

Total costs	**(slightly negative)**	▼

- Visible wage and inflationary pressure weights on operating costs
- Rising amortisation driven by investments in future growth
- Reduced contributions to the Deposit Guarantee Scheme

Loan Loss Provisions & FV change	**(slightly negative)**	▼

- Financial standing of borrowers may be affected by the changing macroeconomic environment and geopolitical developments
- The overall asset quality should not deteriorate materially thanks to prudent approach in loan origination unless more negative scenarios with war and energy crisis materialise

[1] compared to the level adjusted for the impact of "credit holidays"

3. Strategy of mBank Group

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

In 2022, we followed the **Strategy of mBank Group for 2021-2025** titled **"From an icon of mobility, to an icon of possibility"**, adopted by the management board and approved by the supervisory board in Autumn of the preceding year. It was developed to leverage on our current competitive strengths, successfully 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 market valuation.

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 are focusing 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 are 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 personal financial management (PFM) tools, comprehensive investment offering (via own newly-established TFI), mortgage lending (thanks to enhanced underwriting process), and ecosystem of non-banking services. With a reinforced mobile-first approach, we 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 plan to modernize and extend our existing mDiscounts (mOkazje) platform. We will also broaden 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.

- **Corporate banking**: We grow the corporate banking business, taking care of gains from the relationships and 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 are increasing 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 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 customer loyalty 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 want to assure 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 key 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 systematically 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_2 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 financial institutions in the region.

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

Based on its advanced transactional solutions and expertise in financing and servicing certain market segments, 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 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.

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. <u>Leading retail banking franchise integrated with client life cycle</u>

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 are 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.

The main goals we focused on in 2022 included:

- **organic growth through the continuous acquisition of new (primarily young) clients and accompanying them throughout the whole life cycle, providing precisely calibrated value proposition**. To maintain the assumed trajectory of new account openings, we performed special campaigns in digital channels and micromarketing campaigns in terrestrial channels. We promoted the

Junior account using communication contexts, such as holidays or back to school. Through the social media and radio, we directed additional actions to entrepreneurs starting a business. With an intention to boost retention and increase the level of loyalty of existing customers, we prepared dedicated product offers to show that we appreciate their long relationship with mBank.

- **developing 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**. The unfavourable market situation, translating into a drop of valuation of assets under management, did not allow us to achieve the sales targets. In these conditions, we focused on increasing the number of regularly investing clients, mainly in the mass segment, and building the investment awareness of Poles through a marketing campaign. We also completed preparatory work and obtained the necessary approvals for mBank's own investment fund company to start operating in 2023.
- **helping our customers to wisely manage their current and future finances by providing well-structured information on their inflows, spending and assets**. 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. The first release contained an in-depth analysis of transaction history along with their detailed categorization. In 2023, the expansion with new elements will be continued.
- **boosting the scope of 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 extended functionality of mojeID (myID) for greater convenience of confirming identity in remote services. We are also working on enhancing the process of mobile account opening so that it has an increasing share in the acquisition of new customers. Our advisors are assisting and supporting clients in using a self-service via digital channels.
- **further development of an ecosystem of non-banking services to strengthen the intensity of relationship with customers through providing them with additional utility and convenience**. Extending the range of value-added services provided by mBank, in cooperation with SkyCash, we introduced the option of paying for car parks in dozens of Polish cities using the mobile application. From mid-2022, customers could apply for the benefits from social programme "Good Start (300+)" on the smartphone, which previously was available only via the transactional system. Thanks 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.

2. <u>The first-choice bank for e-commerce market participants</u>

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. We assume that changes in consumer preferences and behaviour shall force almost all businesses to increasingly offer their products and services online. Entering e-commerce segment 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 2.7 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.

The main goals we focused on in 2022 included:

- **gradual expansion of our existing mDiscounts (mOkazje) platform to make it more attractive e-commerce solution for both online buyers and sellers**. In 2023, we plan to intensify work on reshaping it into more modern marketplace, with more products introduced to broaden the offer. In addition to attractive prices for items from selected categories, we will provide an option of Buy Now, Pay Later (BNPL).
- **developing 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 our gateway is based on scalable and cost-efficient solution (thanks to the cloud architecture) as well as superior payment processing capabilities (quickest settlements of a large number of simultaneous transactions). Easy integration with the merchant’s online shop and expanding the offer for further services, such as Mass Collect for corporate clients, are conducive to high dynamics of acquiring new users and volumes.

- **adding services designed for online sellers to increase the importance of relationship with mBank by partnering with them in main parts of their e-commerce activity**. We are offering a set of tools for a start, such as the option to launch an e-shop with Sky-Shop, using free ready-made templates and a technical support of experts, as well as mOrganizer for handling invoices, useful particularly at the later stage of business growth, and a free-of-charge accounting helpline. We also promote dedicated webinars, articles and blog for firms entering e-commerce market and already operating in the Internet.

3. Best digital corporate banking for high-potential companies

mBank's aspiration is to provide the best corporate banking services in Poland. We commit ourselves to 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). In parallel, corporate area of mBank continues 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 with mBank CompanyNet system. Comfortable remote communication should increase the satisfaction rate from cooperation with us. We are intensively promoting self-service among our customers. However, human support still will be available if needed, as it remains critical for strengthening the relationship.

The main goals we focused on in 2022 included:

- **initiating, developing and intensifying the cooperation with companies from prospective industries and the fastest growing sectors of the economy as well as continued support of energy transformation**. Thanks to the implementation of dedicated financing policies and adequately determining the limits, we are becoming more involved in: renewable energy sources, e-commerce and businesses supporting it, automation and digitalization solutions, modern technologies and digital entertainment as well as healthcare and pharma industry, gradually increasing their share in mBank's portfolio.

- **contributing to the growth of SME segment in Poland and benefitting from its progressing e-commerce presence and higher profitability**. We find tailored, digital service model, operational excellence, pre-approved products and activities aimed at boosting product penetration (better cross-sell) as key factors facilitating the achievement of the assumed dynamics in the areas of acquisition, credit volumes and revenues in K3 segment.

- **providing the best end-to-end digital banking experience for corporate customers in Poland**. The changes implemented in mBank CompanyMobile at the beginning of 2022 focused on eliminating at least 80% of the elements reported by customers as unsatisfactory. Further modifications aimed at increasing the level of mobile banking penetration concerned the development of payment and transfer modules and strengthening the security of the application. At the same time, we are improving the process of digital "onboarding", e.g. by automating its subsequent steps and adding new legal forms of clients, so that it becomes the dominant form of new account opening. We also extended the fully remote methods of identity verification in mBank CompanyNet with e-ID and eDO App.

- **redesigning 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 developed and implemented a new organizational and operational model for the units participating in the process, ordering the division of tasks and improving efficiency. We are building eWniosek platform for electronic documentation exchange and communication with the clients. We are simplifying and standardizing information required from the client and catalogue of collaterals. In 2023, we will introduce further automations and other types of agreements, as well as we will launch monitoring of exposures.

- **growing 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 reviewed the portfolio in order to identify the companies for which the assumed AROR (the relation of adjusted revenues to risk weighted assets) threshold is not fulfilled, and defined actions aimed at reducing their number. We are currently applying a selective approach towards new exposures, strictly based on the analysis of their profitability. At the same time, centralisation of internal processes, development of remote channels, and digitalisation of the offer increase employment productivity.

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 most institutions in financial sector aspire to the title of technological leaders, we want to keep ourselves a few steps ahead of competition, making sure all innovation enablers and IT-related advantages are available for our business leaders in their continuous pursuit in delivering the best digital offer and experience. Giving access to most modern technologies and ways of work (e.g. DevOps, Microservice architectures, agile self-organising teams), we count on attracting talents in the industry.

The main goals we focused on in 2022 included:

- **providing high quality, availability, security and stability of mBank's solutions and services to customers on a continuous basis**. We increase the level of maturity of the software development process through continuous monitoring and automation of security controls and tests, as well as implementation of multi-level quality gates. We are finalizing the modernization of the central system (Globus) for corporate banking in the area of hardware infrastructure, database systems and software languages. A project to migrate retail clients to a new, more flexible platform is also underway, which will eliminate technological debt and open it to innovation.

- **maintaining 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**. As one of the first banks in Poland, we provided our employees with modern tools for communication and cooperation in the public cloud through the comprehensive implementation of the Microsoft Office 365 service. We develop competences of our teams in the field of building and migrating applications to private and public cloud. In 2023, we will compile rules for using external SaaS applications, adjust security standards, introduce appropriate legal frameworks and prepare architectural patterns and migration schemes for various groups of bank systems.

- **ensuring highest possible security level 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. In line with a defined frequency, we conduct comprehensive Red Team tests, verifying the organization's security level and its resistance to emerging cyber threats. We are implementing the Stop Scams Programme, under which we will build a fraud prevention system for retail customers. We raise the awareness of employees thanks to trainings performed as part of the Security Academy.

- **caring for the highest protection of mobile application serving as a digital key to all mBank's channels, with the state-of-the-art solutions, and delivering the most secure and client-friendly identity confirmation process in all digital channels**. We are implementing RASP-like (Realtime Application Self-Protection) functionalities and behavioural biometrics as an additional technology supporting authorisation. 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 promote digital identity services as allowing for a convenient authentication, in particular in the process of opening a new account.

5. Distinctive people and organisation culture

Future workplace will be diversified and more inclusive. Companies offering 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 are adopting 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.

The main goals we focused on in 2022 included:

- **creating culture where cooperation is based on trust and positive intentions**. At mBank, it is defined by 5 key values: authenticity, empathy, courage, responsibility and cooperation. We used the intranet to bring them closer to employees and trained managers to promote them in their teams.

- **developing best-in-class hybrid work environment**. We have introduced a model that is assumed to respond to the needs of employees and meet the expectations of managers. 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 helping re-adaptation ("It's great to be in the office", "With energy for health"). We will adapt the organization of work based on the assessment of its efficiency and

feedback (employees' opinions from the cyclical survey). The functioning of staff in the hybrid model is to be supported by top practices in management of distributed teams as well as advanced workplace technology and digitized HR processes.

- **increasing the effectiveness of recruitment and maintaining high retention rate of mBank's employees**. In 2022, through a special campaign, we again encouraged people aged 45+ to join our Contact Center team in Łódź. We also continue mBank's Recommendation Programme, in which current full-time employees can encourage their colleagues to participate in recruitment for a given position and get a benefit in the event of their employment.
- **diagnosing and developing 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 Gallup's methodology (CliftonStrengths study). We invited employees to form teams and participate in a special competition focused on innovations that are worth implementing at mBank. Under training activity, we are focusing on future skills needed for the organization to succeed.

3.3. ESG in the 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 growth and well-being of the society. Detailed description of our activities in scope of corporate social responsibility and sustainability can be found in chapters 11. mBank and corporate responsibility and 12. Non-financial information. Below we present our strategic goals in scope of ESG and their completion in 2022.

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.*

Responsibility for climate	
Goal	**Completion**
Reduce direct 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 ▪ conducting an external audit of our carbon footprint by 2022 ▪ setting the example for sustainable cities and communities through resource-efficient new mBank's headquarter ▪ no new diesel-powered vehicles in mBank's fleet starting from 2023 ▪ 80% of consumed energy from renewable sources by 2023 ▪ 100% of no longer used, well-functioning equipment to be reused ▪ having 100% of mBank's debit cards for individual clients with a digital equivalent (mobile card) by 2025	▪ We joined the Science Based Targets Initiative (SBTi) – direct and indirect impact. ▪ In 2022, mBank's calculations of its carbon footprint in scope 1 and 2 have been audited by the Foundation Climate Strategies Poland. ▪ 2022 was the first year when we published our greenhouse gas emissions in scope 3 (categories 1-3). In 2023 we plan to additionally calculate emissions originated from our employees' commuting to work (category 7 of scope 3). ▪ mBank's headquarters in Warsaw and Łódź are certified with BREEAM International 2013 New Construction at the „Excellent" level. ▪ In cooperation with the company Zero Waste we give second life to furniture and appliances no longer used at mBank. ▪ In 2022 mBank stopped buying diesel cars. ▪ As at the end of 2022, 100% of electric energy used by mBank was generated by RES.

Be a leading bank supporting energy transition of our clients by (indirect impact):
▪ providing PLN 10 billion of funds for RES segment in the strategic horizon, of which:
  ▪ PLN 5 billion of direct funding of RES, waste management, electromobility and similar projects
  ▪ PLN 5 billion from other sources, such as consortia and green bonds issuances of our clients
	▪ In 2022, in the corporate clients segment, we provided nearly PLN 878 million funding for new RES installations.
	▪ In 2022 we signed two contracts for conducting green bonds issuance for the clients and one contract for issuance of bonds with ESG profile. We also conducted four green bonds issuances totaling PLN 275 million.

▪ 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 CO_2 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 CO_2 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 Nearly 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	▪ In 2022 we extended SME offering by introducing secured eco-loans and eco-advances for companies. ▪ In 2022 we provided our clients with new offer for photovoltaics leasing and electric cars leasing subsidized from the programme "My electric car" ("Mój elektryk"). ▪ In 2022 we started granting eco mortgages. Clients applying for financing of house or apartment characterized with adequately low energy consumption are entitled to lower borrowing costs. ▪ In 2022 mBank, as the first Polish bank, joined the Partnership for Carbon Accounting Financials (PCAF). ▪ In April 2022 mBank clients received first cards made in 85% from recycled plastic. We issued over 695 000 such cards so far.

Responsibility for financial health of our clients

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

Responsibility for financial health of our clients	
Goal	**Completion**
Develop the personal finance management (PFM) functionalities	▪ In December 2022, we signed the ' UNEP-FI Commitment to Financial Health and Inclusion', part of the UNEP-FI. ▪ We are developing a personal finance manager service (PFM) in an app that helps to responsibly manage the household budget. It allows customers to analyse their expenses and receipts over the past months, broken down into different categories. At the end of 2022, more than 1.5 million users per month were already using this function. ▪ In December we have launched www.twojaspokojnasgłowa.pl, a new educational website on healthy personal finance, which helps the clients to improve their financial condition.
Continue educational campaigns on safe finances, including one cybersecurity campaign in each year of strategy implementation	▪ mBank conducts regular educational activities on cyber-security. In 2022, as part of the "People are incredible" campaign, we highlighted the most common mistakes people make online, which can lead to the loss of data and money. The campaign reached almost 17 million unique users.
Use clear communication and plain language	▪ In our external and internal communication, we use mKanon, a communication standard that consists of 7 principles. Communication according to mKanon is: short, comprehensive, clear, sincere, empathetic, 'we' type and linguistically correct. ▪ We are supported in our activities by the Foundation of the Polish Language (FJP). In 2022, the foundation certified another group of mKanon ambassadors. These are people from different units of the bank who ensure that our communications are in line with mKanon. In total, we have 34 people in this group. The FJP also awarded a 'Language Quality Mark' certificate to our debt collection help page. We are an active member of the Simple Communication Working Group, which has been at the Polish Bank Association since 2020.

Have all newly opened branches accessible to people with disabilities	▪ In the area of eliminating barriers for people with health conditions or impairment, we cooperate with an experienced partner - the Integration (Integracja) Foundation. In 2022, we signed agreements covering an architectural audit of selected bank branches and a survey of customer contact channels with the bank using the mystery shopper method. ▪ In the area of digital accessibility, in 2022 we started cooperation with the Visible (Widzialni) Foundation, which, together with the Integration Foundation, forms a consortium appearing on the list of entities performing accessibility certification referred to in Article 17 of the Act of 19 July 2019 on ensuring accessibility for persons with special needs. In 2022, the Widzialni Foundation carried out accessibility audits of digital services for us. Their results are comprehensive reports on the accessibility status of our mobile application, transaction service, application system, system design and websites.
Certify our buildings, customer service and internet websites by 2023	

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.*

Responsibility for being an organisation in line with ESG values	
Goal	**Completion**
Set 10% of TOP 100 managers' OKR (Objective and Key Results) goals related to ESG	In 2022, we defined ESG targets with a weighting of 10% for TOP 100 mBank managers. Each manager has also defined the tasks he or she intends to complete in the ESG area and metrics to measure progress quarterly.
Ensure gender balance in the succession programme, with a proportion of participants of a given gender at minimum 45%	In 2022, we have defined a succession list for managerial and director positions in line with the gender ratio. We report on an ongoing basis on the percentage ratio of women and men in leadership recruitment.
Preserve a gender diversity of the candidates in the final stage of the recruitment process (for managerial positions)	In 2022, we achieved our goal of equal gender representation in hiring and promotion processes (52% of recruited or promoted managers are women).
Implement a hybrid work system that will meet the needs of the employer and employees	▪ In May 2022, mBank employees returned to the offices in a hybrid working mode. In mBank's head offices, the new mode consists of 40%-60% remote working time. In sales, contact center, operations and IT networks, the model as been adapted to the specifics of these areas. ▪ According to the Pulse Check survey (Q4 2022), employees rate the hybrid work model well (83% positive perception on the question "the hybrid working arrangement allows me to manage work and personal commitments flexibly").
Have 90% of employees with a possibility to fulfil their jobs in a flexible manner by 2023	
Implement Taxonomy in processes (including the credit process), procedures and products	▪ In 2022, we published indicators related to the EU Taxonomy for the first time. These are the Taxonomy eligibility data required during the transition period. ▪ In 2022, we started work on a data collection system to be able to fully fulfil our reporting requirements from 2024. ▪ EU taxonomy is one of the benchmarks we consider when assessing the impact of banking products on ESG factors.
Develop each new banking product along with its ESG evaluation from 2022	When introducing or modifying financial products and services, we assess their impact on 5 environmental issues and 6 social objectives, including those related to clients' financial health.

Expand responsible offer by launching at least one eco-product in every business line each year starting from 2021	In 2022, we implemented new eco-friendly products to our range. These included an eco-mortgage for an energy-efficient house or flat, payment cards made from recycled plastic or photovoltaic leasing.
Cooperate only with partners and suppliers fulfilling ESG standards (in line with a code) by 2025	Since 2022, mBank and mLeasing have been applying the "Sustainability Code for suppliers and partners". Every contractor that wishes to enter into a purchasing procedure is required to submit a statement of compliance with this code. We also collect signed statements from existing suppliers. We have also published the "Guide for mBank Group suppliers on sustainability".
Proactively promote the proper segregation of litter and organise a Clean Day event for employees once a year (a day dedicated for cleaning the Earth)	▪ We conduct ongoing information activities for employees on proper waste segregation at our offices in Warsaw and Łódź. ▪ In 2022, a group of mBank employees together with the City Forestry in Łódź organised the first forest cleaning action.

Responsibility for society

Our promise: We will contribute to social well-being. We will be a responsible corporate citizen.

Responsibility for society	
Goal	**Completion**
Support the development of mathematical education in Poland through the activities of mBank Foundation (mFundacja), including grant programmes and competitions of national range	▪ In 2022, the mFoundation allocated more than PLN 2.7 million for statutory activities related to mathematics education and promotion of mathematics (grant programmes "mPower" („mPotęga") and "Growing with Maths" („Rosnę z matematyką"), a contest "A Step in the Future" („Krok w przyszłość") for the best student work in mathematics, scholarship programme „Masters of Mathematics" ("Mistrzowie matematyki), and others. ▪ On 22 April 2022, Earth Day, the mBank Foundation presented its latest book, Matematyka na zielono. We printed it in a limited edition of 50,000 copies, on FSC®-certified paper. More than 30,000 free copies of the book were distributed to readers. The remainder of the print run is being distributed to schools, libraries and other educational entities. It can also be downloaded free of charge from www.mjakmatematyka.pl.
Cooperate with the Great Orchestra of Christmas Charity (WOŚP)	▪ In 2022, mBank was a partner of the WOŚP Final for the fifth time. Two WOŚP headquarters in Łódź and Warsaw were joined by 170 mBank employees. In addition, around 1,000 employees from mBank branches across Poland joined the 30th WOŚP Final. Moreover, mBank, as every year, conducted numerous campaigns mobilising its clients to donate to the WOŚP. ▪ Retail customers can support the WOŚP all year round by donating a set amount to a special savings goal. They set it up in the app or the transaction service. In total, customers donated more than PLN 1.6 million to the WOŚP this way, thanks to regular contributions in 2022. From January to the end of February 2022, we ran a campaign for new corporate customers with full accounting "W rytmie WOŚP", during which we managed to raise PLN 226,000. ▪ Over the last five years we donated more than PLN 16.7 million to WOŚP. At the same time, our clients' donations amounted to nearly PLN 76 million. Together this totals over PLN 90 million.

Create a collection of paintings by young artists, which will be open to the public	▪ Thanks to a special fund launched in 2020, we are creating a collection consisting of works by the most interesting and promising young Polish artists. ▪ Between 2020 and 2022, mBank has purchased 98 works by 62 contemporary Polish painters. The works are selected on behalf of mBank by a committee comprising prominent representatives of the contemporary art market and a representative of the funder.
Encourage to active participatory citizenship by launching an option to easy support NGOs and foundations directly from mBank's mobile application, allowing our clients to contribute and support the civil society	In March mBank launched a fundraiser for the Polish Centre for International Aid (PCPM) Foundation, and enabled customers to easily donate via a mobile app to help victims of the war in Ukraine. By the end of 2022, mBank customers donated nearly PLN 13.8 million to PCPM.

A reliable partner for investors

Our promise: *We will continuously enhance our ESG disclosure standards to be favourably viewed by our shareholders and broader investment community.*

A reliable partner for investors	
Goal	**Completion**
Expand ESG disclosure in mBank Group's materials, including those dedicated to investors: management reports, presentations, as well as on the corporate website	▪ In 2022, in addition to interactions with the rating agencies Sustainalytics and MSCI, we completed the full version of the CDP survey on our climate impact for the first time. ▪ In December 2022, we launched a new, more extensive page about our ESG activities. It has two language versions (Polish and English) and provides a comprehensive source of information for various stakeholder groups, including investors. ▪ We have expanded the ESG section in the quarterly performance presentation.
Increase availability, adjust terminology and categorization of non-financial data in accordance with the requirements of the leading analysts and the algorithms they use	▪ We are following the legislative process related to the implementation of the CSRD and are preparing to report according to its requirements, including the use of iXBRL content tags.

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 are going to translate into better margin in the mid-term horizon, 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, and mBank's long-term goal remains to pay 50% of net profit as a dividend.

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). Projected trends in volumes will allow to maintain high liquidity and relatively low loan-to-deposit ratio (in the range of 70-80%). Consequently, we plan 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.

In a timespan up to 2025, excluding periods of temporary adjustments, we assume that our business volumes in key strategic segments will be growing faster than in the sector, implying an improvement of 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 context of Polish sector.

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
Efficiency			
Cost/Income ratio (C/I)	**~40%** in 2025	reported: 42.3% in 2022 normalized: 34.3% in 2022	Both revenues and costs were negatively impacted by one-off factors, in particular "credit holidays" as well as payments to the Protection Scheme (IPS) and the Borrowers' Support Fund.
Stability			
Tier 1 capital ratio	year-end level min **2.5 p.p.** above the PFSA requirement	+3.4 p.p. at the end of 2022	Capital position of mBank Group weakened due to net loss incurred in 2022 and an unfavourable change in the valuation of debt securities recognized in own funds. A set of countermeasures was implemented to strengthen the ratios.
Cost of risk (COR)	**~0.80%** in the mid-term	0.68% in 2022	Conservative approach to provisioning reflected prudent risk management amid persisting uncertainty of the economic situation.
Growth			
Loans	CAGR 2021-2025: **~8%**	dynamics in 2022: 2.1% YoY	As a consequence of interest rate hikes and tightening of creditworthiness assessment criteria, new production of mortgage loans dropped massively, while dynamics of corporate exposures was double-digit, driven mainly by the demand for current financing.
Deposits	CAGR 2021-2025: **~8-9%**	dynamics in 2022: 10.9% YoY	Growth of retail deposits in H1/22 was under pressure due to an increase in the volume of cash in circulation because of Russia's invasion on Ukraine and competition from government savings bonds; enterprises faced a stable inflow of funds to bank accounts.
Total revenues	CAGR 2021-2025: **~9-10%**	dynamics in 2022: 28.3% YoY	Development of total income was strongly affected by interest rate increases, but double-digit growth of net fees and commissions also contributed positively to the overall dynamics.
Profitability			
Net interest margin (NIM)	**~2.5%** in 2025	3.7% in 2022	Margin, excluding the impact of "credit holidays", rose considerably, benefitting from interest rate hikes.

Return on equity (ROE)	**above 10%** in 2025	-5.3% in 2022	Negative return for 2022 resulted from high costs of of legal risk related to FX loans and government interventions, while ROE achieved on Core Business amounted to 22.1%, exceeding 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:

- longer period of high interest rates before loosening of monetary policy starts
- better dynamics of fee and commission income resulting from contribution of new business/services and more adjustments to the price lists
- entry into e-commerce segment and launch of marketplace
- strengthening of mBank's market appeal and its position relative to other players in the industry
- unlocking of the EU funds for Poland and potential PLN appreciation

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

- stronger deterioration of macroeconomic conditions (negative GDP dynamics, high unemployment rate, lack of private investments)
- unfavourable market development reflected in PLN depreciation, rise of bond yields and swap rates
- government interventions causing disruption to local economy and the banking sector (ahead of parliamentary elections in Poland in Autumn 2023)
- more adverse line of jurisprudence in CHF cases resulting in a need to book further provisions
- excessive customer protection, supervisory guidelines and new regulatory requirements
- growing competitive pressure, both from other banks and new players, undermining revenues.

4. Financial position of mBank Group and mBank in 2022

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 Consolidated Financial Statements of mBank S.A. Group for 2022 (in PLN thousands). Differences in the tables, if any, result from rounding.

Profit and loss account of mBank Group

mBank Group reported strong operating results in 2022. Operating profit amounted to PLN 576.2 million vs PLN 17.6 million in 2021. mBank Group's results were affected by a number of significant one-off factors connected with state-imposed burdens and the legal environment. These included the suspension of the performance of mortgage loan agreements granted in PLN in connection with the signing by the President of the Republic of Poland of the Act on Crowdfunding of Business Undertakings and Support for Borrowers, commonly known as "credit holidays", and the costs of legal risk related to FX mortgage loans. mBank Group posted a pre-tax loss of PLN 108.0 million, compared with a loss of PLN 591.0 million generated in 2021. Net loss attributable to the owners of mBank reached PLN 702.7 million vs PLN 1,178.8 million the year before.

Income tax of mBank Group amounted to PLN 594.5 million in 2022 vs last year's PLN 587.8 million. A summary of the financial results of mBank Group is presented in the table below.

PLN million	2021	2022	Change in PLN M	Change in %	2022 adjusted
Interest income	4,454.0	9,265.8	4,811.8	108.0%	10,588.2
Interest expense	-327.7	-3,356.6	-3,028.9	924.3%	-3,356.6
Net interest income	**4,126.3**	**5,909.2**	**1,782.9**	**43.2%**	**7,231.6**
Fee and commission income	2,692.6	3,026.1	333.5	12.4%	3,026.1
Fee and commission expense	-824.9	-906.0	-81.1	9.8%	-906.0
Net fee and commission income	**1,867.8**	**2,120.1**	**252.3**	**13.5%**	**2,120.1**
Core income	**5,994.1**	**8,029.3**	**2,035.3**	**34.0%**	**9,351.7**
Dividend income	5.0	5.2	0.2	3.8%	5.2
Net trading income	96.9	97.2	0.3	0.3%	109.2
Other income	103.6	-111.2	-214.8	+/-	-111.2
Other operating income	232.4	265.2	32.8	14.1%	265.2
Other operating expenses	-320.9	-443.6	-122.7	38.2%	-443.6
Total income	**6,111.1**	**7,842.1**	**1,731.0**	**28.3%**	**9,176.5**
Net impairment losses and fair value change on loans and advances	-878.6	-834.5	44.1	-5.0%	-834.5
Costs of legal risk related to foreign currency loans	-2,758.1	-3,112.3	-354.2	12.8%	0.0
Overhead costs and depreciation	-2,456.9	-3,319.2	-862.3	35.1%	-2,720.2
Operating profit or loss	**17.6**	**576.2**	**558.6**	**3174.4%**	**5,621.8**
Taxes on Group balance sheet items	-608.6	-684.2	-75.5	12.4%	-684.2
Profit before income tax	**-591.0**	**-108.0**	**483.0**	**-81.7%**	**4,937.6**
Income tax expense	-587.8	-594.5	-6.7	1.1%	
Net profit	**-1,178.8**	**-702.5**	**476.3**	**-40.4%**	

- attributable to Owners of mBank S.A.	**-1,178.8**	**-702.7**	**476.1**	**-40.4%**	adjusted results excluding: ▪ impact of "credit holidays" ▪ Borrowers' Support Fund (BSF) ▪ payment to the Protection Scheme (IPS) ▪ costs of legal risk related to foreign currency loans
- Non-controlling interests	-0.1	0.2	0.2	-/+	
ROA net	-0.6%	-0.3%			
ROE gross	-3.6%	-0.8%			
ROE net	-7.2%	-5.3%			
Cost / Income ratio	40.2%	42.3%			
Net interest margin	2.16%	3.70%			
Common Equity Tier 1 ratio	14.2%	13.8%			
Total capital ratio	16.6%	16.4%			
Leverage ratio	6.3%	5.4%			

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 expenses.
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/loss 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/loss 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 pre-tax profit/loss by the average equity (net of the year's results). The average equity is calculated on the basis of the balances as at the end of each month. Pre-tax profit/loss 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/loss 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 the balances as at the end of each month. Net profit/loss 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. To calculate the margin, net interest income was calculated without factoring in the result from the non-substantial modification which, in 2022, includes the cost of the credit holidays. Interest earning assets are the sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to clients (net; in all valuation methods). The average interest earning assets are calculated on the basis of the 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 2022 included:

- **Record-high total income** of PLN 7,842.1 million (despite the effect of the "credit holidays"). Net interest income remained its main component. It reached PLN 5,909.2 million and increased year on year due to interest rate hikes and our focus on the profitability of client relationships. Thanks to the acquisition of new clients and their growing activity, net fee and commission income also increased, reaching PLN 2,120.1 million.
- **Operating expenses** (including depreciation) **increased** to PLN 3,319.2 million mostly due to additional contributions to the Borrower Support Fund and the newly created protection system. The annual growth rate of costs adjusted for the above-mentioned contributions was lower than the average annual inflation rate.
- **Improved efficiency** measured by the adjusted cost/income ratio, which stood at 34.3% in 2022 vs 40.2% in 2021 (adjusted for the effect of the "credit holidays" and contribution to the Borrower Support Fund).
- **Decrease in risk costs** to 68 basis points vs 76 points last year thanks to maintaining a good quality of the credit portfolio.

- **Costs of legal risk related to foreign currency loans** of PLN 3,112.3 million against PLN 2,758.1 million in 2021.
- **Continued organic growth and business expansion** as demonstrated by:
  - **Increase in the number of retail clients** to 5,642,400 (+128,600 compared with the end of 2021);
  - **increase in the number of corporate clients** to 33,025 (+1,710 clients compared with the end of 2021);
  - **increase in the number of active BLIK users** to 1,684,800 against 1,404,400 at the end of 2021;
  - increase in the share of the mobile channel in the sale of non-mortgage loans to 55% (vs 42% at the end of 2021).

Pre-tax profit on core business (mBank Group excluding the FX Mortgage Loans segment) totaled PLN 3,113.3 million in 2022, up by 41.1% from PLN 2,207.0 million in 2021. Net profit rose by 55.6% to PLN 2,518.8 million in the analysed period. This was reflected by **net ROE, which stood at 22.1% in 2022** vs 11.9% in 2021.

Capital ratios of mBank Group declined slightly in 2022. At the end of the year, the consolidated Total Capital Ratio stood at 16.36% compared with 16.58% in the previous year. The Common Equity Tier 1 capital ratio reached 13.81% vs 14.16% at the end of 2021. The leverage ratio stood at 5.4% at the end of December 2022 compared with 6.3% the year before.

Selected data of mBank Group by country

Selected data (PLN mln)	Revenues (total income)*	Profit/Loss before income tax	Income tax	Net profit/loss	Number of employees (in FTE)
Poland	7,355.8	-332.5	-538.3	-870.8	6,692
Czech Republic	399.7	209.6	-52.1	157.5	254
Slovakia	86.6	14.9	-4.1	10.8	68
Group	7,842.1	-108.0	-594.5	-702.5	7,014

*Revenues (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 expenses.

Income of mBank Group

Total income generated by mBank Group reached PLN 7,842.1 million in 2022, compared with PLN 6,111.1 million the year before, which represents an increase of PLN 1,731.0 million, i.e. 28.3%. The increase was mainly driven by improved net interest income.

Net interest income remained mBank Group's largest income source in 2022 (75.4%). It reached PLN 5,909.2 million, compared with PLN 4,126.3 million in 2021 (+43.2%). The increase in net interest income resulted mostly from the series of interest rate hikes by a total of 665 bps made by the Monetary Policy Council between October 2021 and September 2022, as well as the bank's focus on the profitability of client relationships. Adjusted for the effect of the "credit holidays" (of PLN 1,322.4 million), the net interest income reached PLN 7,231.6 million, up by PLN 3,105.3 million, i.e. 75.3%. More information about the effect of the "credit holidays" can be found in Note 4 to the Consolidated Financial Statements of mBank S.A. Group for 2022.

Net interest margin, calculated as a relation between net interest income and average interest earning assets, stood at 3.7% compared with 2.2% in 2021. To calculate the margin, net interest income was calculated without factoring in the result from the non-substantial modification which, in 2022, includes the cost of the credit holidays.

Interest income grew significantly by PLN 4,811.8 million or +108.0% year on year to PLN 9,265.8 million. Loans and advances were the main source of the Group's interest income. Interest income from loans and advances increased by PLN 5,175.6 million or +146.8% year on year. Interest income from investment securities grew by PLN 809.3 million, i.e. 168.5%.

PLN million	2021	2022	Change in PLN M	Change in %
Loans and advances	3,525.9	8,701.4	5,175.6	146.8%
Investment securities	480.2	1,289.5	809.3	168.5%
Cash and short-term placements	19.0	380.6	361.6	x20.0%
Trading debt securities	17.1	43.0	25.9	151.4%
Interest income on derivatives classified into banking book	94.5	0.0	-94.5	-100.0%
Interest income on derivatives concluded under the fair value hedge	113.1	0.0	-113.1	-100.0%
Interest income on derivatives concluded under the cash flow hedge	204.7	0.0	-204.7	-100.0%
Gains or losses on the non-substantial modification (net)	-11.3	-1,328.9	-1,317.6	x117.6
Other	10.9	180.2	169.2	x16.5
Total interest income	**4,454.0**	**9,265.8**	**4,811.8**	**108.0%**

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 costs rose significantly (by PLN 3,028.9 million or +924.3%), which was mainly attributable to higher deposit costs (up by PLN 1,677.0 million). Interest costs on interest rate derivatives (classified into the banking book under fair value hedge accounting and cash flow hedge accounting) also went up by PLN 1,040.5 million against 2021. In order to manage the risk stemming from floating rate loans and modelled deposits, mBank has entered into receive fixed and pay floating IRS transactions.

Net fee and commission income, accounting for 27.0% of mBank Group's total income, increased year on year. In the period under review, it stood at PLN 2,120.1 million, which represents a hike by PLN 252.3 million or 13.5%. This was mainly driven by an increase in fee and commission income.

PLN million	2021	2022	Change in PLN M	Change in %
Payment cards-related fees	485.8	629.8	144.1	29.7%
Credit-related fees and commissions	539.3	612.1	72.8	13.5%
Commissions from currency transactions	408.1	516.5	108.4	26.6%
Commissions for agency service regarding sale of insurance products of external financial entities	109.1	129.9	20.8	19.1%
Fees from brokerage activity and debt securities issue	240.1	172.4	-67.7	-28.2%
Commissions from bank accounts	361.8	383.8	21.9	6.1%
Commissions from money transfers	191.5	223.9	32.4	16.9%
Commissions due to guarantees granted and trade finance commissions	98.8	110.0	11.2	11.3%
Commissions for agency service regarding sale of products of external financial entities	103.1	74.3	-28.7	-27.9%
Commissions on trust and fiduciary activities	33.2	32.9	-0.3	-0.9%
Fees from portfolio management services and other management related fees	27.8	25.1	-2.6	-9.5%
Fees from cash services	45.2	54.0	8.8	19.4%
Other	48.8	61.4	12.5	25.7%
Total fee and commission income	**2,692.6**	**3,026.1**	**333.5**	**12.4%**

Fee and commission income increased by PLN 333.5 million or 12.4% year on year. Owing to the growing number of clients and transactions, payment card-related fees contributed most to the increase (rising by PLN 144.1 million or 29.7%). In the period under review, the value of payment card transactions went up by 23.6%. Commissions from currency transactions rose by PLN 108.4 million (+26.6%) due to higher volatility on the FX market. Credit-related fees and commissions increased by PLN 72.8 million or 13.5%. Due to a lower turnover in the Warsaw Stock Exchange and a lower number of transactions, fees from brokerage activity and debt securities issue dropped by PLN 67.7 million or 28.2%.

Commission expenses grew in the analysed period by PLN 81.1 million or 9.8% to PLN 906.0 million. The largest growth was observed in the payment card service costs (+PLN 29.3 million or +11.1%).

Dividend income amounted to PLN 5.2 million in 2022, compared with PLN 5.0 million in 2021.

Net trading income stood at PLN 97.2 million in 2022 and was slightly higher (by PLN 0.3 million or 0.3%) compared with the previous year. In 2022, the Group recognised the impact of credit holidays of which PLN 12.0 million related to the effect on hedge accounting and decreased the net trading 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, dropped by PLN 214.8 million and were negative (-PLN 111.2 million). This resulted mainly from the loss on the sale of Treasury bonds and revaluation of shares of Visa Inc. and other companies (among others, Polski Standard Płatności Sp. z o.o., Krajowa Izba Rozliczeniowa S.A., Biuro Informacji Kredytowej S.A.).

Similarly to 2021, net other operating income (the balance of other operating income and expenses) was negative at -PLN 178.5 million in 2022 vs -PLN 88.5 million in 2021. The drop was caused by an increase in other operating expenses, which were pushed up by provisions for future liabilities, including among others, the provision created by mFinanse in connection with the inspection of the Social Insurance Institution (ZUS) in the amount of PLN 98.2 million as well as the provision for the return of additional costs of bridge insurance charged from clients who took out mortgage loans for the period before an entry into a land and mortgage register in the amount of PLN 84.0 million.

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 million	2021	2022	Change in PLN M	Change in %	Share in income (in %)
Retail Banking	3,758.8	4,027.1	268.3	7.1%	51.4%
Corporate and Investment Banking	2,307.4	3,459.3	1,151.9	49.9%	44.1%
Treasury and Other	-19.1	339.9	358.9	-/+	4.3%
Core business income	**6,047.1**	**7,826.3**	**1,779.2**	**29.4%**	**99.8%**
FX Mortgage Loans	64.0	15.8	-48.2	-75.3%	0.2%
Income of mBank Group	**6,111.1**	**7,842.1**	**1,731.0**	**28.3%**	**100.0%**

Costs of legal risk related to foreign currency loans

Total costs of legal risk related to foreign currency loans recognised in the income statement in 2022 stood at PLN 3,112.3 million (against PLN 2,758.1 million in 2021). The major driver of these costs in 2022 was the rising impact of legal risk posed by individual lawsuits, which was mainly attributable to a change in the distribution of expected court rulings scenarios on the basis of recent historical observations, an increase in the forecasted population of borrowers who will file a lawsuit, and a higher cost of the settlement programme arising from the bank's decision taken in September 2022 to launch the settlement programme.

The methodology is described in detail in Note 34 to the Consolidated Financial Statements of mBank S.A. Group for 2022.

Costs of mBank Group

In 2022, mBank Group continued to implement measures aimed at improving efficiency measured by the Cost/Income ratio. However, additional contributions to the Borrower Support Fund and the newly created protection scheme (IPS) significantly increased the cost base. The total overhead costs (including depreciation) of mBank Group stood at PLN 3,319.2 million, which represents a 35.1% growth on the previous year.

PLN million	2021	2022	Change in PLN M	Change in %
Staff-related expenses	-1,070.9	-1,226.9	-156.0	14.6%
Material costs, including:	-676.4	-729.1	-52.8	7.8%
- costs of administration and real estate services	-243.7	-273.2	-29.5	12.1%
- IT costs	-206.7	-205.6	1.1	-0.5%
- marketing costs	-132.7	-149.1	-16.4	12.3%
- consulting costs	-77.3	-82.8	-5.5	7.1%
- other material costs	-15.9	-18.4	-2.6	16.1%
Taxes and fees	-33.4	-35.6	-2.2	6.6%
Contributions and transfers to the Bank Guarantee Fund	-227.4	-247.4	-20.0	8.8%
Contributions to the Borrower Support Fund	0.0	-170.9	-170.9	-
Contributions to the Social Benefits Fund	-12.5	-13.8	-1.3	10.0%
Institutional Protection Scheme	0.0	-428.1	-428.1	-
Depreciation	-436.3	-467.3	-31.1	7.1%
Costs of mBank Group	**-2,456.9**	**-3,319.2**	**-862.3**	**35.1%**
Cost / Income ratio	40.2%	42.3%	–	–
Employment (FTE)	6,738	7,014	276	4.1%

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

In 2022, staff-related expenses increased by PLN 156.0 million or 14.6%. In the period under review, remuneration costs increased and FTEs went up by 276 (mainly in the Compliance area and IT).

Material costs rose by PLN 52.8 million (7.8%) in the period under review, in particular as a result of higher IT costs, whereas real estate administration and service costs and marketing costs went down. The depreciation costs increased by PLN 31.1 million. Contributions and transfers to the Bank Guarantee Fund dropped by PLN 20.0 million year on year.

In 2022, mBank Group incurred additional costs related to the contribution to the Borrower Support Fund in the amount of PLN 170.9 million (under the Act on Crowdfunding of Business Undertakings and Support for Borrowers) and the contribution to the Institutional Protection Scheme (IPS, under the Act on Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts) in the amount of PLN 428.1 million.

The above-mentioned development of income and expenses resulted in a hike in the Cost/Income ratio, which stood at 42.3% (40.2% in 2021). The normalised Cost/Income ratio (excluding the effect of the "credit holidays" and contribution to the Borrower Support Fund) stood at 34.3%.

Impairment on and change in the fair value of loans and advances

In 2022, 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 834.5 million. Compared with 2021, it decreased by PLN 44.1 million or 5.0%.

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 68 bps, compared with 76 bps in 2021.

PLN million	2021	2022	Change in PLN M	Change in %
Retail Banking	-451.4	-599.4	-147.9	32.8%
Corporate and Investment Banking	-409.7	-196.2	213.5	-52.1%
FX Mortgage Loans	-13.2	-38.9	-25.7	194.0%
Treasury and Other	-4.2	0.0	4.2	-99.2%
Net impairment losses and fair value change on loans and advances	**-878.6**	**-834.5**	**44.1**	**-5.0%**

Costs of risk in Retail Banking increased in comparison with 2021. Their significant increase results mainly from the expected and observed difficulties which may affect small enterprises. Additionally, the increase of the cost of risk was caused by the necessity to adopt the unfavourable macroeconomic conditions in the risk parameters. The increase of costs, stemming from the negative economic environment, was partially offset by the positive impact of the non-performing portfolio sales which took place in 2022.

In the Corporate and Investment Banking segment the cost of risk significantly decreased which was driven by the persisting good financial condition of the corporate clients as well as the conservative credit policy implemented so far.

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

Changes in the assets of mBank Group

Group assets stood at PLN 209,892.1 million as at December 31, 2022. During 2022 their value grew by PLN 11,518.7 million (+5.8%). The value of selected items and the balance sheet total for 2021 was changed compared with the values published in the statement for 2021. The details of the changes are presented next to the description of each item. All data for 2021 included in this document are presented with the changed values.

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

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Cash and balances with the central bank	12,202.3	16,014.3	3,812.1	31.2%
Loans and advances to banks	7,229.7	9,806.3	2,576.6	35.6%
Securities held for trading and derivative instruments	2,548.7	2,484.9	-63.7	-2.5%
Net loans and advances to customers	117,677.5	120,183.1	2,505.7	2.1%
Investment securities	52,675.7	54,350.8	1,675.1	3.2%
Intangible assets	1,284.0	1,391.7	107.8	8.4%
Tangible assets	1,542.3	1,484.9	-57.3	-3.7%
Other assets	3,213.4	4,176.0	962.6	30.0%
Assets of mBank Group	**198,373.4**	**209,892.1**	**11,518.7**	**5.8%**

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.
Other assets – the sum of fair value changes of the hedged items in portfolio hedge of interest rate risk, non-current assets and disposal groups classified as held for sale, investment properties, current income tax assets, deferred income tax assets and other assets.

Loans and advances to customers remained the largest asset category of mBank Group at the end of 2022. As at December 31, 2022, they accounted for 57.3% of the balance sheet total compared with 59.3% at the end of 2021. The net volume of loans and advances to customers increased by PLN 2,505.7 million

(+2.1%) year on year. The value of items for 2021 was changed compared to the value presented in the statement for 2021. The change pertains to amounts due from settlements of cash deposit machines and sorting offices, which are currently recorded as Other assets. The bank used to record the abovementioned settlements as Financial assets measured at amortised cost – Loans and advances to customers.

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Loans and advances to individuals	72,870.9	71,122.2	-1,748.8	-2.4%
Loans and advances to corporate entities	47,831.7	52,207.5	4,375.8	9.1%
Loans and advances to public sector	153.0	107.7	-45.2	-29.6%
Total (gross) loans and advances to customers	**120,855.6**	**123,437.4**	**2,581.8**	**2.1%**
Provisions for loans and advances to customers	-3,178.1	-3,254.2	-76.1	2.4%
Total (net) loans and advances to customers	**117,677.5**	**120,183.1**	**2,505.7**	**2.1%**

In 2022, gross loans and advances to individuals decreased by PLN 1,748.8 million, i.e. -2.4%. Net of the FX effect, loans and advances to individuals fell by 3.6% in 2022. This decrease was strongly impacted by adjustments related to the suspension of the performance of PLN mortgage agreements (credit holidays), the update of cash flow estimates related to CHF mortgage loans and the reduction of their gross carrying amount in accordance with IFRS 9.

The sales of mortgage loans decreased by 47.8% in 2022. They stood at PLN 6,454.4 million against the record value of PLN 12,367.3 million in the previous year. The decrease stemmed from the unfavourable regulatory and macroeconomic environment, primarily the rise in interest rates and the resulting decline in the creditworthiness of potential borrowers. Despite the lower growth rate, we increased the market share of new mortgage sales compared to last year and retained our fifth position on the market. In 2022, our market share stood at 11.8% (11.6% in 2021).

The trend of continued high interest rates in 2022 also put pressure on non-mortgage loan sales. In 2022, mBank Group sold PLN 9,435.1 million worth of non-mortgage loans, which represents a slight drop by 4.9% compared with 2021.

In 2022, the volume of gross loans and advances to corporate entities increased by PLN 4,375.8 million (+9.1%) compared with the end of 2021. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans and advances to corporate entities increased by 5.3% compared with the end of 2021.

The sales of loans to corporate entities (including new sales, limit increases and renewals) increased by 6.5% year on year. As in the previous year, in 2022 credit renewals dominated sales. Their number decreased slightly – by 1.8% year on year. New sales increased by 16.1% compared with 2021. Term loans were the most popular financing form of 2022, with their sales having grown by 8.8% year on year. Other types of financing also recorded growth. 2022 saw a growing interest in EUR loans, with their sale growing by 62.4% year on year. We expect this trend to continue.

The volume of gross loans and advances to the public sector decreased by PLN 45.2 million (-29.6%) in 2022.

Investment securities constituted mBank Group's second largest asset category (25.9%). During 2022, their value grew by PLN 1,675.1 million (+3.2%).

Throughout 2022, cash and balances with the central bank went up by PLN 3,812.1 million (+31.2%) 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 2022:

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Liabilities to other banks	5,266.2	3,270.2	-1,996.0	-37.9%
Amounts due to customers	157,071.7	174,130.9	17,059.2	10.9%
Liabilities from debt securities in issue	13,429.8	9,465.5	-3,964.3	-29.5%
Subordinated liabilities	2,624.5	2,740.7	116.3	4.4%
Other liabilities	6,263.4	7,569.7	1,306.4	20.9%
Total liabilities	**184,655.5**	**197,177.1**	**12,521.6**	**6.8%**
Total equity	**13,717.9**	**12,715.0**	**-1,002.9**	**-7.3%**
Liabilities and equity of mBank Group	**198,373.4**	**209,892.1**	**11,518.7**	**5.8%**

Other liabilities – the sum of financial liabilities held for trading and hedging derivatives, lease liabilities measured at amortised cost, fair value changes of the hedged items in portfolio hedge of interest rate risk, liabilities included in disposal groups classified as held for sale, provisions, current income tax liabilities, deferred income tax provisions and other liabilities.

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 83.0% of the Group's equity and liabilities at the end of 2022, compared with 79.2% at the end of 2021.

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Individual customers	112,446.1	122,890.0	10,443.9	9.3%
Corporate entities	44,018.1	49,980.6	5,962.5	13.5%
Public sector customers	607.4	1,260.2	652.8	107.5%
Total amounts due to customers	**157,071.7**	**174,130.9**	**17,059.2**	**10.9%**

Amounts due to customers data has been changed compared to its value in the Management Board Report for 2021. The item change was affected by the reclassification of liabilities arising from loans and advances received from the European Investment Bank. They are currently recorded as Financial liabilities measured at amortised cost – Amounts due to banks. The bank used to record these liabilities as Financial liabilities measured at amortised cost – Amounts due to customers. Furthermore, the bank created a separate item – Lease liabilities, as part of Financial liabilities measured at amortised cost. Lease liabilities used to be recorded under Amounts due to customers. They are currently included in Other liabilities.

Amounts due to customers grew substantially in 2022, reaching PLN 174,130.9 million at the end of the year compared with PLN 157,071.7 million at the end of 2021, representing an increase by 10.9% year on year. The environment of the highest interest rates in the market for years resulted in a clear change in the dynamics of individual categories of liabilities. Funds in current accounts decreased in 2022 by 9.1% to PLN 133,712.0 million. The key reason for the change was their transfer to term deposits, the volume of which increased to PLN 38,957.8 million, i.e. thus tripling compared to 2021. Due to the market environment, interest rates on term deposits grew dynamically in the entire banking sector. The bank's active policy in this respect encouraged clients to invest their funds in mBank and ensured the maintenance of a safe level of financial liquidity in the context of approaching maturity of two tranches of EMTN programme bonds in the second and third quarter of 2022.

Amounts due to individual customers increased by PLN 10,443.9 million (+9.3%) compared with the end of 2021. Deposits in current and savings accounts decreased by 8.0% to PLN 95,642.1 million, with the volume of term deposits almost thrice to PLN 27,027.1 million.

Amounts due to corporate entities grew by PLN 5,962.5 million (+13.5%). The structure of amounts due to corporate entities reversed in comparison to 2021, similarly to the structure of amounts due to individual

customers. Term deposits of corporate entities increased over 20 times to PLN 11,114.4 million over the year. At the same time, funds in current accounts decreased by 11.3% to PLN 37,626.1 million.

Amounts due to other banks fell by PLN 1,996.0 million, (-37.9%) year on year to PLN 3,270.2 million. The drop was primarily caused by a decrease in repo transactions' value (to PLN 17.9 million, i.e. -97.4% year on year), in term deposits (to PLN 255.0 million, i.e. -66.9% year on year) and in funds on current accounts (to PLN 273.8 million, i.e. -58.1% year on year).

The share of debt securities in issue in mBank Group's funding structure slid from 6.8% at the end of 2021 to 4.5% at the end of 2022. The decrease in the item resulted mainly from the redemption of two tranches of bonds at nominal value of EUR 460.6 million and CHF 180.0 million issued under the EMTN programme on the maturity date and the redemption of covered bonds issued in EUR and PLN by mBank Hipoteczny.

In 2022, subordinated liabilities grew by 4.4% year on year, which was caused by the PLN depreciation vis-a-vis the Swiss franc. A part of mBank's subordinated debt is CHF-denominated (CHF 250 million).

In 2022, total equity fell by PLN 1,002.9 million (-7.3%), primarily as a consequence of the financial loss for the previous year and decline in other items of equity, including unrealised losses in cash flow hedges. Its share in equity and liabilities of mBank Group accounted for 6.1% at the end of 2022 (against 6.9% at the end of 2021.)

Other information

Information on significant off-balance sheet items of mBank Group can be found in Note 35 to the mBank S.A. Group Consolidated Financial Statements 2022.

Information on transactions with related entities of mBank Group can be found in Note 44 to the mBank S.A. Group Consolidated Financial Statements 2022.

In 2022 mBank Group has not concluded any substantial agreements regarding credit and loan guarantees or guarantees granted of a significant amount.

As at December 31, 2022 mBank S.A. did not have any agreements referred to in Article 141t.1 of the Banking Law Act.

In 2022 mBank has not concluded any substantial agreements with the central bank or supervisory authorities.

As of end of 2022, the value of collateral meeting the requirements of the CRR set up on the accounts or assets of the borrowers amounted to PLN 105.7 billion for mBank Group.

Information on proceedings before a court, arbitration body or public administration authority can be found in Note 33 to the mBank S.A. Group Consolidated Financial Statements 2022.

Investment spending in 2022

mBank's investment activity in 2022 was focused on boosting organic growth. We addressed our clients' current needs arising from, among others, the Covid-19 pandemic (e.g. digitisation of processes and development of self-service banking) and the war in Ukraine. Several weeks after the outbreak of the war, we enabled Ukrainian citizens to open a bank account with mBank and submit applications for government aid.

The Group's investment spending in 2022 amounted to PLN 493.8 million, a figure nearly identical to last year's PLN 493.4 million. Similarly as in the previous periods, most of mBank Group's investment spending (PLN 389.4 million, 78.9%) was allocated to the IT area. We carried out projects important from the point of view of individual business areas. We primarily focused on improving the customer service and experience and on optimising processes.

In 2022, we launched a retail customer service system with a voice assistant, which helped to reduce the workload of the customer centre in the following months. Additionally, we launched a user activity monitoring system in all remote channels. By analysing our clients' activity, we are able to address their needs on an ongoing basis and customise the products and services offered to them depending on the information they search for. We launched a financial assistance service (Personal Finance Manager, PFM) which analyses our clients' finances, presenting, for example, an analysis of the transaction history showing the expenditure structure and their net wealth. At the same time, we continued working on improvements to mobile onboarding, including the automation of the client identification process (e.g. by allowing our clients to use the e-ID) and the process of opening an account in the mobile app. These changes helped significantly to bolster the popularity of mobile onboarding among retail clients and improved their perception of this onboarding method.

Corporate banking continued to invest in the digitisation and optimisation of the corporate credit process. We added advanced multi-product agreements to its scope, implemented a fully digital electronic credit

application and built a central team responsible for preparing agreements and documents for our clients. In Q1 2022, we successfully launched a new repository of electronic documents called DOXIS4. In 2022, we carried out work aimed at supporting the Customer Centre. As a result, we created solutions facilitating communication between clients and consultants. In Q4 2022, we enabled corporate clients to chat with a consultant on the mBank CompanyNet website. Additionally, we introduced the co-browsing function, where a Customer Centre consultant can use a separate mouse cursor to remotely interact with a client's computer screen. This convenient feature allows consultants to show clients the functionalities of the mBank CompanyNet system. We also carried out intensive work in mBank CompanyMobile. The system offers a modern design and an entirely new experience for the corporate mobile banking users. In the payments module we introduced the option to make domestic transfers and transfers between a client's own accounts. Implementation of these new functionalities contributed to the increase in the popularity of the mobile channel among our clients. Over 84% of corporate clients use the mobile app. At the same time, we continued to work on the digitisation of the onboarding process. At the end of 2022, as many as 73% of new accounts were opened online.

The year-on-year increase in investment outlays in the IT area was compensated by lower investment spending in the Administration and Real Property areas. Investment outlays in the Real Property area amounted to PLN 40.5 million, which is lower than last year due to completion of the mBank Tower (Wieża mBank) investment in 2021. The investment involved preparation of the headquarters workspace and consolidation of the existing locations in Warsaw. In 2022 we launched a retail network modernisation project, which covered those branches that required urgent modernisation. We rebuilt or moved some branches. Our goal was to optimise costs or to take advantage of a higher business potential.

Regardless of business initiatives, in 2022 mBank continued to carry out a range of projects aimed at ensuring legal compliance. The acts on crowdfunding of business undertakings and support for borrowers (introducing the so-called credit holidays) or on protection of homebuyers' rights and the Developer Guarantee Fund, which entered into force in 2022, urged us to make significant adaptive changes to mBank's systems and processes. We adapted our systems also to other regulatory requirements in, among others, the area of combating financial crime and money laundering, the risk area (new definition of default, DPD calculation at the group level), the benchmark area and the payments area (ISO20022/Target).

Investment plans for 2023

In 2023, mBank is planning to continue investments focused on strengthening its competitive position as well as fostering the ongoing optimisation and automation of client-related and internal processes.

In the retail banking area, investments will be focused on modernising the financial assistant. The expenditure analyses and categorisation presented to our clients will have a better quality. We are planning to release a fully digital and automated mortgage process for individuals. In the Czech Republic, we will implement a client authentication system in government services using an mBank account. Taking into account the prospects for e-commerce development in Poland, we are also planning to make investments in this field. Additionally, guided by the "mobile first" principle, mBank will make a new, improved information service available to its clients.

In 2023, we will continue to develop and add new features to the mBank CompanyMobile app for corporate clients. The improvements will be aligned with our clients' needs and expectations. We are planning to implement, among other things, push notifications and the option to make FX transfers between mBank accounts and SEPA transfers. We will also release a new FX module and enhance the card module. Simultaneously, we are planning to keep working on the digitisation and optimisation of the corporate credit process and to release new products and services in the digital onboarding process.

In the Real Property area, we have planned new investments, covering, among others, modernisation of the corporate branch network. At the same time, we will continue the modernisation of the retail branches, which began in 2022.

Compliance with the law continues to be an important element of our investments. The benchmark area, the area of combating the use of the Financial Information System (SInF) for money laundering and the payments area (ISO 20022/Target) will be of key importance for the bank.

Simultaneously, mBank will continue investing in resources to ensure high quality, availability and security of services offered to its clients. The use of cloud services will give us a technological advantage as it will shorten the time necessary to introduce business solutions to the market and increase the scalability of technological solutions.

4.3. Financial position of mBank in 2022

Profit and loss account of mBank

mBank closed 2022 with a loss before tax of PLN 59.5 million compared with a loss before tax of PLN 680.2 a year before (up by PLN 620.7 million). Net loss amounted to PLN 696.7 million against the net loss of PLN 1,215.4 million in 2021. Income tax paid by mBank amounted to PLN 637.2 million in 2022 v. PLN 535.1 million a year before (up by 19.1%).

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

PLN million	2021	2022	Change in PLN M	Change in %
Interest income	3,901.5	8,837.7	4,936.2	126.5%
Interest expense	-257.1	-3,094.9	-2,837.8	1103.9%
Net interest income	**3,644.4**	**5,742.9**	**2,098.4**	**57.6%**
Fee and commission income	2,510.0	2,823.7	313.7	12.5%
Fee and commission expense	-712.7	-783.4	-70.8	9.9%
Net fee and commission income	**1,797.4**	**2,040.3**	**242.9**	**13.5%**
Core income	**5,441.8**	**7,783.1**	**2,341.3**	**43.0%**
Dividend income	30.1	48.7	18.6	61.9%
Net trading income	78.3	71.9	-6.4	-8.2%
Other income	86.6	-116.2	-202.8	+/-
Other operating income	44.3	70.3	26.0	58.7%
Other operating expense	-212.6	-265.8	-53.1	25.0%
Total income	**5,468.5**	**7,592.1**	**2,123.6**	**38.8%**
Net impairment losses and fair value change on loans and advances	-789.1	-672.5	116.5	-14.8%
Costs of legal risk related to foreign currency loans	-2,758.1	-3,112.3	-354.2	12.8%
Overhead costs and depreciation	-2,194.7	-3,024.4	-829.8	37.8%
Taxes on bank balance sheet items	-577.6	-652.0	-74.4	12.9%
Share of profits (losses) of subordinated entities valued using the equity method	170.7	-190.4	-361.1	+/-
Profit/loss before income tax	**-680.2**	**-59.5**	**620.7**	**-91.2%**
Income tax	-535.1	-637.2	-102.1	19.1%
Net profit/loss	**-1,215.4**	**-696.7**	**518.6**	**-42.7%**
Net ROA	-0.6%	-0.4%		
Gross ROE	-4.2%	-0.5%		
Net ROE	-7.6%	-5.5%		
Cost/Income ratio	40.2%	39.9%		
Net interest margin	2.0%	3.6%		

Common Equity Tier 1 ratio	16.2%	16.4%
Total capital ratio	19.0%	19.4%
Leverage ratio	6.5%	6.4%

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 expenses.
Total overhead costs (including deprecation) - calculated as the sum of total overhead costs and depreciation.
Net impairment losses and fair value change on loans and advances – 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/loss attributable to Owners of the Bank 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/loss attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
Gross ROE - calculated by dividing profit/loss before income tax by the average equity attributable to Owners of the Bank net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Profit/loss before income tax is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
Net ROE - calculated by dividing net profit/loss attributable to Owners of the Bank by the average equity attributable to Owners of the Bank, net of the year's results. The average equity is calculated on the basis of the balances as at the end of each month. Net profit/loss attributable to Owners of the Bank is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).
Cost/Income ratio - calculated by dividing overhead costs and depreciation by total income (excluding tax on bank's balance sheet items).
Net interest margin - calculated by dividing net interest income by average interest earning assets. To calculate the margin, net interest income was calculated without factoring in the result from the non-substantial modification which, in 2022 includes the cost of the credit holidays. Interest earning assets are the sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in all valuation methods) and loans and advances to customers (net; in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month. Net interest income is annualized based on the number of days in the analysed period (an annualization factor is calculated by dividing a number of days in the year by a number of days in the analysed period).

Income of mBank

Total income generated by mBank amounted to PLN 7,592.1 million in 2022 compared with PLN 5,468.5 million in 2021, representing an increase by PLN 2,123.6 million, i.e. 38.8%. The increase was mainly driven by improved net interest income.

Similarly to 2021, net interest income remained mBank's largest income source in 2022 (accounting for 75.6% of total income). It stood at PLN 5,742.9 million, compared with PLN 3,644.4 million in 2021 (57.6%). The increase in net interest income resulted mostly from the series of interest rate hikes by a total of 665 bps made by the Monetary Policy Council between October 2021 and September 2022, as well as the bank's focus on the profitability of client relationships.

Net interest margin, calculated as the relation between net interest income and average interest-earning assets, stood at 3.6%, up from 2.0% in 2021.

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

Average interest rate (mBank)										
		Retail Banking[1] (Poland and foreign branches)			Corporate and Investment Banking			mBank total		
		2020	2021	2022	2020	2021	2022	2020	2021	2022
Deposits	PLN	0.33%	0.04%	0.95%	0.22%	0.02%	1.65%	0.29%	0.04%	1.17%
	FX	0.14%	0.05%	0.48%	0.02%	0.01%	0.10%	0.10%	0.04%	0.37%
Total loans	PLN	5.15%	4.37%	9.04%	2.61%	2.40%	7.12%	4.14%	3.68%	8.40%
	FX	1.48%	1.44%	1.75%	2.51%	2.27%	2.82%	1.75%	1.66%	2.05%
Mortgage loans	PLN	3.33%	2.75%	7.00%						
	FX	1.20%	1.12%	1.31%						

[1] The Retail Banking data include the data of the FX mortgage loans segment.

Interest income increased by PLN 4,936.2 million or +126.5% year on year. Loans and advances were the main source of the Group's interest income. Interest income from loans and advances increased by PLN 4,869.4 million or +163.4% year on year. In 2022, bank recognized negative impact of credit holidays on net interest income at the level of PLN 955.4 million.

PLN million	2021	2022	Change in PLN M	Change in %
Loans and advances	2,979.8	7,849.2	4,869.4	163.4%
Investment securities	482.7	1,348.3	865.6	179.3%
Cash and short-term placements	18.8	377.0	358.2	1906.4%
Trading debt securities	18.0	47.6	29.5	164.0%
Interest income on derivatives classified into banking book	103.8	0.0	-103.8	-100.0%
Interest income on derivatives concluded under the fair value hedge	80.1	0.0	-80.1	-100.0%
Interest income on derivatives concluded under the cash flow hedge	216.8	0.0	-216.8	-100.0%
Other	1.6	-784.4	-785.9	+/-
Total interest income	**3,901.5**	**8,837.7**	**4,936.2**	**126.5%**

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 increase in interest expenses in 2022 by PLN 2,837.8 million was mainly driven by higher deposit costs (increase by PLN 1,680.6 million), due to higher interest rates on deposits after interest rate increases.

Net fee and commission income, accounting for 26.9% of mBank's total income, increased compared to 2021. It reached PLN 2,040.3 million in the analyzed period, representing an increase by PLN 242.9 million, i.e. 13.5% compared with the previous year.

PLN million	2021	2022	Change in PLN M	Change in %
Payment cards-related fees	485.8	629.8	144.1	29.7%
Credit-related fees and commissions	451.3	507.4	56.1	12.4%
Commissions from currency transactions	408.1	516.5	108.4	26.6%
Commissions for agency service regarding sale of insurance products of external financial entities	65.3	80.2	14.9	22.7%
Fees from brokerage activity and debt securities issue	242.1	173.8	-68.3	-28.2%
Commissions from bank accounts	361.8	383.8	21.9	6.1%
Commissions from money transfers	191.1	223.5	32.4	16.9%
Commissions due to guarantees granted and trade finance commissions	91.1	98.1	7.0	7.7%
Commissions for agency service regarding sale of products of external financial entities	59.6	44.6	-15.0	-25.2%
Commissions on trust and fiduciary activities	33.2	32.9	-0.3	-0.9%
Fees from portfolio management services and other management-related fees	27.8	25.1	-2.6	-9.5%
Fees from cash services	45.2	54.0	8.8	19.4%
Other	47.6	53.9	6.3	13.3%
Total fee and commission income	**2,510.0**	**2,823.7**	**313.7**	**12.5%**

Fee and commission income went up by PLN 313.7 million (12.5%) year on year. The largest growth was observed in payment cards-related fees (+PLN 144.1 million or +29.7%). In the period under review, the value of transactions carried out with mBank's payment cards increased by 23.6%. Commissions from currency transactions increased by PLN 108.4 million (+26.6%) due to higher volatility on the FX market. A significant growth was observed in the credit-related fees and commissions (up by PLN 56.1 million or 12.4%). Due to a lower turnover in the Warsaw Stock Exchange and a lower number of transactions, fees from brokerage activity and debt securities issue dropped.

Commission expenses grew in the analysed period by PLN 70.8 million or 9.9%. The largest growth was observed in commissions paid to external entities for sale of the Group's products (+PLN 33.7 million or 24.7%).

Dividend income amounted to PLN 48.7 million in 2022, compared with PLN 30.1 million in 2021.

Net trading income stood at PLN 71.9 million in 2022, down by PLN 6.4 million (-8.2%) compared with the previous year.

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 was negative and amounted to PLN -116.2 million compared with PLN 86.6 million in 2021. 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 -195.5 million, mainly due to the creation of provisions for future liabilities.

Costs of legal risk related to foreign currency loans

In 2022, costs of legal risk related to foreign currency loans grew year on year and stood at PLN 3,112.3 million. The methodology is described in detail in note 34 to the mBank S.A. Group Consolidated Financial Statements 2022.

Costs of mBank

The total overhead costs of mBank (including depreciation) stood at PLN 3,024.4 million, up by 37.8% on the previous year.

PLN milion	2021	2022	Change in PLN M	Change in %
Staff-related expenses	-960.4	-1,109.6	-149.2	15.5%
Material costs	-597.4	-639.3	-41.9	7.0%
Taxes and charges	-30.1	-33.0	-2.9	9.7%
Contributions and transfers to the Bank Guarantee Fund	-218.2	-236.2	-18.0	8.2%
Contributions to the Borrower Support Fund	0.0	-162.5	-162.5	-
Contributions to the Social Benefits Fund	-11.7	-12.9	-1.2	10.1%
Institutional Protection Scheme	0.0	-428.1	0.0	-
Depreciation	-376.8	-402.7	-25.9	6.9%
Costs of mBank	**-2,194.7**	**-3,024.4**	**-829.8**	**37.8%**
Cost/Income ratio	40.2%	39.9%	-	-
Employment (FTE)	6,075	6,382	307	5.1%

Cost/Income ratio – calculated by dividing overhead costs and depreciation by total income (excluding tax on bank's balance sheet items).

In 2022, staff-related expenses increased by PLN 149.2 million or 15.5%. In the analysed period, remuneration costs increased. Additionally, 307 FTEs were added.

Material costs increased by PLN 41.9 million (+7.0%) in the period under review, in particular, as a result of higher costs of administration and real estate services and marketing costs.

Contributions and transfers to the Bank Guarantee Fund increased by PLN 18.0 million year on year.

In 2022, mBank incurred additional costs related to the contribution to the Borrower Support Fund in the amount of PLN 162.5 million and the contribution to the Institutional Protection Scheme in the amount of PLN 428.1 million.

Changes in the income and costs of mBank translated into a slight decrease in the cost/income ratio. It stood at 39.9% at the end of 2022, down from 40.2% in the prior year.

Net impairment losses and fair value change on loans and advances

In 2022, 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 -672.5 million, down by PLN 116.5 million or 14.8% against the prior year. The decrease was reported in Corporate and Investment Banking due to maintenance of high quality portfolio. Retail Banking noted an increase. The increase in the level of write-downs and provisions for credit risk results mainly from the observed and expected difficulties that may affect small enterprises. Additionally, the increase of the cost of risk was caused by the necessity to adopt the unfavourable macroeconomic conditions in the risk parameters.

4.4. Changes in the statement of financial position of mBank

Changes in assets

In 2022, mBank's assets rose by PLN 13,267.5 million (+7.0%). Total assets stood at PLN 203,975.8 million as at December 31, 2022.

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

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Cash and balances with the central bank	12,087.6	15,906.5	3,818.9	31.6%
Loans and advances to banks	11,194.9	15,392.9	4,198.0	37.5%
Securities held for trading and derivative instruments	2,540.7	2,550.0	9.2	0.4%
Net loans and advances to customers	105,344.9	107,979.8	2,634.9	2.5%
Investment securities	52,833.9	54,794.1	1,960.1	3.7%
Intangible assets	1,111.5	1,209.7	98.2	8.8%
Tangible assets	1,204.7	1,172.7	-32.0	-2.7%
Other assets	4,390.0	4,970.2	580.1	13.2%
Total assets of mBank	**190,708.3**	**203,975.8**	**13,267.5**	**7.0%**

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, loans and advances classified as trading assets, and loans and advances measured at fair value through other comprehensive income.
Investment securities – the sum of debt securities 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.
Other assets – the sum of fair value changes of the hedged items in portfolio hedge of interest rate risk, non-current assets and disposal groups classified as held for sale, investment properties, current income tax assets, deferred income tax assets and other assets.

Loans and advances to customers remained the largest asset category of mBank at the end of 2022. Their share has been systematically decreasing in the recent years. As at December 31, 2022, they accounted for 52.9% of total assets compared with 55.2% at the end of 2021. In 2022, the decrease resulted from, among others, a significant slowdown in the sale of loans in the second half of the year, which is discussed in more detail in the section on the consolidated statement of financial position of mBank Group, pre-payments of loans by the clients - mainly from funds accumulated due to credit holidays, and a decrease in the value of the loan portfolio in CHF as a result of settlements and court decisions.

The volume of net loans and advances to customers increased by PLN 2,634.9 million (+2.5%) year on year.

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Loans and advances to individuals	63,975.0	62,057.4	-1,917.6	-3.0%
Loans and advances to corporate entities	43,905.1	48,439.5	4,534.4	10.3%
Loans and advances to public sector	81.0	53.1	-27.9	-34.5%
Total (gross) loans and advances to customers	**107,961.1**	**110,549.9**	**2,588.8**	**2.4%**
Provisions for loans and advances to customers	-2,616.2	-2,570.1	46.1	-1.8%
Total (net) loans and advances to customers	**105,344.9**	**107,979.8**	**2,634.9**	**2.5%**

Gross loans and advances to individuals dropped by PLN 1,917.6 million (-3.0%) compared with 2021.

At the same time, gross loans and advances to corporate entities grew by PLN 4,534.4 million (+10.3%). The volume of gross loans and advances to the public sector fell by PLN 27.9 million (-34.5%).

Investment securities constituted mBank's second largest asset category (26.9%). In 2022, their value grew by PLN 1,960.1 million (+3.7%).

Other assets made up 20.2% of the bank's balance sheet total.

Changes in liabilities and equity

The table below presents changes in mBank's equity and liabilities in 2022.

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Liabilities to other banks	5,326.6	3,305.8	-2,020.9	-37.9%
Amounts due to customers	157,045.4	174,000.9	16,955.5	10.8%
Liabilities from debt securities in issue	6,683.6	4,548.7	-2,134.9	-31.9%
Subordinated liabilities	2,624.5	2,740.7	116.3	4.4%
Other liabilities	5,646.4	6,882.5	1,236.1	21.9%
Total liabilities	**177,326.5**	**191,478.6**	**14,152.1**	**8.0%**
Total equity	**13,381.8**	**12,497.2**	**-884.6**	**-6.6%**
Total liabilities and equity of mBank	**190,708.3**	**203,975.8**	**13,267.5**	**7.0%**

Other liabilities – the sum of financial liabilities held for trading and hedging derivatives, lease liabilities measured at amortised cost, fair value changes of the hedged items in portfolio hedge of interest rate risk, liabilities included in disposal groups classified as held for sale, provisions, current income tax liabilities, deferred income tax provisions and other liabilities.

Amounts due to customers remained mBank's principal source of funding. Their share in equity and liabilities grew compared with the end of 2021 and accounted for 85.3% (82.3% a year before).

Amounts due to customers rose by PLN 16,955.5 million (+10.8%) to PLN 174,000.9 million in 2022. As before, the growth was driven by amounts due to individuals, which went up by 9.3%. Amounts due to corporate entities grew by 13.3%, and amounts due to the public sector increased more than twofold.

PLN million	31.12.2021	31.12.2022	Change in PLN M	Change in %
Individual customers	112,446.1	122,890.0	10,444.0	9.3%
Corporate entities	43,991.9	49,850.6	5,858.8	13.3%
Public sector customers	607.4	1,260.2	652.8	107.5%
Total amounts due to customers	**157,045.4**	**174,000.9**	**16,955.5**	**10.8%**

Amounts due to other banks decreased by PLN 2,020.9 million, i.e. -37.9% year on year, to PLN 3,305.8 million.

In 2022, equity declined by PLN 884.6 million (-6.6%), primarily as a consequence of the financial loss for the previous year, and a decrease in other equity items, including unrealised losses in cash flow hedges. Its share in total equity and liabilities of mBank accounted for 6.1% at the end of 2022 (7.0% in 2021).

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 (16.42% at the stand-alone level and 13.81% at the consolidated level at the end of 2022) and the total capital ratio (19.37% at the stand-alone level and 16.36% at the consolidated level at the end of 2022), 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 2022 is presented in Chapter 9.3. "Capital adequacy". Capital requirements for mBank Group fell in December 2022 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 2.12% to 1.76% for the total capital ratio and from 1.59% to 1.32% for the Tier 1 capital ratio).

Regulatory capital requirements for mBank Group as of December 31, 2022, 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 2022.

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 14.4 billion at the end of 2022, out of which PLN 12.2 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 2.2 billion at the end of 2022, which represents a year-on-year decrease by PLN 70 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, 2022.

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 307.5 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 totaling PLN 981.0 million. Similarly, the Annual General Meeting decided not to distribute the 2020 net profit. At the same time, net loss booked in 2021 and 2022 lowered own funds by PLN 1.9 billion total.

More information on capital adequacy can be found in Note 47 to mBank S.A. Group Consolidated Financial Statements 2022, whereas detailed information on the dividend policy are provided below.

Dividend

The dividend policy of mBank incorporates the assumptions of the Group's strategy and risk management strategy and is conducted in accordance with the principles of prudence, ensuring that mBank and mBank Group maintain the capital ratios at a safe level. While recommending the payment of dividends, mBank's management board takes into account, among other things, the bank's financial situation and profitability, the macroeconomic and regulatory environment and – notably - recommendations of the Polish Financial Supervisory Authority (PFSA). In particular, on December 6, 2022, the PFSA published its position on dividend policy in 2023 concerning the profit generated in 2022. The criteria contained in the PFSA's position take into account similar factors to those contained in the previous year's position.

Furthermore, the bank announced in March 2022 that, due to uncertainty related to the war in Ukraine, the bank's management board assumes that no dividend will be paid from the profit generated in 2022. Finally, taking into account the decision to increase the costs for legal risk related to foreign currency loans in September 2022, as well as the negative impact of the credit holiday, the Group's result in 2022 is negative. In view of the above, mBank Group's objective in the coming quarters is to strengthen its capital base, which is why the bank's management board announced in September 2022 that it assumes no dividend will be paid from the profit generated in 2023. However, mBank's long-term dividend policy still assumes a payout of 50% of net profit.

Minimum requirement for own funds and eligible liabilities (MREL)

On May 5, 2022 mBank received a letter from the Bank Guarantee Fund ("BFG") concerning the joint decision of the resolution authorities, i.e. the Single Resolution Board, BFG and the Hungarian National Bank as regards the requirement of own funds and eligible liabilities ("MREL").

The updated target MREL requirement has been set for the bank at the consolidated level, excluding mBank Hipoteczny from the consolidation in accordance with Art. 97 (4a) of the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution of 10 June 2016. It has been set at the level of 19.22% of the total risk exposure amount ("TREA"), where for own funds and subordinated eligible liabilities at the level of 18.60% of TREA and 5.91% of the total exposure measure ("TEM"), where for own funds and subordinated eligible liabilities at the level of 5.67% of 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").

The target MREL requirement should be reached by December 31, 2023.

In the letter dated May 5, 2022 the BFG also communicated the interim MREL goals. They have been set in accordance with the MREL methodology in effect at the time, assuming a linear path to the MREL target. The interim MREL goals in relation to TREA were set at 14.67% at the moment the decision was communicated to the bank and 16.94% by the end of 2022, including in respect to own funds and subordinated eligible liabilities 14.36% and 16.48% respectively. Whereas, for MREL in relation to TEM, the interim targets were 3.00% at the time of communicating the decision to the bank and 4.46% at the end of 2022, including 3.00% and 4.34% for own funds and subordinated eligible liabilities, respectively.

The BFG also indicated that the Common Equity Tier 1 capital kept by the bank for the purposes of the combined buffer requirement cannot be included in MREL requirement in relation to TREA.

On September 22, 2022, in response to the limited ability of domestic entities to issue equity and debt instruments due to the high macroeconomic uncertainty caused by, among other things, the Russian Federation's aggression against Ukraine, and the so-called "credit vacation" costs incurred by banks, the BFG published a new MREL methodology. The methodology modified the rules for determining the interim MREL requirement in relation to TREA and updated the path to the target MREL level in relation to TREA. Under the new approach, in the current planning cycle, the BFG will determine the interim MREL requirement in relation to TREA that entities should meet by December 31, 2022, based on the same formula as for the interim requirement that entities are required to meet as of January 1, 2022. This means that the MREL requirement in relation to TREA will remain in 2023 at a level similar to that in effect in 2022. Significant increase in the requirement will not occur until December 31, 2023 when the MREL target level will apply.

According to the bank's estimates based on the updated MREL methodology, taking into account the bank's current own funds requirements, including the additional capital requirement to cover risks arising from foreign currency mortgage loans for households in effect as of December 31, 2022, the updated MREL target requirement and the interim goal for 2023 will be lower than the requirements set in the BFG letter dated May 5, 2022.

The bank estimates that the BFG will set the target MREL requirement in relation to TREA at the level of 18.57%, including for own funds and subordinated eligible liabilities at the level of 18.03% and at the level of 5,91% of TEM, including for own funds and subordinated eligible liabilities at the level of 5.91% of TEM. For interim goals, the bank estimates that the BFG will set the requirement in relation to TREA at the level of 14.16%, including for own funds and subordinated eligible liabilities at the level of 13.89% and 4.46% in relation to TEM, including own funds and subordinated eligible liabilities at the level of 4.46%. The updated interim goals will apply from the date the bank receives information from the BFG regarding the decision on the updated MREL requirement.

As of December 31, 2022 mBank meets its interim MREL requirement as set by the BFG in the letter dated May 5, 2022.

5.2. mBank Group funding

mBank Group maintains a diversified financing structure. It takes into account the principles of profitability and ensures stable sources of financing for lending activities. mBank Group complies with regulatory requirements, including maintaining appropriate levels of ratios and standards of financial liquidity and capital adequacy.

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, 2022 stood at 88% (compared to 85% at the end of 2021). Retail deposits are the main growth driver. The loans to deposits ratio for the Group as at December 31, 2022 reached 69.0% compared to 74.9% in the previous year.

We currently use medium-term and long-term instruments for the Group’s funding in foreign currencies, including issuance of unsecured bonds, bilateral loans from European Investment Bank, subordinated loans as well as FX swap and CIRS transactions. Bond issuances under the EMTN Programme and mortgage covered bonds issued by mBank Hipoteczny remain an important funding source. However, the share of these sources decreased in 2022 as a result of repayments.

In 2022, mBank completed securitization transactions for the first time. As part of them, mBank issued credit linked notes. In March 2022, the nominal value of the issue amounted to PLN 642.5 million, while in December 2022 the nominal value of another issue amounted to EUR 64 million. More information on these transactions can be found in chapter 1.7 "Key events and projects of mBank Group in 2022".

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.

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 EMTN Programme with a maximum value of EUR 3 billion established in April 2018, four tranches were issued: 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. The issue of EUR 500 million in September 2021 was our first issue of non-preferred senior bonds (NPS) and the first green issue in the EUR benchmark format placed by a Polish financial institution. The rules for allocating funds from the issue to the bank's assets are set out in the framework document: mBank S.A. Group Green Bond Framework. The criteria for assessing and selecting green mortgages meet the requirements of the Climate Bonds Initiative (CBI) for low-emission housing in Poland. The fulfilment of these assumptions has been confirmed by Sustainalytics. The funds from the issue of green bonds were entirely used to refinance part of the portfolio of retail mortgage loans financing highly energy-efficient buildings.

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%
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 is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market. As of December 31, 2022, the value of issued mortgage covered bonds amounted to PLN 5.3 billion. This accounts for 30.5% of the total market, the value of which reached approximately PLN 17.3 billion (based on the EUR/PLN exchange rate published by the NBP on December 31, 2022: 4.6899).

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 2022 mBank Hipoteczny issued two series of covered bonds within the non-prospect offer for the total amount of PLN 700 million.

Moreover, mBank Hipoteczny continues to issue unsecured bonds. As of December 31, 2022, the total amount of issued series of bonds was at PLN 95 million. The offer of mBank Hipoteczny 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 5,642 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 2022):

Share in total income	Pre-tax profit	Total income
51.4% ↑	PLN 1,024.7 M ↓	PLN 4,027.1 M ↑

Key highlights
■ Increase of income by 7.1% year on year, despite negative impact of "credit holidays".
■ Increase in the number of active users of mobile application by 12.8%, up to 3,338.5 thousand in Poland, Czech Republic and Slovakia.
■ Increase of retail deposits by 9.3% in 2022, to the level ensuring safe liquidity position of mBank Group.
■ Increase of the value of transactions carried out with mBank's payment cards by 23.6% as well as in the number of card transactions by +18.6% on annual basis, along with rising activity of clients.
■ Growing share of digital channel in the sale of non-mortgage loans (by number of pieces) to 80% in 2022 against 78% a year before, including share of mobile application to 55% in 2022 against 42% a year before (number of pieces). Share of processes in retail banking area initiated by the clients in digital channels increased to 82% in 2022 against 76% a year before.
■ Introduction of personal financial management functionalities (PFM) in mBank's application. PFM analyses transaction history of the client on a constant basis. Among others, it allows to compare spending and inflows from recent months, as well as to check their details.
■ Further development of additional services in mBank's mobile application: adding qualified electronic signature (mSzafir) which makes it easier for clients to use public administration services without leaving home. Clients can also apply for support from government programmes in mBank mobile application, such as 500+ and pay for car parks in selected cities in Poland.
■ mBank Brokerage Bureau has provided clients with online quotations of foreign markets in the eMakler service. The function increases the availability of investing in foreign markets.
■ We take into account ESG and the best customer experience: we have introduced products promoting ESG, e.g. eco mortgage or online shopping insurance. mBank clients raised over PLN 10 million to help victims of the war in Ukraine. We carried out the third edition of the "Digital Revolutions" campaign, supporting the development of SMEs and micro-enterprises in the e-commerce area. We are successively switching to issuing cards made of recycled plastic and virtual cards.
■ mBank's subsidiary mTowarzystwo Funduszy Inwestycyjnych (mTFI) received a permit to operate an investment fund company from the Polish Financial Supervision Authority. The subsidiary began operations on January 1, 2023.
■ mBank's Brokerage Bureau maintained the largest number of brokerage accounts among all Polish brokerage bureaus and houses (over 418,000 accounts).
■ In cooperation with UNIQA, mBank created the most comprehensive online payment and shopping insurance with the broadest coverage on the Polish market.

6.1. Financial results

In 2022, the Retail Banking segment generated a profit before tax of PLN 1,042.7 million, which represents a decrease by PLN 478.9 million, i.e. -31.5% year on year. Total income increased by 7.1% year on year despite the negative impact of "credit holidays". The decrease of profit before tax results mainly from higher total overhead costs (including deprecation), higher impairment losses and fair value change on loans and advances, and higher taxes on Group's balance sheet items. The foreign branches in the Czech Republic and Slovakia in 2022 generated a gross profit of PLN 220.8 million compared to PLN 108.1 million in 2021, which represents an increase by 104.3% year on year.

PLN M	2021	2022	Change in PLN M	Change in %
Net interest income	2,742.0	3,064.5	322.6	11.8%
Net fee and commission income	972.2	1,065.8	93.7	9.6%
Net trading income	42.6	69.6	27.0	63.4%
Other income	2.5	-8.5	-11.0	+/-
Net other operating income/expense	-0.4	-164.4	-164.0	383.3x
Total income	**3,758.8**	**4,027.1**	**268.3**	**7.1%**
Net impairment losses and fair value change on loans and advances	-451.4	-599.4	-147.9	32.8%
Total overhead costs (including deprecation)	-1,499.8	-1,993.3	-493.5	32.9%
Taxes on Group's balance sheet items	-286.0	-391.8	-105.8	37.0%
Profit/loss before tax of Retail Banking	**1,521.6**	**1,042.7**	**-478.9**	**-31.5%**

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 expenses.
Total overhead costs (including deprecation) - calculated as the sum of total overhead costs and depreciation.
Net impairment losses and fair value change on loans and advances – 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.

6.2. Activity of Retail Banking Area in numbers

Refers to mBank and mBank Hipoteczny

('000)	31.12.2020	31.12.2021	31.12.2022	Annual change
Number of retail clients, including[1]:	**5,661.8**	**5,514.6**	**5,642.8**	**2.3%**
Poland	4,658.5	4,487.8	4,590.1	2.3%
Foreign branches	1,003.4	1,026.9	1,052.7	2.5%
The Czech Republic	702.7	717.8	732.3	2.0%
Slovakia	300.7	309.0	320.4	3.7%
Mobile application users	**2,577.3**	**2,959.8**	**3,338.5**	**12.8%**
Poland	2,274.3	2,587.9	2,920.0	12.8%
Foreign branches	303.0	371.9	418.5	12.5%
PLN M				
Loans to retail clients, including:	**65,579.3**	**73,236.5**	**71,645.1**	**-2.2%**
Poland	**58,351.2**	**63,430.6**	**61,381.5**	**-3.2%**
mortgage loans	41,205.1	44,320.9	42,701.1	-3.7%
non-mortgage loans	17,146.1	19,109.7	18,680.4	-2.2%
Foreign branches	**7,228.1**	**9,805.9**	**10,263.6**	**4.7%**
The Czech Republic	5,182.0	6,831.1	7,114.6	4.2%
Slovakia	2,046.1	2,974.8	3,149.0	5.9%
Deposits of retail clients, including:	**98,221.0**	**112,377.9**	**122,726.8**	**9.2%**
Poland	**84,402.2**	**96,586.7**	**105,750.2**	**9.5%**
Foreign branches	**13,818.7**	**15,791.2**	**16,976.5**	**7.5%**
The Czech Republic	9,564.6	11,018.6	12,047.8	9.3%
Slovakia	4,254.1	4,772.7	4,928.8	3.3%
Investment assets of mBank individual clients (Poland)	**19,429.9**	**22,076.7**	**18,746.0**	**-15.1%**
('000)				
Credit cards, including	**388.0**	**376.8**	**361.0**	**-4.2%**
Poland	349.4	340.5	326.1	-4.2%
Foreign branches	38.6	36.2	34.8	-3.8%
Debit cards, including:	**4,141.4**	**4,456.9**	**4,851.2**	**8.8%**
Poland	3,472.1	3,777.2	4,082.3	8.1%
Foreign branches	669.4	679.7	768.9	13.1%
Distribution network				
Advisory Centres	14	15	15	
Light branches	34	33	31	
mBank (f. Multibank)	91	85	84	
mKiosks (incl. Partner Kiosks)	161	149	149	
mFinanse Financial Centres	42	40	40	
Czech Republic & Slovakia	41	45	46	

[1] Includes the number of Kompakt Finanse clients.

6.3. Retail Banking of mBank in Poland

Retail banking offer for individuals

In 2022, we continued to develop our product range and improve customer service quality amid the highest interest rates and inflation in many years. We continued our ESG efforts and enhanced our e-commerce solutions and internal processes. Moreover, we took measures towards achieving our goals relating to Retail Banking, as described in the mBank Group Strategy for 2021-2025. In line with our strategy, we support our clients' financial well-being, among others, by encouraging them to analyse their budget.

In April 2022, we launched Personal Finance Management (PFM), a new tool helping clients manage and understand their finances and household budgets. PFM helps users take care of their financial well-being by comparing their expenses and income from the recent months broken down into categories. In Q4 2022, the average monthly number of unique users of PFM in the mobile app and online banking reached 1.5 million. On average, around 30% of PFM users logs-in once a week (over 4 times a month).

The significance of the mobile channel continues to rise: the mobile app is currently used by 2,920,000 clients in Poland, up by 12.8% compared with 2021 (2,587,900 users). Share of the mobile application in the sale of non-mortgage loans increased to 55% at the end of 2022 compared with 42% in 2021 (by number of pieces). Monthly active users (MAU) increased to 3,239 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 2022".

In December, we signed the Commitment to Financial Health and Inclusion within the framework of the United Nations Environment Programme Finance Initiative (UNEP-FI). At the same time, we launched the educational website www.twojaspokojnaglowa.pl. We also continue to promote virtual and recycled plastic cards. We use a special symbol to mark our products and services that are connected with a reduced use of plastic, paper and lower greenhouse gas emissions. The first cards bearing mBank's official eco-friendly symbol – Mastercard Mobile and the virtual eKarta – were issued in late 2022. Our eco-friendly mortgage loan is marked with the "less CO_2" symbol. More information on these initiatives can be found in section 1.7 "Key events and projects in mBank Group in 2022".

Non-mortgage loans

2022 was a challenging year in the area of loans for retail clients. The economic downturn, an unstable geopolitical situation and interest rate hikes are among the factors that shaped the demand for loans in the previous year. Despite unfavourable conditions, our non-mortgage loan sales were satisfactory. We closed 2022 with PLN 5,332.2 billion of loans granted for individuals, down by 8.5% compared with the previous year. The loan sales are attributable to our attractive products and a slightly less conservative credit policy. The high quality of mBank's products was proved by the 2022 Golden Banker award we received in the "Best Cash Loan" category.

Sales via electronic channels enjoyed the greatest popularity in 2022. We managed to beat the previous year's record with electronic channel sales accounting for 51.2% of total unsecured loan sales' value. The importance of electronic sales channels is particularly noticeable in the cash loans segment, where sales via electronic channels grew by 3 p.p. on the previous year. Sales in the mobile app are also steadily on the rise. Additionally, in 2022 we launched new project initiatives to provide our clients with sales paths that are as simple and convenient as possible.

The NPS survey provides us with valuable information. We analyse survey data and customer feedback on an ongoing basis. The survey conducted at the end of 2022 showed a stable, high satisfaction level of 71% for cash loans. Our clients' satisfaction with credit cards also grew in 2022, reaching 62%. Moreover, we upped the NPS for revolving loans and closed the year with a score of 60%.

We also take care of our clients' financial well-being in the loans area. We educate clients about responsible lending and encourage them to broaden their knowledge and borrow money wisely.

Mortgage loans

In 2022, the sales of mortgage loans for individuals in Poland dropped significantly. In accordance with the Polish Bank Association's data, it fell by a staggering 48.1% year on year. This market trend also affected mBank. We granted loans totaling PLN 5,556.8 million, which is by 40.0% less than in 2021, of which 19% of these loans were semi-fixed rate loans. At the end of May, we introduced semi-fixed rate loans disbursed in tranches, which enable clients to buy real property on the primary market or finance the construction of real property.

In January 2022, we launched the first eco-friendly mortgage loan. For more information about it, see section 1.7 "Key events and projects in mBank Group in 2022".

Our mortgage loans for individuals were acknowledged by the market. We received the Golden Banker award in the "Best Mortgage Loan" category.

In late July, we enabled clients to apply for credit holidays. From the very beginning, clients needed to submit one application only to apply for all the credit holiday periods. To make it easier for clients to apply for credit holidays, we launched a dedicated website, where we also answer frequently asked questions.

In September 2022, we decided to appreciate our existing clients by offering them a lower credit margin, which may increase the share of these clients in 2023 sales.

The NPL ratio for the mortgage loan portfolio for individuals in Poland remained stable year on year and amounted to 2.1% at the end of 2022.

Deposits

In 2022, mBank grew its deposit base significantly. At the end of the year, the retail deposits of mBank in Poland stood at PLN 104,691 million, up by 9.9% (+PLN 9,422 million) compared with the end of 2021, when they totaled PLN 95,269 million. The decisive factors behind the increase were interest rate hikes and higher market rates. In H2 2022, mBank encouraged saving even more intensively by launching a number of promotional campaigns, in particular, concerning term deposits. Thanks to that, the financial cushion built by clients in deposits increased by PLN 18,791 million at the end of 2022, up by 230.5% on the previous year. Simultaneously, balances on current and saving accounts fell by 10.8% year on year, mainly by virtue of funds being transferred to term deposits, which yield higher interest.

Investment funds for retail clients

In 2022 mBank implemented further facilitations in the investment area. We expended the offer with a one-time investment consulting. As part of the service clients who use Investment Goals are recommended one of our defined investment strategies. We promoted investing regularly, which reduces risks associated with investing. Moreover, we supported the sale of funds with successive editions of a promotion *Save and Invest*. mBank offered higher interest rate than on a standard deposit if the client invested part of the funds in investment funds.

Investment Fund Supermarket's offer was expended with investment funds of another foreign asset management company: Franklin Templeton. Moreover, we improved the experience of our clients who use the platform. They can now check estimated date of finalization of the order which they placed. The new feature was acclaimed by our clients.

In 2022 we were also focused on establishing our own Investment Fund Company. On January 1, 2023, mTowarzystwo Funduszy Inwestycyjnych S.A. (mTFI) has begun its operations and manages the investment funds portfolios. For more information on mTFI S.A. please see chapter 1.2. Composition of mBank Group.

Cards and accounts

At the end of 2022, to mark the 31st Grand Finale of the Great Orchestra of Christmas Charity (WOŚP), we introduced a limited-edition card designed by Jurek Owsiak which can be ordered by clients. For the second time clients can also order a mobile version of the WOŚP card. Mobile cards are active in mBank's app and ready to use straight away.

In June, we introduced another limited-edition card on the occasion of the 28th Pol'and'Rock Festival, available to existing and new clients alike (a total of 15,000 plastic cards). An eco-friendly mobile version is also available. More information on reducing plastic use in the context of payment cards can be found in section 1.7 "Key events and projects in mBank Group in 2022". In H2 2022, we began works to eliminate plastic cards dedicated to online purchases. The first cycle of migration from plastic to virtual cards began at the beginning of 2023. Now, renewed virtual cards are available to clients only in the mobile app and in online banking.

As part of a special campaign organised from June to September 2022, mBank clients were offered a summer package of benefits. In addition to the multi-currency service clients received free-of-charge ATM withdrawals abroad, discounts on travel insurance and additional discounts in the mDeals programme. Moreover, they could get up to PLN 100 back as a percentage of debit card payments made abroad.

In mid-2022, we launched contactless BLIK payments in foreign currencies.

In September 2022, mBank introduced an additional authorisation method using behavioural biometrics, thus strengthening the security of clients using one-time passwords to authorise their online card payments. The new solution, which uses the unique way clients type on a computer keyboard, was

developed in cooperation with ITCARD and Digital Fingerprints. It is unique on both a domestic and global scale.

In 2022, the value of payment card transactions made by mBank's retail clients in Poland amounted to PLN 76.3 billion, which represents a rise by 23.6% year on year. The number of transactions made by mBank clients increased by 18.6% year on year. The share of card transactions made by mBank cards in the total number of card transactions in Poland stood at 12.4% at the end of September 2022, while the share of card transactions made by mBank cards in the total value of card transactions in Poland stood at 12.5% (last available data, cumulative for the first nine months of 2022).

Additional services

In 2022, mBank customers received over PLN 5.3 million in cash back as part of their participation in the mOkazje (mDiscounts) programme. This amount was financed in 99% by the partners of the programme. It is the best result in 4 years and the second best in the programme's history.

A subsidiary of mBank Group, mFinanse, uses mOkazje for new acquisitions. The reward disbursement mechanism, i.e. the return of funds for making a transaction, significantly increases the activity of newly opened accounts. For this reason, among others, since 2019 mFinanse has been gradually replacing the existing benefits for newly acquired clients with mOkazje.

Last year, we continued our cooperation with Paynow. We used mOkazje as one of the arguments to encourage clients to switch to the payment gateway. As a result 23 campaigns were conducted with 12 new partners.

mOkazje were also used to transfer vouchers. The functionality, which has been rarely used so far, has proven to be a perfect solution as part of the acquisition initiatives: I recommend mBank, the Ambassador Programme, Special Action with Allegro, Żabka and Biedronka and the Gaming Action, we provided customers with over 10,000 vouchers with discounts.

The open banking service enables mBank clients to view transaction history and balance of accounts held with different banks. It has been available to our clients already since November 2021. The service is provided under EU's PSD2. It is free of charge and available in mBank online banking to clients holding accounts with Alior Bank, ING Bank Śląski, Millennium, PKO Bank Polski and Bank Pekao. In 2022, we worked on including several new banks in the open banking service. We plan to add them to the online banking dashboard in 2023.

The Polish e-commerce market has been increasingly reliant on payments governed by PSD2, which reduces the share of traditional transfers (mTransfer at mBank). In 2022, there was a systematic increase in the number of PSD2-based payments, which we addressed by taking a number of measures designed to improve the capacity of the service. This will allow us to handle the heaviest traffic during peak payment periods such as the Black Friday. It is feasible as the service is currently scalable and based on cloud solutions.

Offer for affluent clients

mKonto Intensive is a premium account which enables access to a range of superior Intensive product and services. Our solutions focus on high quality of service and a wide range of banking products. Regular inflows or accumulated assets ascertain exemption from card and account fees. mKonto Intensive owners are offered preferential deposit and card solutions. Our clients can make limitless withdrawals from ATMs all over the world, are offered favourable exchange rates and can make three free-of-charge instant transfers a month. mBank offers also, among others: access to investment and brokerage services, offer for children, convenient and safe mobile application. Premium service gives the clients opportunity for a direct contact with a personal assistant – an expert from our outlets, and a priority while using mBank services remotely.

Brokerage operations and asset management

In 2022, we provided our brokerage and asset management services under exceptional market circumstances. Compared with the previous year, in 2022 investors reduced their activity on the Warsaw Stock Exchange (GPW).

The Brokerage Bureau of mBank is the leader in the market of brokerage services for retail clients. It operates the largest number of brokerage accounts among all Polish brokerage bureaus and houses. According to KDPW (central securities depository), the Brokerage Bureau of mBank maintained more than 418,000 accounts at the end of 2022. The Brokerage Bureau was also the leader in client acquisition during the period of dynamic client base growth in 2020-2022, with approx. 106,700 new brokerage accounts. In 2022, we acquired over 26,000 new investment accounts.

Although clients are focused mostly on the Polish market, recently we have been observing a growing interest in foreign markets, in particular in passive investing (ETFs). At the end of 2022, foreign assets accounted for approx. 10% of all assets of retail clients.

In response to heightened interest in foreign markets, we provided investors with free foreign stock quotations and new analytical analyses on the eMakler platform and in the mBank Giełda mobile app. At the same time, we continued to build greater financial awareness among our clients. Our new website (mdm.pl) features training courses and educational articles which, among other things, support investors' first venture into foreign markets. Our experts participated in educational programmes, presenting the benefits and risks of self-directed investing. The actions were in compliance with the Commitment to Financial Health and Inclusion signed by mBank within the framework of the United Nations Environment Programme Finance Initiative (UNEP-FI).

Amid difficult market conditions in 2022, all model investment strategies managed in the asset management formula yielded negative investment results, thus reflecting the global trends in the financial markets. At the same time, 7 out of 11 model asset management strategies available at the end of 2022 and offered to private banking clients outperformed their respective market benchmarks. The share of ESG model investment strategies in the total assets in model investment strategies increased from 28.8% to 32.0% in 2022.

As far as equity transactions on the GPW are concerned, 2022 was marked by significantly reduced activity. Despite this, mBank's Brokerage Bureau remained active and participated, among others, in:

- issue of shares in Trakcja (PLN 200 million) in the capacity of an agent;
- SPO of Ryvu Therapeutics (PLN 250 million) as a joint bookrunner;
- tender offer for shares in Gi Group (PLN 11 million) in the capacity of an agent;
- tender offer for shares in Interferie (PLN 123 million) in the capacity of an agent;
- tender offer for shares in Sygnity (PLN 205 million) in the capacity of an agent;
- tender offer for shares in ZPUE in the capacity of an agent;
- buyout of own shares in Master Pharm, Neuca, Erbud, R22, Prochem and Comp,
- compulsory buyout of shares in Simple, Interferie, Master Pharm, Elemental Asia and ZPUE.

Relations with UNIQA

In 2022 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 insurance,
- travel insurance,
- home insurance,
- life and health insurance
- new e-commerce insurance „Secure payment and online shopping".

All stand-alone products are available in the mBank mobile application. In 2022 already 35% of stand-alone insurance products have been purchased in the mobile app (+8 p.p. YoY).

We observe an increasing number of clients who have insurance unrelated to banking products. Relaxing of Covid-19 pandemic-related restrictions and constrains encouraged people to travel more frequently. Consequently, the number of travel insurance sold in 2022 has increased by 70% YoY. This represents an important product category in our standalone portfolio, in particular in mobile channel.

The pandemic has contributed to the higher awareness of the Poles concerning their life and health protection as well as safeguarding the financial security of themselves and their relatives in case of unexpected circumstances. In 2022 sales of life and health insurance rose by 14% YoY. 15% of the insurance policies has been purchased via mobile channel.

Products and services for small and medium-sized enterprises

In 2022, we developed a strong presence in the enterprise sector thanks to our business account offer with a two-year "no fee" guarantee. In pursuit of the strategy initiated in 2021, we focused on promoting additional services. We put an emphasis on the benefits connected with business-dedicated tools, to which mBank's clients have access alongside the business account. We supported new entrepreneurs who decided to start their business with us by refunding part of the expenses (moneyback). We promoted our ecosystem of services for entrepreneurs in a range of channels such as radio, television and social media.

In 2022, we concentrated on supporting and acquiring limited liability companies (*spółka z o.o.*). We offer one of the most attractive accounts for such companies on the market. As part of these efforts, we also introduced:

- an option for clients interested in starting business in this legal form to use our expertise in the registration process. As part of the initiative, an mBank partner (cashDirector) offers free-of-charge consultations on accounting matters as well as technical support and expertise to our clients in the registration process via the S24 system;
- mOrganizer Finansów (Finance mOrganiser) for the full accounting system, which makes it possible for limited liability companies to use the product. Owing to integration with the mBank business account, entrepreneurs can issue invoices, monitor payments and automatically match transactions with invoices;
- an option for business clients to obtain a corporate loan in remote channels.

All the efforts taken in the segment of limited liability companies allowed us to maintain our market shares, including a leading position in this segment on the SME market.

Compared with the previous year, 2022 saw a 30% rise in the number of business clients acquired by the national network of certified accounting offices (OSCBR). Our clients using the mKsięgowość Komfort (mAccounting Comfort) service are served by nearly 900 accounting offices located across Poland. There are more than 400 locations where clients can set up a business and open a business account with mBank.

Last year, we also intensified our efforts in the ESG area. We supported Polish entrepreneurs and entrepreneurship mainly in the following fields:

- eco-financing in a broad sense,
- supporting entrepreneurship, especially among women in Poland,
- reducing the use of paper and plastic in processes dedicated to SMEs.

In 2022, we introduced eco-financing in the scope of both secured and non-secured loans. This form of corporate lending has a competitive price and is dedicated to clients who wish to spend the funds on environmental purposes, such as solar panels or heat pumps.

In Q4 2022, together with our partner, Visa, we started working on an extensive campaign aimed at supporting enterprising women. As part of the initiative, we are preparing a series of TV programmes centered on successful businesswomen.

In 2022, we continued to support enterprises in the e-commerce segment. We extended our cooperation with Allegro. We offer attractive terms of business accounts to entrepreneurs when they set up an account in the online store as well.

In 2022, another edition of the Digital Revolutions (Cyfrowe Rewolucje) competition took place. For more information about it, see section 1.7 “Key events and projects in mBank Group in 2022”.

We are dynamically developing the Paynow payment gateway. As compared to the previous year, we doubled the transaction volume in 2022. We created a team of Paynow Mobile Advisors, which provides comprehensive services and full support to our clients in implementing the gateway and tailoring it to their own needs. We also improved buyers’ experience by introducing new functionalities that increase store conversion. We made it possible for clients to “revive” payments – our solution retries to make a payment if the transaction was unsuccessful. We also added a functionality which sends an email reminder about a pending payment.

In addition, we introduced pending returns, thanks to which clients can make payment returns to buyers even with insufficient balance. Clients can manage their business in a more flexible way, without having to secure funds to make a transaction.

In 2022, we provided our clients with online access to government services by expanding the mojeID (myID) functionality. We also became an identity provider for the mSzafir qualified electronic signature. This is the first solution on the Polish market which makes it possible to obtain a qualified certificate fully remotely.

In 2022, we introduced SoftPos payment terminals into our product range. Thus, the terminal is always available to a client on their smartphone or tablet.

In connection with the expiry of the COSME guarantees, we maintained the financing for companies with the BGK guarantee, using an identical product granted with the BGK de minimis guarantee. The change helped us streamline our processes and thus also the customer service.

6.4. Retail Banking in the Czech Republic and Slovakia

2022 was full of events (i.e. war in Ukraine, energy crisis, record levels of inflation or increases of basic rates in both the Czech Republic and euro zone) which caused turbulence, change in the customer behaviour and consumption levels, not seen for decades. In this period sales of mortgage loans decreased by 52% year on year (as of end of December 2022) and the 2 weeks REPO rate in the Czech Republic grew from 3.75% in January to 7.00% in December. Despite all the challenges mBank was able to actively react to all changes on both Czech as well as Slovak market and continue with its strategy focused on digitalization of its services and acquisition of new clients. The success of the decisions taken by mBank in Czech Republic and Slovakia during 2022 can be represented by end of the year results which showed growth in the number of clients, stable financial results and a continued growth of fees and commission area which ended with approximately +45% year on year growth.

In 2022 mBank announced several important new services for clients in the Czech Republic and Slovakia. In order to strengthen its position in non-mortgage lending, mBank launched risk based pricing. It was the first time the mechanism was introduced in mBank Group. Risk based pricing enabled mBank to redistribute the margin within the groups of clients based on their risk assessment.

mBank foreign branches joined the actions aimed at helping the refugees from Ukraine. Pressing a dedicated button enables mBank clients to donate organizations supporting victims of the war in Ukraine. mBank also decided to donate CZK 3 million to humanitarian aid for Ukraine.

Main focus of mBank´s foreign branches in the second half of 2022 was on strengthening its digital offer in the payment area and preparing the launch of the offer for micro and small enterprises in 2023. mBank was the first bank on the Czech and Slovak markets to digitalize its whole portfolio of cards. While ordering a new card clients can choose a plastic card or a mobile only card. Mobile card is active immediately on their mobile device, so clients do not have to wait until the card is delivered to start using them. Another benefit is increased security, as well as less plastic used. Nearly 80% of newly issued cards in Q4 2022 were mobile only, while 35% of all POS (Point-of-Sales) payments made by mBank clients on the Czech and Slovak markets in December 2022 were concluded in mobile devices.

Loans and deposits

The mBank loan portfolio in the Czech Republic and Slovakia stood at PLN 10,263.6 million as at 31 December 2022, representing an increase of PLN 457.7 million (+4.7%) year on year. The portfolio of loans in Czech Republic stood at PLN 7,114.6 million, up by PLN 283.5 million or 4.2% year on year. The portfolio of loans in Slovakia stood at PLN 3,149.0 million, up by PLN 174.1 million or 5.9% year on year.

The mortgage loan portfolio of mBank foreign branches amounted to PLN 7,582.6 million as at 31 December 2022, representing a decrease of 3.7% year on year. The portfolio of mortgage loans in Czech Republic stood at PLN 5,309.9 million, down by PLN 178.0 million or -3.2% year on year. The portfolio of mortgage loans in Slovakia stood at PLN 2,272.8 million, down by PLN 111.2 million or -4.7% year on year.

The non-mortgage loan portfolio of mBank's foreign branches increased by PLN 746.9 million or 38.6% to PLN 2,681.0 million as at 31 December 2022. The non-mortgage portfolio in Czech Republic stood at PLN 1,804.8 million, up by PLN 461.6 million or 34.4% year on year. The non-mortgage portfolio in Slovakia stood at PLN 876.2 million, up by PLN 285.4 million or 48.3% year on year.

mBank was able to significantly increase cash loans sales and improve its positions on both markets. The non-mortgage new loan portfolio in mBank's foreign branches increased to PLN 1,993.4 million, as at 31 December 2022, up by PLN 406.5 million or 25.6% year on year. In the Czech Republic it stood at PLN 1,346.0 million (PLN +217.5 million, 19.3% year on year), and at PLN 647.5 million, up by PLN 189.0 million or 41.2% year on year in Slovakia.

Sales of mortgage loans in mBank foreign branches decreased to PLN 613.8 million, down by PLN 2,175.5 million or -78.0% year on year. New mortgage loan portfolio in the Czech Republic decreased by PLN 1,530.3 million or -86,6% year on year to PLN 236.5 million as at 31 December 2022. Sales of mortgage loans in Slovakia stood at PLN 377.3 million, down by PLN 645.2 million or -63.1% compared to the previous year. The significant decrease in new sales of mortgage loans resulted from a business decision to focus on active sales of non-mortgage loans, which are characterized by higher profitability.

The volume of deposits continued to grow in 2022, as a result of attractive interest rates on saving accounts. The portfolio of deposits of mBank foreign branches stood at the level of PLN 16,976.5 million as at 31 December 2022 which represents a growth of 7.5% on an annual basis. Deposits in the Czech Republic stood at PLN 12,047.8 million, up by PLN 1,029.2 million or 9.3% year on year. In Slovakia, deposits stood at PLN 4,928.8 million, up by PLN 156.1 million or 3.3% year on year.

7. Corporate and Investment Banking Area

The Corporate and Investment Banking segment serves 33,025 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 2022):

Share in total income	Pre-tax profit	Total income
44.1% ↑	PLN 2,060.6 M ↑	PLN 3,459.3 M ↑

Key highlights

- Increase of profit before tax to PLN 2,060.6 million, by 156.6% in comparison with 2021.
- The sales of loans to corporate entities (including new sales, limit increases and renewals) increased by 6.5% year on year. mBank's share in the market amounted to 7.6%.
- Upgrade of mBank's mobile and internet solutions for corporate customers: addition of the possibility of remote identity verification via e-ID and eDO App in CompanyMobile application. The function facilitates and speeds up the appointment of a plenipotentiary to the account or updating personal data. In the mBank CompanyNet service, we are developing a Virtual Branch where 40 of the most important client-bank processes already operate fully digitally.
- 86% of corporate customers have at least one user of mBank's mobile application.
- In 2022, on average 73.0% of all Integrated Agreements for Banking Account has been opened with use of digital onboarding process.
- Dynamic growth of volumes processed by Paynow gateway (+143% YoY) thanks to scalable cloud architecture.
- Another edition of special campaign "Digital Revolutions": to support the development of microfirms and SMEs in the e-commerce area.
- Development of activities in the ESG area: mBank's Renewable Energy Sources (RES) portfolio increased to PLN 3.4 billion (compared to PLN 2.7 billion at the end of 2021); Green Leaf labels were awarded to mBank's digital onboarding and payment cards for saving plastic and paper.
- January 2022 marked the fifth anniversary of cooperation between the Great Orchestra of Christmas Charity, which played for the 30th time this year, and mBank, the foundation's main banking partner. The foundation raised money to ensure the highest standards of diagnosis and treatment of eyesight in children. During the five-year cooperation, mBank and its clients supported the foundation's goals with the amount of nearly PLN 70 million. mBank has prepared, among others, offer for corporate clients. As part of it, account maintenance and transfer fees (from January till June) were donated to the charity.

7.1. Financial results

The Corporate and Investment Banking segment generated a profit before tax of PLN 2,060.6 million in 2022, which represents an increase by PLN 1,257.5 million, i.e. 156.6% year on year. The reason for record high profit before tax was mainly high total income and lower level of net impairment losses and fair value change on loans and advances.

PLN M	2021	2022	Change in PLN M	Change in %
Net interest income	1,114.6	1,978.4	863.8	77.5%
Net fee and commission income	944.5	1,113.4	168.8	17.9%
Net trading income	263.8	351.4	87.6	33.2%
Other income	3.9	-6.7	-10.5	+/-
Net other operating income/expense	-19.4	22.9	42.2	-/+
Total income	**2,307.4**	**3,459.3**	**1,151.9**	**49.9%**
Net impairment losses and fair value change on loans and advances	-409.7	-196.2	213.5	-52.1%
Total overhead costs (including deprecation)	-867.6	-965.0	-97.5	11.2%
Taxes on Group's balance sheet items	-227.0	-237.5	-10.5	4.6%
Profit/loss before tax of Corporate and Investment Banking	**803.1**	**2,060.6**	**1,257.5**	**156.6%**

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 expenses.
Total overhead costs (including deprecation) - calculated as the sum of total overhead costs and depreciation.
Net impairment losses and fair value change on loans and advances – 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.

7.2. Activity of Corporate and Investment Banking Area in numbers

Refers to mBank only

	31.12.2020	31.12.2021	31.12.2022	Annual change in %
Number of corporate clients	**29,083**	**31,315**	**33,025**	**5.5%**
K1	2,358	2,272	2,218	-2.4%
K2	8,862	9,740	10,329	6.0%
K3	17,863	19,303	20,478	6.1%
PLN M				
Loans to corporate clients, including	**27,840.0**	**28,189.0**	**32,974.8**	**17.0%**
K1	6,719.5	6,058.1	6,578.8	8.6%
K2	18,302.3	18,983.4	21,705.5	14.3%
K3	2,714.4	2,959.9	3,079.3	4.0%
Reverse repo/buy sell back transactions	103.8	187.6	1,611.2	758.7%
Deposits of corporate clients, including	**34,816.6**	**43,756.7**	**50,453.5**	**15.3%**
K1	8,673.2	9,892.0	14,576.9	47.4%
K2	15,631.5	21,602.3	22,104.9	2.3%
K3	9,958.4	11,813.9	13,273.0	12.4%
Repo transactions	93.2	87.8	309.9	252.9%

7.3. Corporate and Investment Banking of mBank

In 2022, corporates grappled with numerous economic challenges. Despite double-digit inflation and interest rates hitting the highest level in many years, the market of loans and deposits for companies grew. The corporate loans market grew by 10.1% and the corporate deposits market increased by 12.3% year on year. At the end of 2022, mBank's shares in the market for corporate loans and deposits reached 7.6% and 10.8%, respectively.

In 2022, the bank further intensified its efforts to attract new corporate clients, which yet again resulted in high acquisition of new companies – the corporate client base increased year on year to 33,025 (+5.5%). Our initiatives launched so far have been well received by clients, which is reflected by the results of the customer satisfaction survey. The NPS of the corporate and investment banking segment reached 34 in 2022. Among the clients who declared mBank as their main bank, the NPS stood at 42. In order to respond to challenging market conditions, mBank has been continuously enhancing its corporate banking customer service processes and adjusting its product portfolio to client needs and the legal environment.

The mBank CompanyMobile app

mBank CompanyMobile is an app for corporate clients, which offers a modern design and an entirely new experience for smartphone users. In 2022, we worked intensively, among other things, on further development of the payment module in the mobile app. In response to our clients' requests, we added the two most popular types of transfers, i.e. a domestic transfer (including split payment) and a transfer between own accounts, thus enabling them to take full advantage of the app. Corporate clients take an ever-growing interest in making payments as quickly as possible.

Apart from regular transfers, we introduced the option to quickly send money to the originator of an incoming transfer and making a transfer again. Additionally, we enabled clients to download a confirmation of transfer execution. In the mobile app, clients can enter and send instant transfers (Express Elixir or BlueCash), transfers settled in sessions (Elixir) and large-value transfers (Sorbnet).

Mobile solutions are gaining popularity. Over 86.0% of our corporate clients use the mobile app; the number of individual users went up by 33.2% over 12 months. This demonstrates how further changes in our app increased the popularity and importance of the mobile channel in our clients' daily work.

Digital onboarding of corporate clients

In 2020 we have introduced a fully digital process of establishing business relations with new corporate clients. This is a platform for modern sales interactions with clients. It enables digital onboarding of clients and gives them access to most of the transactional banking products, in particular bank accounts accessible in the electronic banking system, cards and cash services. By using the platform 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 all clients, regardless of their size and organisational complexity. In 2022, we significantly streamlined bank-client interactions and now can open an account even within one day. We use automated compliance checks in the process, including checks against sanction lists.

In 2022, we also continued to work on the digitalisation of the process of onboarding corporate clients by way of conclusion of the Integrated Bank Account Agreement (ZURB). In this period, we remotely concluded over 3,400 ZURB agreements via our state-of-the-art client onboarding portal. On average, we concluded 73% of these agreements digitally. In 2022, we also launched a new generator of ZURB documentation, including documentation to be signed using the qualified signature. We extended the process by enabling the servicing of clients operating under other legal forms, while at the same time optimising and automating operational processes. In the coming year, apart from making new services and products available in digital ZURB onboarding, we are also planning to further automate the process.

The Green ESG Leaf for business cards and onboarding

In 2022 we have introduced a "Green Leaf", which is a symbol of mBank's products and services that support ecology. Our remote corporate client onboarding process, which allows companies to sign the account agreement completely online, has been marked with the Green Leaf "less paper". In 2022, thanks to this process, we saved 145,920 sheets, i.e. 292 reams of paper. The second distinguished product in corporate banking is the pro-ecological model of business cards, which we sign with the Green Leaf "less plastic". This means that we reduce the consumption of plastics by at least 85%. The "Green Leaf", both for cards and for digital onboarding, confirms that these solutions bring real and measurable benefits to the environment - in line with mBank's strategy.

Virtual Branch

The Virtual Branch is an integral part of the mBank CompanyNet system. Clients can use it to submit electronic applications pertaining to the key areas of cooperation with the bank and handle most of their matters. We want our clients to be able to do as much as possible on their own. We are working intensively on digitalising and automating mass processes; this way, we protect the natural environment by reducing paper use and save time and other resources. Our system, mBank CompanyNet, is constantly expanded with new modules and functions.

We have observed that the remote processes already available to our clients are growing in popularity; at the same time, we are digitalising further solutions. In 2022, the number of issues handled digitally increased by 22% compared with 2021 (net of one-off events related to the handling of the Polish Development Fund's (PFR) programme in 2021 and in early 2022). In 2022, we digitalised an additional six of the most labour-intensive processes in the Virtual Branch. Currently, more than 40% of key client-bank processes are fully digital. Simultaneously, we significantly reduced labour intensity and streamlined the bank's internal processes. The changes not only generated savings, but above all increased satisfaction of clients, who are served immediately.

Online Assistant – CompanyNet Cobrowsing

In H2 2022, we launched a new service called Online Assistant dedicated to corporate clients. First, we ran a pilot to test the service and then made it available to all clients in Q4 2022. Corporate clients can use the service while working in mBank CompanyNet. Online Assistant enables safe, quick and convenient communication with the bank via a text chat. In addition, clients have the option to share their mBank CompanyNet screen with our Customer Centre consultants, who can guide them through the system during a chat. This solution received an enthusiastic welcome from mCN users. Since the launch of Online Assistant, nearly 1,000 companies have used this form of communication with the bank to solve day-to-day problems.

Also in 2022 we implemented a new, universal model of support for all corporate clients in the Corporate Customer Centre. Now, every corporate client, regardless of the segment, is served individually by a dedicated consultant. This way, we minimised the number of consultants a client is connected to when calling the bank. All this allows us to provide clients with support that is better tailored to their specific situation and verify and resolve their problems more quickly.

Our clients also actively use the remaining channels to contact the support unit. In 2022, the number of incoming calls rose by 18.2% compared with 2021, with 90% of calls answered in less than 20 seconds.

Products and services on offer

Corporate loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) stood at PLN 31,370.8 million at the end of 2022, representing an increase of 11.9% year on year.

PLN M	31.12.2020	31.12.2021	31.12.2022	Annual change
Loans to corporate clients[1]	27,818	28,036	31,371	11.9%
Loans to enterprises[2]	27,966	28,842	32,454	12.5%
Loans granted to local governments	84	34	11	-68.1%
Market of loans to enterprises	367,145	385,573	424,361	10.1%
mBank's share in the market of loans to enterprises	7.6%	7.5%	7.6%	

[1] The bank, excluding reverse repo transactions.
[2] 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 50,143.6 million at the end of 2022, representing an increase of 14.8% year on year.

PLN M	31.12.2020	31.12.2021	31.12.2022	Annual change
Corporate deposits[1]	34,723	43,669	50,144	14.8%
Deposits of enterprises[2]	36,836	46,795	52,924	13.1%
Deposits of local governments	173	265	758	185.9%
Market of deposits of enterprises	393,898	436,854	490,670	12.3%
mBank's share in the total deposits of enterprises	9.4%	10.7%	10.8%	

[1] The bank, excluding repo transactions.
[2] NBP category which ensures comparability of results of the banking sector.

Paynow payment gateway

The volume of transactions processed through the online payment gateway is on the rise and we continue efforts to increase the group of clients actively using the Paynow service. The volume of corporate clients transactions through Paynow tripled compared with 2021. We are constantly developing the technology and broadening the range of functionalities supporting the conversion to remote channels. Our goal is to help online shops sell more, easier and more effectively, which is why we plan further improvements aimed at maximising the number of successfully completed transactions. We want to be the bank of first choice for e-commerce market participants.

In 2022, we launched the Collect service. It offers unique value to companies which need to receive payments to individual bank accounts of their clients. The new solution enables a merchant to offer innovative and fast payment methods to payers without the need to modify its existing process. For example, the Collect service may prove useful in the case of energy bills, where payers have individual bank accounts to which they make payments via traditional transfers. Our solution allows payers to use more innovative payment solutions, such as instant online transfers, BLIK transfers or even card payments, to buy goods and services; next, their payments are transferred by us to individual accounts in a process

that is fully automated from the merchant's perspective. This new solution goes beyond classic e-commerce, which is mostly associated with online shopping.

We also equipped Paynow with a new mechanism which dynamically shows the most suitable payment methods based on cart value. This way a client is encouraged to select the payment method which is most likely to result in a successful payment. In addition, we also introduced payment reminders; if for some reason a client abandons a transaction, our cart rescue mechanism reminds them to finalise the purchase.

Paynow also enables clients to change their preferred payment method. A client can change the originally selected payment method and, e.g., choose another bank in which they have sufficient funds to pay for their purchase. Moreover, Paynow offers a transaction lifecycle management solution enabling shops to manage the purchases of their clients. For example, it may come in handy in the case of a time-limited offer where the mechanism limits the option to pay after the special price offer expires.

Another novelty in Paynow was the introduction of two transfer options. We made it possible for merchants to transfer funds on the next business day, which enables online shops to receive payments for goods and services sold in two options: on the same day or on the next day. This solution enables companies to effectively manage the flow of payments.

Another tool helping merchants maximise the sales conversion rate is the white-label BLIK integration option, which enables direct implementation of BLIK code in a store which, as a result, no longer needs to redirect users to external websites to effect payments.

Once again Paynow proved infallible in handling donations to the Great Orchestra of Christmas Charity (WOŚP). During the WOŚP event, which generates immense transaction traffic, we demonstrated our reliability and showed the benefits of using cloud computing for Paynow. On the day of the grand finale, the gateway capacity reached an impressive level of more than 60 transactions per second. In the peak moment, the capacity stood at 200 transactions per second.

Renewable Energy Sources (RES)

In accordance with the Strategy of mBank Group for 2021-2025 the Group will earmark PLN 10 billion for the financing of investments supporting the energy transition of our clients. One of the key actions in this area is the financing of investments in renewable energy sources (RES). Over the last several years, mBank has been consistently increasing its share in the financing of RES projects. When introducing its credit policy on the financing of RES installations in December 2018, mBank earmarked PLN 500 million for this purpose. Since then this amount has been raised several times to reach PLN 4 billion in 2020. At the end of December 2022, mBank's RES portfolio reached PLN 3.4 billion, with 85% utilisation of the RES limit. In 2022 alone, mBank financed seven investments in photovoltaics and four investments in wind farms. Almost PLN 636.5 million was allocated to this purpose.

mBank in cooperation with other banks finances the Polish shipbuilding industry

A syndicate of banks signed a guarantee and letter of credit facility agreement with Remontowa Shiprepair Yard in Gdańsk to support the building of RoPax ferries, which is Remontowa's key project for the next several years. When delivered, RoPax vessels powered by dual-fuel engines using liquefied natural gas will be the most environmentally-friendly ferries for passengers and vehicles sailing across the Baltic Sea. Remontowa Shiprepair Yard in Gdańsk is the largest member of the Polish shipbuilding group Remontowa Holding. The facility granted by the syndicate amounts to EUR 81 million. mBank performs the function of a security agent. Each bank will provide bank guarantees, document and stand-by letters of credit in connection with supplies of materials to the shiprepair yard. In addition, banks will use counter-guarantees provided by KUKE. The ferries will run between Świnoujście and Ystad, supporting the development of marine transport and the Polish shipbuilding industry.

De minimis guarantees

The bank continued the Portfolio De Minimis Guarantee Line (PLD) Agreement as part of the government programme "Supporting Entrepreneurship through BGK Sureties and Guarantees". As at December 31, 2022, the utilised limit amounted to PLN 2,493.1 million.

On June 25, 2018, mBank signed another Portfolio Guarantee Line De Minimis 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 7,200 million. As at December 31, 2022, the utilised limit amounted to PLN 6,619.3 million.

COSME guarantees

mBank continued to offer the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under COSME, an EU programme for the competitiveness of enterprises running from 2014 to 2020. We handled the guarantee lines until the end of the programme, i.e. until April 30, 2022. The limit utilised under the COSME programme amounted to PLN 1,762.2 million.

Liquidity Guarantee

In 2022, the bank continued the Agreement on Guarantee Line as part of the Liquidity Guarantee Fund (FGP) until its expiry on June 30, 2022. The limit utilised under the FGP programme amounted to PLN 2,920.1 million. Following the end of the FGP programme, a new guarantee as part of the Crisis Guarantee Fund (FGK) was introduced. The FGK limit for mBank stands at PLN 1,400 million. At the end of 2022, the utilised limit amounted to PLN 397.5 million.

In the corporate banking area, we also continued the following agreements in 2022:

- BiznesMax portfolio guarantee line agreement (FG POIR). The guarantee limit granted to mBank under the agreement with BGK amounts to PLN 450 million. As at December 31, 2022, the utilised limit amounted to PLN 414.4 million.
- agricultural portfolio guarantee line agreement (FGR). The guarantee limit granted to mBank under the agreement with BGK amounts to PLN 45 million. As at December 31, 2022, the utilised limit amounted to PLN 40.0 million.

Issue of debt securities for corporate clients

In 2022, which was characterized by high market volatility, mBank carried out a number of new issues of debt securities, including: KRUK SA (PLN 350 million), Europejski Fundusz Leasingowy SA (PLN 200 million), Dino Polska SA (PLN 170 million), Ghelamco Group (PLN 135 million), ARCHICOM SA (PLN 110 million), Robyg SA (PLN 110 million), mLeasing Sp. z o.o. (PLN 35 million), LeaseLink Sp. z o.o. (PLN 35 million). In the green bonds segment, mBank carried out bond issues with a total value of PLN 275 million for R.Power. In the banking sector, a PLN 300 million tranche of securities was placed for Santander Consumer Bank.

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 facilitate daily financial operations, enhance cash flow management effectiveness, and help optimise interest costs and income. mBank's range of cash management products and services supporting long-term relationships with clients is continuously developed and improved, which is reflected by the following year-to-year data:

Number of outgoing foreign transfers	+9.6%
Number of incoming foreign transfers	+11.3%
Number of corporate cards	+12.7%
Number of active mCompanyNet users	+26.2%

mBank's robust position on the cash management market was corroborated by the Best Cash Management Service Bank in Poland 2022 award, which we received in the annual Euromoney survey concerning transactional banking conducted among corporate clients. We had also been awarded the accolade in 2020.

Implementation of regulatory changes (ISO)

We set up the ISO 20022 / Target2 project to align our banking systems with new payment formats. ISO 20022 introduces a common global standard of data applicable worldwide to both cross-border payments and local payment systems. The purpose is to, among others, ensure structured payment data and broader data scope. The changes will be implemented until 2025. In 2022, we carried out complex analyses and development work connected with the planned transition to a new format in the Target NBP system. The implementation is scheduled for March 2023.

Trust and escrow accounts

In 2022, we worked on changing our internal regulations in the scope of adjusting our systems and operational service to new requirements applicable to trust accounts and cooperation with the external entity (DFG). We implemented a new application in the Virtual Branch and continue to digitalise the processes of handling of all the trust and escrow accounts. Real estate developers have appreciated quality of cooperation with mBank and we were awarded the first prize in the 15th League Table of Banks organised by the Polish Union of Developers (PZFD). The real estate developers pointed out to our competitive advantage in the quality of cooperation, fast credit decisions and smooth process of controlling the completion of individual stages of development undertakings.

Activity of the Financial Markets Sales Department

In 2022 we provided services to clients and worked towards our targets in the environment of high market volatility. We took advantage of market fluctuations to achieve high margin on concluded deals. At the same time we took care to maintain high activity of our clients and the top quality of service:

- 2022 brought record-high margin results on transactions concluded with corporate clients. We achieved record-high results both in the area of spot transactions and sale of derivatives, including commodities. We also successfully managed the deposits of our largest clients. We ensured liquidity, and at the same time we looked out for profitability, taking into account set goals.
- Consistent cross-selling and effective onboarding of new clients allowed for a 12.2% increase in the average number of monthly active clients.
- In 2022 mBank's commodity team achieved an all-time high result on total margin. In the conditions of unprecedented volatility in the commodity markets, caused by the energy crisis and the armed conflict in Ukraine, we have maintained our base of active clients. We acquired 23 new clients, while our total number of active clients reached 117 in 2022.
- The project team participated in more than 200 projects and concluded hedging transactions in 100 projects in 2022. This is the best result of the team to date, representing an increase of 23.5% compared with 2021, which translated into a record-high margin as well. The transactions included 14 structured finance projects, 51 CRE (commercial real estate) projects, and 35 RES (renewable sources of energy) projects. Notably, the number of RES projects increased fourfold compared with 2021.
- 2022 was the most profitable year to date in terms of income from cooperation with retail clients. Compared with 2021, margins increased both on private banking transactions, and on corporate and mass clients. We also noted a significant increase in the number of active retail clients in this period. Their number rose by nearly 50% in both categories - private banking, as well as corporate and mass clients.

mBank's market shares in specific financial instrument markets as of December 31, 2022, are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	9.56%	14.30%

Financial Institutions

As at the end of December 2022, mBank had four active loans from other banks worth PLN 3,228 million in total. mBank's total debt on account of loans from other banks was by PLN 216 million higher than at the end of 2021 due to a significant weakening of the zloty against the Swiss franc in late 2022.

At the end of December 2022, the total value of loans granted by mBank to other banks reached the equivalent of PLN 91.3 million, down by PLN 19.2 million on 2021. 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 2022 mBank focused its efforts on actively supporting commercial transactions concluded by Polish exporters. At the same time, we had to face new challenges posed by the outbreak of war in Ukraine. Our efforts were concentrated on adjusting the business model to new circumstances.

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, other banks offering custodian and investment services, insurance companies, asset management institutions and nonfinancial institutions. In 2022, the number of served investment funds decreased by 13.9% year on year.

8. Activities of subsidiaries of mBank Group

8.1. Summary of financial results of mBank Group subsidiaries

In 2022, the loss before tax generated by mBank Group's subsidiaries amounted to PLN 172.1 million, compared with profit before tax of PLN 256.8 million in the previous year.

The loss before tax in annual terms resulted mostly from negative impact of a number of one-off factors, among others, "credit holidays" and costs related to the Bank Guarantee Fund (BFG) and the Borrower Support Fund (FWK) on results of mBank Hipoteczny, lower sales volumes in the credit products segment and a provision set up by mFinanse.

The table below presents the profit before tax posted by individual subsidiaries in 2022 compared with 2021.

PLN M	2021	2022	Change in PLN M	Change in %
mFinanse	55.2	-66.7	-121.9	+/-
mLeasing[1]	150.0	202.4	52.4	34.9%
mBank Hipoteczny	30.2	-380.8	-411.0	+/-
mFaktoring	27.5	57.1	29.6	107.6%
Other[2]	-6.0	15.9	22.0	-/+
Total gross profit/loss of mBank's subsidiaries	**256.8**	**-172.1**	**-428.9**	**+/-**

[1] Includes result of Asekum Sp. z o.o. and LeaseLink Sp. z o.o.
[2] In 2021, "Other" subsidiaries included mElements, Future Tech and G-INVEST. In 2022, the Group has stopped consolidating G-Invest. In consequence, in 2022 the "Other" category covers mElements and Future Tech.

8.2. Business activity of selected subsidiaries

The first and second quarter of 2022 were marked by high sales volumes and robust financial performance. Positive sales trends were observed at the beginning of the year. Strong consumer sentiment, favourable interest rates and general availability of financial products fuelled the sales of mortgages and consumer loans. Unfortunately, the upward sales trend initiated in H1 reversed in the following quarters. The outbreak of war in Ukraine, soaring inflation, higher borrowing costs driven by rising interest rates and banks' increasingly restrictive approach to calculating the creditworthiness of clients pushed sales down sharply. This was especially evident in mortgage sales volumes.

All the aforesaid factors weighed heavily on mFinanse's results in 2022. Consequently, the subsidiary reported a loss before tax of PLN 66.7 million. A year before mFinanse posted a profit before tax of PLN 44.7 million. Such a significant drop in the pre-tax result was driven by two factors, i.e. lower sales volumes in the credit products segment and a provision set up by the company. The provision was established as a result of an inspection conducted by the Social Insurance Institution (ZUS). mFinanse estimates the risk arising from ZUS's interpretation of law, which is unfavourable to the subsidiary, at 50%. This means that the negative impact on its pre-tax financial result is likely to reach approx. PLN 98 million. The 2022 pre-tax result also factors in the sale of organised parts of the enterprise in the insurance agency area completed in the previous years.

Sale of mortgage loans amounted to PLN 1,611.1 million, which represents a decrease by 44.7% from PLN 2,915.1 million reported in 2021. A similar trend was observed for other credit products for individuals: cash loans, revolving loans and credit cards. The sales of those credit products stood at PLN 1,013.6 million, down by 16.1% compared with PLN 1,208.4 million in 2021. The difficult market situation adversely affected the subsidiary's sales results in the corporate products segment. mFinanse closed 2022 with a decline in sales by 18.0% on 2021. The sales figure fell from PLN 722.6 million in 2021 to PLN 592.8 million in 2022. In Q1 2022, the subsidiary closed the sales of car loans dedicated to car dealers.

mLeasing

The value of contracts concluded by mLeasing reached PLN 5,982.5 million in 2022 compared with PLN 6,495.5 million recorded a year before (down by 7.9% year on year). The value of contracts regarding movables concluded in 2022 reached PLN 5,858.9 million compared with PLN 6,297.5 million recorded a year before (down by 7.0%). The value of contracts regarding real property reached PLN 123.6 million compared with PLN 198.0 million recorded in 2021 (down by 37.6%). The drop in new business is connected with enterprises with smaller turnover being less keen to conclude lease contracts, especially contracts on vehicles in the environment of growing and then continuously high interest rates. The reduced value of new business was compensated in 2022 in revenues thanks to higher margins.

In 2022, the subsidiary's profit before tax stood at PLN 202.4 million, which represents an increase by 34.9% compared with 2021. The total income reached PLN 421.3 million, up by 15.0% year on year. Risk costs were lower by PLN 8.6 million and amounted to PLN 86.0 million in 2022 against PLN 94.7 million in 2021.

The highest increase in income in 2022 was recorded in the remarketing business line (up by PLN 21.4 million compared with 2021). Remarketing consists in bringing vehicles back on the market after the end of their lease term. In 2022, mLeasing launched cooperation with CARPORT. The effectiveness of selling vehicles after the end of their lease term grew substantially owing to the integration of our and our partner's auction platforms. We streamlined and accelerated the process thanks to diversification of its channels.

Since 2019, we have been offering lease solutions for solar panels to our clients. In 2022, we added financing of energy storage and heat pumps to the list. In the analysed period, mLeasing financed as many as 368 PV installations and machines with the total volume of PLN 61 million in this market segment.

In 2022, we continued to work on expanding our eco-financing solutions with financing of infrastructure for charging electric car batteries. We will make these products available to clients in Q1 2023. Compared with the previous year, zero or low emission cars (electric or hybrid cars) accounted for 22.5% of the total number of financed vehicles in 2022, which represents an increase by 1 p.p. The number of financed electric (zero-emission) cars doubled.

In 2022, we introduced the Sustainable Development Code for Suppliers and Partners of mLeasing. It features the ESG principles we abide by and expect from companies with which we collaborate.

mBank Hipoteczny

In 2022, mBank Hipoteczny expanded its loan portfolio using the pooling model in Retail Banking in close cooperation with mBank, i.e. with sales effected by mBank's salesforce. In the analysed period, seven pooling transactions totaling PLN 2.019 billion were executed in the retail portfolio. The gross credit portfolio value stood at PLN 11.7 billion at the end of 2022 compared with PLN 11.8 billion at the end of 2021 (down by 1.1%). The drop was caused by two factors: a decrease in credit exposure due to a provision created for credit holidays and an increase in retail loan prepayments.

In 2022, mBank Hipoteczny's results were affected by a number of significant one-off factors connected with government-imposed burdens, including in particular credit holidays and costs related to the Bank Guarantee Fund (BFG) and the Borrower Support Fund (FWK). Therefore, in the analysed period, mBank Hipoteczny reported a pre-tax loss in the amount of PLN 380.7 million.

The total effect of credit holidays dragged net interest income down by PLN 366.7 million as at the end of the year. In 2022, costs related to the Bank Guarantee Fund and the Borrower Support Fund went up by 113.5% year on year, reaching PLN 19.6 million. Another factor reducing the subsidiary's pre-tax result in 2022 was a hike in loan provisions compared with 2021, both in the retail and the commercial loan portfolios. The provisions increased from PLN 1.5 million in 2021 to PLN 41.7 million in 2022.

On the other hand, net trading income had a positive impact on the subsidiary's pre-tax result, standing at PLN 18.7 million in 2022 against -PLN 0.1 million as at the end of 2021. It was stimulated mainly by derivatives hedging interest rate risk and FX derivatives.

On May 31, 2022, the management boards of mBank Hipoteczny S.A. and mBank S.A. agreed on and signed the mBank Hipoteczny division plan. In accordance with the plan, the division of the subsidiary and the transfer of the organised part of its enterprise to mBank will take place in Q2 2023. The purpose of the division is to finalise the consolidation of sales and after-sales of commercial loans in a single entity (mBank).

Faktoring

In 2022, the subsidiary continued to grow dynamically and broke new business records. Its turnover (the value of purchased invoices) was historically high at PLN 36.1 billion. Compared to 2021, the turnover grew by 21.0%, similarly to the entire market (23.3%). 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 reached 7.8%.

In 2022, mFaktoring acquired 174 new clients. The total volume of new contracts was PLN 725.3 million (+9,0% compared with previous year). The number of clients increased particularly sharply in Q1 and Q3 2022.

In 2022, mFaktoring continued to cooperate with BGK as part of the liquidity guarantee programme. It also partnered with BGK as part of the crisis guarantee programme implemented in response to the consequences of the economic fallout of the Covid-19 pandemic and Russia's aggression against Ukraine. The programme secures factoring limits granted to ensure financial liquidity of mFaktoring's clients. The BGK programme has been extended until the end of 2023.

We continue to exercise enhanced monitoring of the receivables portfolio. Compared with the beginning of the pandemic, we did not observe any significant changes in the receivables portfolio or a material risk increase in this area. We also monitor the situation in terms of the developments in the war in Ukraine. There were also no signals of a clear deterioration in the payment discipline among the largest recipients in mFaktoring's portfolio.

Dynamic business development gave a boost to the subsidiary's financial performance. In line with the mBank S.A. Group Consolidated Financial Statements 2022, the profit before tax of mFaktoring for 2022 stood at PLN 57.1 million compared with PLN 27.5 million in 2021.

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 units), 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, Data Protection Inspector 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, 2022: 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, reputational 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 2021-25, which determines the most important areas of development in the coming years, including:

- The first-choice bank for e-commerce market participants,
- Best digital corporate banking for high-potential companies,
- Technology, security and data as a source of competitive advantage.

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. mBank focuses on increasing exposure to clients with low or medium PD-rating (stable financial condition) and low or medium level of risk concentration. 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 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.

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.

Developing its lending activities, the Group considers environmental, social and corporate governance impacts and incorporates ESG considerations into its credit risk processes and policies. At the same time, Bank intensifies the optimization, automation and digitization of credit processes.

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.

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 (c.a. 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 in mortgage loans segment 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, i.a. long-term interest rate estimates (considering buffers resulting from supervisory regulations).

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.

<u>Quality of mBank Group loan portfolio</u>

As of December 31, 2022, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) slightly increased to 4.0% from 3,9% at the end of December 2021. The change of the indicator applies to both business lines.

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, 2022, the NPL_{REG} ratio (ratio calculated according to EBA guidelines) was at 3.5%.

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) increased from PLN 3,346.7 million at the end of December 2021 to PLN 3,374.7 million at the end of December 2022.

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 53.1% and 70.4% in December 2021 to 52.3% and 68.8% in December 2022.

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 2021 and as at the end of December 2022.

Loans and advances to clients 31.12.2022 (PLN ('000))	At amortised cost	At fair value	Loans and advances, total
Gross carrying amount	122,584,242	974,976	123,559,218
Non-performing loans and advances	4,741,346	163,471	4,904,817
Non-performing loans ratio (NPL)	3.9%	16.8%	4%
Provisions for non-performing loans	-2,465,716	-97,927	-2,563,643
Provisions for performing loans	-788,496	-22,593	-811,089
Coverage ratio	52.0%	59.9%	52.3%
Coverage ratio, including provisions for performing loans	68.6%	73.7%	68.8%

Loans and advances to clients 31.12.2021 (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%

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 Group'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 2022, 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)	2022				2021			
	mBank Group		mBank		mBank Group,		mBank	
	31.12.2022	Mean	31.12.2021	Mean	31.12.2021	Mean	31.12.2021	Mean
VaR IR	16,300	15,448	16,102	15,913	16,199	10,693	15,825	11,024
VaR FX	1,051	1,515	1,104	1,485	2,096	3,312	2,095	3,276
VaR CS	90,321	89,876	88,835	87,931	86,724	63,057	85,154	61,846
VaR	**91,139**	**91,924**	**89,048**	**90,313**	**83,808**	**59,744**	**79,934**	**58,975**
Stressed VaR	**91,415**	**110,049**	**88,261**	**108,174**	**139,372**	**155,427**	**136,733**	**153,259**

VaR IR – interest rate risk (without separate credit spread)
VaR FX - FX 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, while the decrease in Stressed VaR resulted mainly from the reduction of the bond portfolio.

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	
	31.12.2022	31.12.2021	31.12.2021	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Banking book	129	1,199	230	1,302	-7,297	-11,709	-7,136	-11,499
Trading book	-118	112	-118	112	-242	-209	-242	-209
Total	**11**	**1,311**	**112**	**1,414**	**-7,539**	**-11,918**	**-7,378**	**-11,708**

The credit spread sensitivity (CS BPV) for the mBank's banking book decreased significantly in 2022 due to reduction of the bond portfolio and results in c.a. 70% 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 in the bank's base scenario assuming a normal situation and in more than 22 defined stress-test scenarios.

The table below presents the sensitivity of the net interest income within 12 months horizon, assuming a 100 bps change of market interest rates (parallel shift of the curves with floor on product level in decreasing interest rates scenario) and based on a stable portfolio over the period.

PLN ('000)	Δ NII*	
	31.12.2022	31.12.2021
Sudden parallel up by 100 bp	117,442	351,795
Sudden parallel down by 100 bp	-768,800	-715,290

** The measure calculated at mBank level. More information on delta NII is included in the Condensed Consolidated Financial Statements for 2022.*

A similar level of delta NII year on year in decreasing interest rates scenario results from the adjustment of the bank's position to the market situation and investing funds in short-term assets sensitive to changes in interest rates. Taking into account the expected further growth of the inflation and a possible increase on the market interest rates, the bank kept large part of its assets in instruments with a floating interest rate. Moreover, the sensitivity of delta NII in increasing interest rates scenario was influenced by the updated assumptions concerning the higher pricing of deposit accounts. In addition, changes of delta NII were caused also by increase of balance sheet total which was observed between 2021 and 2022.

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

The liquidity position of mBank Group in 2022 was significantly affected by tense geopolitical conditions related to the outbreak of war in Ukraine. The increase in inflationary pressure forced the NBP to tighten the monetary policy by restoring the required reserve rate to level before the COVID-19 pandemic and a series of interest rate increases that took place in Poland from October 2021 to September 2022. As a result of interest rate increases, mBank adjusted the prices offered to customers for their deposits. At the same time, high-interest government retail bonds represented competition for bank deposits. Interest rate increases and the weakening of Polish currency necessitated increasing collaterals placed in derivative transactions. In addition, decline in valuation of securities that qualified as liquid assets of the bank resulted

in a decrease in value of available liquidity buffers. The described events led to a temporary decrease in mBank's liquidity position in mid-2022, which was rebuilt in the second half of 2022. Despite such unfavorable market conditions, liquidity measures were well above regulatory minimum levels throughout the reporting period. In 2022, an increase of deposit base and decline of dynamics of lending 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 17th of December 2020 introducing the NSFR as a reporting requirement from the 28th 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 or ensuring the implementation of the ESG strategy e.g. by issuing green bonds,
- 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, high level in 2022, 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 2022 at mBank and mBank Group level:

	30.12.2022	30.12.2022
Measure[1]	**mBank**	**mBank Group**
LAB Base Case 1M	36 961	39 377
LAB Base Case 1Y	26 571	28 347
LCR	186%	201%
NSFR	150%	150%

[1] 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, counteracting the materialisation of operational risk and risk 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 risk analysis in the process of creating new and modifying existing products, changing of 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:

- Self-Assessment of Operational Risk Management Effectiveness, which is performed by organizational units of the Bank and the Group companies. The purpose of this process is to ensure the risk identification and assessment and taking adequate risk mitigation measures. In addition, the Self-assessment supports the process of introducing changes and improving control processes. 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.

- 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 analyse their risk profile on an ongoing basis. mBank also uses access to external databases on operational losses and uses them to analyse operational risk and potential threats to which institutions operating in the financial sector are exposed.

- 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.
- Operational risk scenarios that analyse the risks associated with the occurrence of rare but potentially very severe operational risk events.
- Providing opinions on products before the implementation of a new or modified product offer and analysis of the impact of the outsourcing agreement on the operational risk profile.

mBank Group, through operational risk tools, monitors and improves the methods of work performed by employees in the hybrid 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 across all lines of defence. 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 management process is supervised by the Supervisory Board of the bank through its Risk Committee.

Operational losses

In 2022, as part of operational risk management, mBank and mBank Group faced in particular losses connected with legal risk related to the foreign currency loan portfolio and credit vacation.

The vast majority of the mBank and mBank Group's operational losses refers to the following business lines (separated in accordance with the CRR Regulation): commercial banking and retail banking.

The following table presents the distribution of actual gross losses by operational risk category, incurred by mBank in 2022 and 2021:

Operational event category	Total gross losses (mBank) (in PLN thousand)	
	31.12.2022	31.12.2021
External fraud	6 696	5 144
Clients, Products and Business Practices for foreign currency loans	3 112 265	2 781 503
Clients, Products and Business Practices, excluding foreign currency loans	971 567	62 652
Execution, delivery and process management	7 311	4 283
Other	3 452	6 338
Total	**4 101 291**	**2 859 920**

The following table presents the distribution of actual gross losses by operational risk category, incurred by mBank Group in 2022 and 2021.

Operational risk category	Total gross losses (mBank Group) (in PLN thousand)	
	2022	2021
External fraud	15 842	20 493
Clients, products and business practices for foreign currency loans	3 112 265	2 781 503
Clients, products and business practices, excluding foreign currency loans	1 346 096	64 238
Implementation, delivery and process management	7 540	4 350
Other	3 452	6 395
Total	**4 485 195**	**2 876 979**

The high share of losses in the "Clients, products and business practices" category in 2022 was primarily due to incurred costs of legal risk related to loans in CHF and credit vacation. More information on this issue is presented in Note 34 of the mBank S.A. Group Consolidated IFRS Financial Statements 2022.

The level of operational risk losses is monitored on an ongoing basis and regularly reported to the bank's Management Board, the bank's Supervisory Board and to the committees of the Business and Risk Forum. There are monitoring and escalation mechanisms in mBank Group when the operational loss thresholds are exceeded. They ensure an appropriate analysis of operational events and trigger corrective actions.

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 2022 were driven mainly by the following factors:

- current loss for 2022 taken into account in the calculation of own funds;
- decrease of own funds due to a change in the ratio from 0.7 to 0.4 included in the calculation of the impact of applying 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;
- increase of deferred tax assets based on future profitability in the excess of the threshold, as referred to in Article 48 of the CRR Regulation;
- partial amortization of subordinated liabilities included in the calculation of own funds;
- decrease in the value of TREA, which was driven mainly by:
  - the settlement of the synthetic securitization transactions: one in March 2022 and the second one in December 2022;
  - the separation of a sub-portfolio of Qualifying Revolving Retail Exposures (QRRE).

In 2023 an increase of risk-weighted assets is expected, due to regulatory factors. They result from implementation of material changes in models of all parameters: PD, CCF and LGD, in the portfolios subject to the AIRB method. The bank, in line with a motion described in the note 3.1 to the mBank S.A. Group Consolidated Financial Statements 2022, expects a rise of the risk weighted assets at the value of ca. PLN 4.5 billion. The final impact shall depend on the conditions for implementation of models indicated in the decision of banking authorities.

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 – 1,76% at the level of total capital ratio and 1.32% at the level of Tier 1 capital on consolidated basis (and on individual basis 2,03% and 1,52% accordingly), according to the PFSA decision of December 30, 2022 (and on individual basis according to decision of December 27, 2022);
- the combined buffer requirement of additional 3.1% (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 (0.1%).

On individual basis the value of the combined buffer requirement is 3.12%.

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 5.44%. The stand-alone leverage ratio amounted to 6.43%.

More details on capital adequacy of mBank Group in the 2022 can be found in the Disclosures regarding capital adequacy.

10. HR development

10.1. Changes in employment

At the end of 2022, the total employment in mBank Group was 7,014 FTEs compared with 6,738 FTEs a year before (+4.1% or +276 FTEs). At the end of 2022, employment at mBank amounted to 6,382 FTEs and increased by 307 FTEs, i.e. +5.1% compared with 2021. At the end of 2022, employment in mBank Group's subsidiaries amounted to 626 FTEs and decreased by 37 FTEs or -1.5% v. 2021.

mBank's employees are relatively young: 37% are below the age of 35. They are also well-educated: 85% 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, 2022

**Other subsidiaries include: mElements.*

Headcount in mBank by business lines

in FTE in 2021-2022

10.2. Training and development activities

Development activities

Zaloguj się do rozwoju

2022 was a special year in the context of building a new team model. After two years of the pandemic, teams that worked entirely from home needed to finally meet face to face. For many new employees, it was the first chance to meet their teams in person. From April to December 2022, we organised 60 off-site team-building meetings.

Our goal is to build a learning organisation approach and enable all employees to individually choose their development path in our company and participate in selected development activities. We pursue this goal by designing solutions enabling free access to multimedia resources and training/learning platforms and by organising big development events. This way, we seek to avoid situations where employees feel they cannot develop valuable skills in their current jobs and thus leave the company, which is a serious challenge faced today by numerous companies. We are committed to continuing on this path in the coming years as we did in 2022. Last year, 85% of employees participated in at least one development activity (excluding obligatory training).

Still, skills of the future and development of a strengths-based organisation in line with the approach proposed by the Gallup Institute continue to be crucial for developing the skills and knowledge and modelling the behaviour of our employees and managers. These areas have become the centrepiece of our broad range of development solutions as well as the special event "Mission Innovation Conference" and the development "Summer full of talents".

We are on track to building a competitive advantage based on the skills of our employees through a range of permanent programmes dedicated to diversity, wellbeing as well as managerial and expert skills.

In 2022, we also worked out and communicated to employees the behaviours and attitudes that underpin the new model of values and behaviours for mBank Group. In September, we started a series of workshops for managers and directors entitled "Model of values and behaviours – let's talk about attitudes".

The training courses organised at mBank are open to all employees working based on employment contracts (both part-time and full-time staff) and other types of agreements.

Organization based on strengths - managing the potential of individual employees and of the organisation

Last year brought us closer to becoming a strengths-based organisation. It was in 2022 when certain teams and managers discovered their talents.

In 2022, we used off-site team-building meetings and talent-based workshops as a platform to integrate teams, promote mutual understanding and rebuild relationships. This way teams discovered their individual talents, team talents and had the chance to see themselves from a new perspective.

In the summer we launched a special programme "Summer full of talents". The purpose was to enable all employees to individually work on their talents. The workshops covered a range of issues, including Discover your talent, Invest in your talent, Talent Upgrade, Talent leverage, Grow stronger – talents in the service of wellbeing, Stop talking, start acting – how to use your talents to put plans into action, Summer full of energy – how talents help you build strength and mental resilience.

We also continued the onboarding programme "A strengths-based start" for new employees. Every new mBank employee is given access to the online talent assessment. The programme comprises the Clifton Strengths 34 report and an invitation to training.

In 2022, for the very first time, we planned and made available to all interested employees and managers an option to thoroughly discuss their strengths reports. The cyclical weekly sessions started in September 2022 and are held by certified strengths coaches. The strengths coach community comprises 12 HR experts who were awarded a certificate from the Gallup Institute or a local Strengths Community firm. All the certificates were financed by mBank.

Competences of the future

In 2022, we continued the programme designed to incorporate the skills of the future in our organisation; these include database skills, cybersecurity, critical thinking, artificial intelligence / machine learning / robotisation, cloud solutions and creativity/innovation. First, we focused on developing the following three competence areas: databases, cybersecurity and critical thinking, mostly with the use of two educational platforms – Data Academy and Security Academy. In addition, mBank employees had the chance to take part in specialist, certified training sessions / workshops, both individually and in groups.

The purpose of Data Academy is to create a development programme for mBank employees, supporting, among others, the promotion of informed and effective use of data at the bank.

Since November 2021, on the initiative and under the aegis of the Security Department, we have been running a programme designed to raise the cybersecurity awareness of mBank employees with the Security Academy serving as a training platform. The training sessions organised as part of the Academy are addressed to developers, IT administrators, Contact Centre staff and other employees.

In 2022, we focused specifically on developing creativity/innovation. To this end, we came up with a fresh idea to organise the "Mission Innovation" contest and invited all mBank Group employees to participate. The participants were required to present an innovative project implementing a new technological solution at the bank. The assessment criteria also included the use of the bank's databases and diversity of the competing teams. The contest participants submitted 243 innovative ideas. The contest was accompanied by two days of meetings and debates with the promoters of innovation in Poland and in mBank Group.

Management and work in the remote and hybrid environment

In 2022, we continued the "ODnowa" development programme helping our employees and managers prepare for the work and management in the hybrid work model, which was officially initiated in May 2022. The goal of the programme was to provide them with knowledge and inspiration from other organisations and encourage them to share their own knowledge and experience and to engage in discussions. The Pulse Check results proved that the hybrid model was received positively – and we are certain that the "ODnowa" programme contributed to this outcome.

Enthusiasm for Healthy Life (Z energią po zdrowie)

The "Enthusiasm for Healthy Life" programme is a continuation of the "Develop Your Resilience" programme implemented in 2020. It offers tailored activities aimed at boosting employees' mental resilience and physical fitness. The programme promotes a healthy lifestyle and educates employees on how to protect and take care of their mental and physical health. The programme covers four health pillars: our mental health, nutrition, physical fitness and remote lifestyle. We expand our employees' knowledge on well-being through education, disease prevention and medical diagnostics, which are complemented by meetings with experts (physicians, physiotherapists, dietitians, psychologists and personal coaches). The programme offers a diversity of topics and actions. We encourage employees to take part in lectures, webinars, online courses as well as consultations and fitness training sessions.

The programme also provides professional and goal-oriented support to people or teams reporting crisis situations, which includes interventions conducted by psychotherapists and crisis intervention specialists in the form of psychological aid.

The scope of the programme is updated based on conclusions from the analysis of Pulse Check results and a special follow-up survey.

In 2022, we organised over 200 different activities within the programme.

Permanent development programmes for employees and managers

- **mBank Academies**. mBank Academies offer training sessions, conferences, workshops and other development initiatives. They foster highly expert fields in various areas of the bank by providing employees with expert knowledge based on the latest market trends. In 2022 these included, among others, the following: Data Academy, Agile Academy, Risk Academy, Security Academy. Academies organised by mBank are addressed to all employees regardless of whether they work under an employment contract (part time or full time) or other legal forms.

- **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 2022, 62 "fresh" managers took part in the programme. A new module called "Diversity in a Team" was added to the programme. During a three-hour workshop, managers receive information about the different dimensions and significance of diversity and learn how to boost inclusivity in a team and how to become a leader in creating a diverse environment.

- **Individual diagnostic and development programme** for Top100 managers, including the management board. This is an individual executive development programme conducted by external experts. As part of development activities, managers cooperate with the world's top institutions specialising in developing leadership competences: IMD, IESE, MIT, Harvard University, Mobius. In 2022, 15 managers (including 5 women) took part in the programme. Additionally, eight managers, who took part in development programmes in the previous years when travelling abroad was limited due to the epidemic, participated in development and certification activities abroad. In 2022, we also organised a similar diagnostic programme addressed to line managers. It consisted of the same stages and is run by internal HR experts. We invited 29 line managers to take part in the programme in 2022.

- **Postgraduate courses**. In the academic year 2021/2022, we financed postgraduate courses of 38 employees. The courses covered the following fields of knowledge: Data Science – analysis and processing of large data sets, compliance analytics, visual data analytics, project management.
- **Develop Your English**. This is a bank-wide language learning programme (levels B2, C1 or C2). Employees can improve their communication skills in English and expand their vocabulary. They hold group conversations, during which they discuss current global affairs, new concepts and ideas. In 2022, 1,030 employees participated in the programme.
- **Individual training**. In 2022, as many as 1,137 employees took part in individual training sessions. One of the key categories is regulatory training related to i.a. risk management and capital adequacy change management, ESG implementation in financial institutions, crime financing prevention or liquidity management.
- **Development Fridays**. The project is addressed to all employees of mBank and its subsidiaries. It includes cyclical events taking place each Friday. We offer a number of different activities: presentations, lectures, workshops, webinars, consultations, remote courses. They are run by both external experts and our own employees following the concept of knowledge sharing. In 2022, we organised over 500 different activities.

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. In addition, we invited employees to participate in educational activities on how to support people affected by chronic diseases. We also offered ultrasound check-ups (including breast, thyroid and testicular scans) as well as dermoscopy examination. We made available over 200 free vouchers for tumor marker tests for breast and ovarian cancer or testicular and prostate cancer.
- **Autumn of Psychological Support.** From September to December we organised a number of dedicated activities aimed at combating fatigue and bolstering mental wellbeing of our employees. Our efforts were focused on providing our employees with strategies for dealing with emotions, increasing their emotional efficiency, stress tolerance and resilience to emotional overload, as well as helping them understand that they need to work out their own methods of coping with stress. We invited our employees to take part in lectures, workshops and consultations with experts in this field.
- **September with LinkedIn.** Our employees were free to join a number of educational meetings about LinkedIn. We invited the most renowned Polish experts, practitioners and LinkedIn employees to share how to use LinkedIn, how it can support learning and personal development, and how to build your personal brand there.
- Commemoration of the **International Day of People with Disabilities.** We organised activities aimed to educate people about disabilities. They included the webinar "How to build organisational culture that includes people with disabilities?" with guests from the Leżę i Pracuję (Work from Bed) Foundation. The event was dedicated to overcoming obstacles in building a disability-inclusive culture. The activities also included a workshop on communicating with deaf people, during which the participants learned a few basic signs from the Polish Sign Language (PJM). Additionally, we carried out a communication campaign.

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 remote work 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.
- **Legimi digital libraries.** This solution allows our employees to freely choose from more than 60,000 e-books and audiobooks. In 2022, more than 3,600 users borrowed 325,436 books.
- **Development page and knowledge base.** In a dedicated section of the intranet we gather and present development information, materials and recordings from the selected training courses and workshops.
- **Training zone.** Access to an up-to-date collection of over 22,000 video courses, including IT, business and soft skill courses.

Diversity-oriented activities

In 2022, mBank organised a series of workshops, webinars and meetings addressing various dimensions of diversity (e.g. gender, mental health, LGBT+, disabilities).

In September 2022 we introduced a mandatory training course in diversity and inclusion for all mBank employees. It was completed by 1,465 employees in 2022. The training, available on the e-learning platform, presents the dimensions of diversity and provides examples of day-to-day practices that strengthen inclusion in the organisation. During the course employees learn about unconscious biases, inclusive communication and microaggressions. The training encourages its participants to practice self-reflection and check their knowledge about diversity.

We also organise meetings with market participants, during which we address this important issue. At the end of the year during the CFA Society Poland meeting in the bank's Warsaw headquarters, we held a panel entitled "Parity: Trend or Necessity?", which addressed the issue of diversity. The meeting was inaugurated by Professor Agnieszka Słomka-Gołębiowska, Chairwoman of the Supervisory Board of mBank, and Professor Krzysztof Jajuga, CEO of CFA Society Poland. The panel was attended by the representatives of investment companies, law firms and advisory firms.

The Young Talents Development Programme

In order to educate and support young applicants at the beginning of their career path, mBank runs an internship programme - 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. Programme 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 development paths:

- **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 2022, we admitted 70 trainees, out of whom 40 were employed in the Group after the programme and another 55 trainees continue their traineeships in 2022.

- **Internship programme IT Campus** addressed to students and graduates in science area, especially IT. We hire committed persons, who are eager to develop more skills in the IT area. Internship contracts are signed for a term of 6 months. Interns begin August 1, and work full-time, in Łódź and Warsaw. Candidates applying for an internship choose one profile determining the leading competence. They participate in a wide scope of planned trainings (for example: agile, project management, cybersecurity). In 2022, we hired 10 interns, out of whom 7 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 part of the week remotely. Operation of all sections comply with decisions of mBank Crisis Command. Over 1,600 employees signed up for 27 sections which operated in 2022. mBank's club had a budget similar to the previous years.

Feedback culture

In 2022, we conducted two Pulse Check surveys at mBank Group. In the first one, which took place in April, 82% of mBank employees and 81% of main subsidiaries employees participated. In the survey, we investigated, among other, the organisation's readiness to introducing a new value model. We examined topics such as perception of adequacy of remuneration and development opportunities available to employees. We asked about wellbeing and level of stress in the context of current political and economic situation.

Another Pulse Check survey was conducted in October. The survey was completed by 84% of mBank and main subsidiaries employees. We paid a lot of attention to the following topics: hybrid model in the organisation and diversity. The survey also continued the themes raised in the previous survey. While analysing the outcome of the study, we focus, among other things, on the current model of hybrid working, with a particular focus on collaboration between units.

10.3. mBank Group's incentive programme

The incentive system of mBank Group is based on the Remuneration Rules, Remuneration Policy for Employees with Significant Influence on the Risk Profile of mBank S.A. 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 acquiring and retaining competent employees.

The remuneration policies:

- define principles of remuneration,
- determine the fixed and variable components of remuneration,
- support sound and effective risk management,
- ensure that decisions made do not entail excessive risk (i.e. risk exceeding the risk appetite accepted by mBank's supervisory board),
- support the application of the strategy,
- support the capital management,
- limit conflicts of interest,
- conform to the gender neutrality,
- comply with relevant laws and regulations.

Within the mBank Group operate:

- Incentive Programme for the Management Board Members and Employees with Significant Influence on the Risk Profile of mBank Group,
- Bonus Rules,
- commission schemes (which cover employees performing business tasks, mainly related to sales).

The variable part of the remuneration depends on the qualitative and quantitative objectives achieved by the organisation as a whole and by individual employees. This includes the bonus awarded to members of the management board and employees.

The ratio of total variable remuneration to fixed remuneration may not exceed 100%. Exceeding 100% (up to a maximum of 200%) requires the approval of the General Meeting.

In 2022 mBank Group applied Incentive Programme for the Management Board Members and Employees with Significant Influence on the Risk Profile of mBank Group.

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 Taker I – member of the management board of mBank, or
- Risk Taker 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 a subsidiary of mBank.

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. The policy is available at: https://www.mbank.pl/en/about-us/corporate-governance-and-best-practices/

Bonus for Risk Taker 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 achievement with respect to a period of at least 3 years.

MbO objectives for the management board are approved by the supervisory board. They comply with the rules of determining the objectives (approved, among others, by the Remuneration Committee of the Supervisory Board) and encompass:

- 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 65% of the objectives. Goals are determined depending on the responsibility for a given position.

Bonus for Risk Taker 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).

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 and the deferred part. 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 non-deferred part for Risk Taker I represents 40% of the bonus, while the deferred part represents 60% of the bonus. For Risk Taker II it is 60% and 40% respectively.

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 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. The equivalent refers only to a bonus portion paid in subscription warrants. It is pursuant to the rules specified in the Risk Takers Remuneration Policy.

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.

As part of the described programme, a bonus was awarded for Risk Takers I and Risk Takers II for 2018, 2019, 2020 and 2021.

A bonus entirely in financial instruments (warrants) was granted:

- for 2020, for Risk Takers I and Risk Takers II
- for 2021, for Risk Takers I.

In 2022, tranches were realised in accordance with the provisions of the Remuneration Policy for Employees with Significant Influence on the Risk Profile of mBank S.A.

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 2022.

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. Since 2018, we have been gradually implementing a new agile OKR (Objectives & Key Results) approach, which helps us operationalize mBank's strategy.

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 and monitor the implementation of strategy on an ongoing basis.
- 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: We are organised around tasks and challenges, and not around the organisational structure. We give up the silo approach and choose active cooperation.
- TRANSPARENCY: 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 2022 were the priorities set by the Management Board members. They were reflected in managers' and employees' objectives. We encourage mBank employees to set ambitious team goals. Thanks to that, employees develop their competences and strengthen cooperation between departments.

Our work under the OKR approach is supported by a custom application. The application allows employees to manage their objectives on an ongoing basis and to access the objectives of their managers and coworkers.

11. mBank and corporate social responsibility

11.1. mBank Foundation

In 2022 mBank Foundation allocated more than **PLN 2.7 million** to reach mFoundation's statutory goals connected to mathematical education.

mBank Foundation has been implementing "m for mathematics" („m jak matematyka") strategy since 2013. 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 Polish economy.

In 2022, we pursued our mission through:

- publication of a book *Maths in green* (*Matematyka na zielono*)
- "mPower" ("mPotęga") flagship grant programme
- "Growing with Maths" ("Rosnę 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 in green* series developed in cooperation with the "Nauka. To Lubię" Foundation, as well as "Thinking counts" ("Liczy się myślenie") programme co-developed with Hevelianum science center
- online distribution of free e-book publications: "Means to the Goal" ("Środek do celu") (premiere), "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 2022, mBank allocated PLN 2,676,100 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, their parents and teachers, as well as students and young scientists. In 2022, subsidies for educational projects have been granted to 258 entities: public school and kindergartens, non-governmental organizations, universities, libraries and science centers.

Premiere of "Maths in green", published by mFoundation

On Earth Day, April 22, mBank Foundation presented the latest book "Maths in green". The publication by Maja Krämer explains the causes and consequences of the upcoming ecological disaster in an accessible and mathematical way. It encourages family discussions about changing habits and living a greener life. The book also shows the practical dimension of mathematics.

We printed the book in a limited edition of 50,000 copies, on FSC® certified paper. This means that the paper comes from sources which manage resources in a sustainable way. Producers have to follow strict rules in the manufacturing process. By June 30, "Maths in green" has been available in 280 mBank retail outlets and mKiosks. More than 30,000 books have been distributed free of charge. The rest of the printed version will go to science centers, schools and libraries. From October, the book in pdf format can be downloaded from the website www.mjakmatematyka.pl.

The new publication served as an inspiration for a series of educational films. In cooperation with the "Nauka. To Lubię" Foundation 7 short films were created, the scripts of which are based on the content of the book "Math in green". The premieres of the films coincided with the dates of ecological holidays, such as World Oceans Day or World Bee Day. The YouTube series has been watched by over 18,000 viewers.

"mPower" grant programme

The ninth edition of the flagship mPower grant programme has begun in March. The programme promotes the interesting side of mathematics. It helps students and teachers "tame" it in a friendly way. It rewards an unconventional approach to mathematical education. The results of the competition have been announced in June. This year, 114 projects from all over Poland were subsidised. The total amount of grants which went to the beneficiaries amounted to nearly PLN 632,000 zloty. In addition, the two projects

which received the most votes in an online poll received additional grants in the amount of PLN 5,000 each. All projects were implemented from September to December 2022.

Contest "A Step in the Future" for the best student thesis in mathematics

As every year, on March 30, on the anniversary of the birth of the outstanding mathematician Stefan Banach, the mFoundation announced the results of the " A Step in the Future" contest. The jury, chaired by Prof. Dr. Paweł Strzelecki of the Faculty of Mathematics, Informatics and Mechanics of the University of Warsaw, awards the best mathematics student theses. The theses promote innovative, original solutions or indicate on new research directions and methods. Seven out of 25 submitted works qualified for the final of the 2021/2022 edition. The jury awarded the main prize: PLN 20,000 and two distinctions of PLN 10,000 each. On June 30, 2022, mFoundation announced the next, seventh edition of the contest.

Second edition of "Growing with Maths" grant programme for kindergartens

In September, mFoundation announced recruitment for the second edition of "Growing with Maths". Kindergartens, schools with pre-school sections and non-governmental organizations from all over Poland could participate in it. In this first nationwide edition, over 500 ideas for mathematical educational activities for children aged 3-7 were submitted. The jury selected 137 best projects and awarded them with grants in the total amount of PLN 664,502. These funds will translate into hundreds of hours of creative activities supporting the mathematical education of the youngest.

New edition of mFoundation grants

After a break related to the pandemic, we resumed grant programme of mFoundation. Starting from 2022, we launched new thematic programmes. Once a year, in October, mFoundation announces a theme for the next 12 months. From October 2022 to September 2023, mFoundation will award grants to projects which combine mathematical education with ecology. The direct source of inspiration will be the book published by us entitled Maths in green. We are particularly interested in projects where teachers of mathematics and science or biology cooperate.

Partnerships

In 2022, mFoundation continued its partnership with the Gdynia-based Hevelianum science center on the "Thinking counts" programme.

It is a nationwide programme for maths and science teachers in grades 4-8 of primary school. Its goal is to popularise modern teaching methods based on interdisciplinary transfer of knowledge and mathematical thinking.

From September 2022 to June 2023, teachers can participate in five theoretical and practical webinars which are free of charge. Each is about a different teaching method:

- Problem Based Learning (learning based on solving problems),
- Inquiry Based Science and Mathematics Education (teaching through scientific inquiry and discovery),
- Design Based Research (teaching focused on solving a specific problem or verifying a selected hypothesis),
- Project Based Learning (project learning method)
- Challenge Based Learning.

Following the first edition of the programme, recordings of the meetings will be available at www.hevelianum.pl, in the "Thinking counts" tab. There are also additional materials to download - scenarios and examples of implementation of individual methods.

11.2. Other social-oriented activities

Financial education

The bank's strategy involves looking after our clients' financial condition. Good financial health translates to more efficient money management and promotes financial stability in the future. In December 2022, mBank signed the Commitment to Financial Health and Inclusion, an initiative of the United Nations Environment Programme Finance Initiative (UNEP-FI). At the same time, mBank launched www.twojaspokojnaglowa.pl, an educational website presenting ways to stay financially healthy. It aims to boost its users' financial awareness and propose changes in the way they manage their personal finances. More information about these initiatives is available in chapter 1.7 "Key events and projects in mBank Group in 2022".

In 2022, we became the general partner of the programme entitled "Porwani przez ekonomię" ("Captivated by Economy"). It is an educational project led by the Warsaw Institute of Banking developed on the basis of a book authored by Professor Witold Orłowski "Ekonomia dla ciekawych" ("Economy for the Curious"). The project is addressed to upper primary and secondary school students. Its objective is to explain economy, its problems and mechanisms to young people in an interesting and inspiring way. The project began on November 22 with a special online class entitled "Dlaczego nie lubimy inflacji?" ("Why do people dislike inflation?"), which was attended by nearly 7,900 students from 250 schools across Poland. The ultimate goal of the project is to organise lessons for school students from all over Poland. The project allows us to support financial education of the young generations.

Cybersecurity education for Internet users

mBank regularly hosts cybersecurity awareness programmes. In 2022, as part of the "Ludzie są niesamowici" ("People Are Awesome") campaign, we raised awareness of the most common mistakes people make while browsing the Internet that may lead to the loss of data or money. The campaign was broadcast on TV, radio and online. Additionally, during the holiday shopping season mBank invited famous, reputable influencers to its educational campaign. At www.ludziesaniesamowici.pl people could test their cybersecurity knowledge. The bank also reminded its clients that they can use the free-of-charge service CyberRescue that helps minimise the consequences of cyberattacks.

In 2022, the campaign reached nearly 17 million unique users. The campaign's website has 1.5 - 2.7 million visitors every year, each visit lasting a few minutes on average. Users showed particular interest in the security test, which proves their strong involvement. The test has been completed by over 60,000 users so far, including 16,000 users who took the test as a result of mBank's campaigns in 2022.

The key benefit of the campaign is that it raised people's cybersecurity awareness and taught them to be more cautious while browsing the web. This should lower the effectiveness of scams and cyberattacks.

"m jak malarstwo" fund

The "m jak malarstwo" ("P for Painting") project is part of mBank's ESG strategy. Thanks to our special fund established in 2022, we are creating a collection of artworks authored by the most promising young Polish artists. The artworks are selected on behalf of mBank by a committee composed of renowned representatives of the art market and a representative of the founder.

When selecting individual works, the committee responsible for art purchases is guided by both their artistic worth and prospective valuation in the longer term. This may include both single artworks from individual artists and larger collections. Between 2020 and 2022, mBank bought 98 artworks authored by 62 contemporary Polish painters.

mBank's initiative revitalises the Polish art market and supports the most talented young artists. We expect that in the future mBank's collection will pave the way for a new generation of artists, and the "m jak malarstwo" fund will operate like a perpetual motion machine supporting artists.

mBank is eco-friendly

Over the last several years, we have been carrying out internal educational initiatives aimed at raising awareness of climate change and promoting environmentally friendly attitudes. They are very popular, attracting hundreds of mBank employees.

Here is a list of selected initiatives completed in 2022:

- In April, to celebrate the Earth Day, we organised a webinar about climate depression. Experts were invited to talk about managing emotional toll and anxiety related to climate change.
- In December, we were visited by Professor Szymon Malinowski, one of the most renowned experts on climate change in Poland. We discussed, among other things, the most important reasons for global warming and the sources of emissions, how climate change is linked to other environmental issues and how we can fight climate change collectively as a bank and individually.
- We have launched an awareness campaign to promote food waste reduction and proper waste management in our offices in Warsaw and Łódź. In February, we also organised a lecture on reducing and recycling waste.
- In cooperation with the Zero Waste company, we give a second life to furniture and appliances no longer used at the bank. On a dedicated second-hand shopping platform, we post furniture, consumer equipment, household appliances and IT devices that we do not need anymore but which may find a new owner.

- In autumn, a group of mBank employees in cooperation with the Łódź Forestry organised the first ever forest clean-up campaign. More than 70 people collected over 100 bags of rubbish around the Górka Rogowska hill.
- Our employees from the Warsaw headquarters can now use a modern bicycle parking facility with enough space to park 352 bicycles.

We also undertake systemic initiatives to reduce our consumption of resources such as water, energy and paper, and eliminate the use of plastics. We continue to introduce new products designed to help reduce the negative effect on the environment such as the eco-mortgage, PV leasing or virtual cards. More information on these initiatives can be found in section 1.7 "Key events and projects in mBank Group in 2022".

Initiatives for persons with disabilities

mBank maintains the model for serving clients with disabilities introduced in 2018. Such clients are guaranteed the right to express their consent to the processing of data regarding their disability. Clients with hearing loss are offered video calls in the Polish Sign Language. They are redirected to the bank's employees who know the Polish Sign Language, so no assistance from external interpreters is needed.

We also strive to make mBank services available to as many clients as possible, including those with special needs. This is why we cooperate with the Integracja (Integration) Foundation, which shares its 30 years worth of knowledge and experience to help us remove barriers for people with disabilities. We have a past history of cooperation in the field of digital accessibility, and in 2022 we signed agreements on the accessibility audit of selected branches of the bank and on the mystery audit of banking communication channels for clients.

As for digital accessibility, in 2022 we started cooperation with the Widzialni (Visible) Foundation. Together with the Integracja Foundation, the Widzialni Foundation forms a consortium placed on the list of entities granting accessibility certifications referred to in Article 17 of the Act of 19 July 2019 on Providing Accessibility to People with Special Needs. In 2022, the Widzialni Foundation conducted a digital accessibility audit at the bank. We received detailed reports on the level of accessibility of our mobile app, online banking, application system, system design and information websites.

We are also committed to ensuring that our employees with disabilities have the right to equal opportunities. In 2022, by way of a public tender, we selected an organisation that will help us employ more people with disabilities. They still face various barriers on the labour market that we wish to reduce as a socially responsible organisation.

In December 2022, we once again took steps to raise awareness around disabilities among our employees. We invited external experts to talk about practical ways to be more inclusive of people with disabilities. We organised internal workshops on how to communicate with and address the needs of people who are deaf held by our employee from the Contact Centre. On our diversity page our employee wrote a series of posts debunking myths surrounding people with disabilities. We also shared an interview with an mBank employee who works for an accessibility foundation. Our employees received a savoir-vivre guide on how to interact with people with disabilities. We also shared a guide on how to write and refer to people with disabilities. Additionally, we prepared a short information booklet for our employees, presenting basic definitions of disabilities, describing their severity levels and types and clarifying the procedure to receive a disability certificate.

Other social initiatives

Other social initiatives of mBank, e.g. the cooperation with the Great Orchestra of Christmas Charity (WOŚP) and support people affected by the war in Ukraine have been described in section 1.7 "Key events and projects in mBank Group in 2022".

12. Non-financial information

12.1. Information about the statement

This statement concerning non-financial information of mBank Group for 2022 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 second time we have added 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 2022, the number of full-time equivalents (FTEs) at mBank and the selected subsidiaries accounted for around 99% of all FTEs in the Group.

This statement is prepared based on the international reporting standards of the Global Reporting Initiative (GRI).

More information about sustainable development in mBank Group will be available in the ESG report for 2022, 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.

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 and progress in its completion, 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. In 2022 there have been seven sittings of the Committee.

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.

ESG issues are one of the elements that we take into account when we assess the performance of the management staff, including the members of the management board. In 2022, we defined ESG goals with a weight of 10% for TOP 100 mBank managers. Each of the directors also defined tasks to complete in scope of ESG and metrics to measure progress on a quarterly basis.

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 are a member, partner and signatory of important initiatives that support sustainable development. In December 2022, we signed the Commitment to Financial Health and Inclusion. This is an initiative of UNEP-FI organization, which belongs to the UN family. According to the declaration, within 18 months of its adoption, we will set goals related to supporting the financial health of our clients and inclusive banking. In 2021, we signed the UN Principles of Responsible Banking and joined the United Nations Environment Programme Finance Initiative (UNEP-FI). We also continuously support the 10 principles of the Global Compact initiatives 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

Ethics Programme

By resolution of the Management Board in May 2022, mBank's ethical standards, responsibility for their implementation and functioning came under the supervision of the President of the Management Board of mBank. In July 2022, the Sustainable Development Committee approved the mBank Ethics Programme. In this way, we have gathered in one place the basic guidelines that help us build a culture of ethical business conduct and implement the commitments and aspirations described in the ESG strategy.

The key principles on which the Ethics Programme is based:

- The source of ethical principles applicable to employees is the Code of Banking Ethics of the Polish Bank Association. We supplement these principles with the Banking Code of Conduct.
- Detailed rules of behavior in areas that are related to ethics are contained in internal regulations, the full list of which can be found here.
- Every employee of the bank is obliged to know the ethical principles, observe them and react to their violation. Activities aimed at ethical business conduct are also implemented as part of the banking ESG strategy.
- The Ethics Officer is responsible for managing ethics within the organization. The Ethics Officer's work plan is approved by the Sustainable Development Committee. Twice a year, the topic of ethics is obligatorily discussed at a meeting of the Sustainable Development Committee. The report on the activities of the Ethics Officer is presented to the Bank's Management Board once a year.
- Each bank employee is obliged to undergo ethical training once a year, and a new employee - within 3 months of employment.
- All policies, products, services and procedures must include ethical considerations. The same applies to how we offer products to our customers and our relationship with them.
- To ensure ethical communication with clients, we follow the mKanon rules, the standard of simple communication.
- The mSygnał system for reporting violations includes a category of ethical violations, and whistleblowers are subject to appropriate protection.
- We conduct cultural and communication activities that serve to create an ethical culture, and they are supervised by the Ethics Ombudsman.
- The bank's employees are obliged to act in accordance with mBank's model of values and behavior and are assessed accordingly. Ethical conduct is also part of this model.

In 2022, in cooperation with UN Global Compact Network Poland, we started works on the concept of auditing ethical standards. We plan to conduct the first full audit of ethical standards in the first quarter of 2023.

In 2022, we also developed the concept of mandatory ethics training for all new and current employees. The e-learning training, which we create based on the Polish Banks Association (ZBP) guidelines, will complement the educational offer regarding regulations and internal policies that are part of the Ethics Programme.

We have described the results of the implementation of selected policies in the following sections of the non-financial information of the Management Board's Report.

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:

- the Compliance Department, which coordinates, controls and supervises execution of management of compliance risk at the bank and performs the control function in scope of compliance,
- other units within the second line of defence in situations, where part of the risk management tasks have been delegated to them,

3. **The third line** of defence is represented by the activity of the Internal Audit Department (DAW). It performs an independent and impartial assessment of the adequacy and effectiveness of the internal control system and risk management system implemented in the bank.

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:

- Employees, as part of their duties, comply with the law, act in accordance with internal regulations and market standards aa well as apply control mechanisms and independently monitor whether they are observed.
- Directors of organizational units are obliged to monitor and analyse the regulatory environment, properly identify changes in the law that affect the operations of the managed unit and implement them in internal regulations.
- The primary role of the Compliance Department in the compliance risk management process is:
  - introduction of risk identification procedures and methodologies,
  - defining and applying selected risk control mechanisms,
  - designing and implementing procedures and methodologies for monitoring compliance risk,
  - comprehensive reporting to the level of the bank's authorities in terms of risk identification, assessment, control and monitoring.
- 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.

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 2-27 Compliance with laws and regulations

In 2022, we paid one fine imposed by the Polish Financial Supervision Authority (KNF), in a total amount of PLN 4.3 million.

Authority	Subject matter	Year of initiation	Results of proceedings	Reply from mBank
PFSA	Lack of adequate control mechanisms, so that funds wrongly valuated their assets.	2020	Imposed fine of PLN 4.3 million	mBank paid the fine In 2022

Internal audits conducted in 2022 in the area of compliance concerned anti-money laundering and Sanctions Policy in selected areas of the activities performed by the bank and subsidiaries (4 audits). Based on the results of these audits, the Internal Audit Department indicated on the areas requiring improvement. We have timely completed the recommendations received from the audits.

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
5. suggesting, that one is expecting a gift or an invitation.

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 2020, 2021 and 2022.

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.

	2020	2021	2022
Percentage of employees trained (mBank S.A.)	83%	97%	98%

Fraud prevention policy of 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.

Rules of reporting on violations by means of mSygnał whistleblowing system determine that:

- an application ensures anonymity, if you choose to do so. Reporter can open an anonymous mailbox, where she/he will receive feedback on the actions taken in connection with her/his report and will be able to send additional information (principle of ensuring anonymity),
- it is prohibited to perform any form of pressure, discrimination or unfair treatment against bank employees who report a suspected violation, even if the information is not corroborated by an investigation. No form of reprisal can be taken against an employee who reports a suspected violation (whistle-blower protection principle).
- 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. In particular, the identity of the whistle-blower 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.
- 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, selected persons from the Ethics Officer team and Compliance Department. 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	2020	2021	2022
Cases reported to the fraud management team	76	70	72

In each case of the reported case, the explanatory proceedings have been conducted. In cases of confirmed cases of employee abuses, the sanctions stipulated in the Labor Code and Work Rules have been applied, as well as the cases have been reported to law enforcement authorities. Recommendations were issued to correct identified gaps in processes and systems. A corrective measures have been taken to avoid similar situations in the future.

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 policy implemented:

There is a dedicated module concerning conflict of interest in the training on fraud prevention and corruption. The e-learning training is obligatory for all employees and must be completed annually. The training is concluded with a knowledge test with a compulsory passing threshold.

	2020	2021	2022
Percentage of employees trained	83%	97%	98%

In addition, bank employees providing clients with information on investment services or providing investment advisory services take part in a webinar on conflict of interest. In 2022, we trained 70 people, which is 100% of the target group.

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:

	2020	2021	2022
Percentage of employees trained	83%	99%	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:

	2020	2021	2022
Percentage of employees trained	76%	98%	95%

mBank's disclosure obligations

mBank has implemented the requirements imposed among others under the Act on Trading in Financial Instruments and its executive acts, the EU Market Abuse Regulation (the so-called MAR), the Act on Public Offering and conditions to introduce financial instruments into the organised trading system as well as the Act on Public Companies.

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 (PFSA), 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 PFSA 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 or – in case of brokerage activity – adequately the Supervision Unit of the Brokerage Bureau.

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 2022 and in the previous two years.

Policy on the assessment of qualifications (suitability) of Supervisory Board and Management Body members, and key function holders

The purpose of the policy is to ensure that the composition of the bank's governing bodies is appropriate to the scale, complexity and risk profile of the bank and contributes to its proper and safe functioning. The policy shall also ensure that the members of the bodies are suitable individuals, and that the bodies as a whole will have the appropriate combined level of knowledge, experience and experience and fulfil other criteria set out in the policy, also taking into account the principles of diversity.

The policy determines in particular:

- rules for selecting, appointing and dismissing members of the bank's supervisory board and management board, including succession rules,
- criteria for assessing individual (primary and secondary) and collective suitability,
- rules and procedures for conducting individual (primary and secondary) and collective suitability assessments,
- principles of induction, training and development activities as well as updating the knowledge of members of the bank's governing bodies,
- differentiation rules,
- units responsible for individual activities.

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 and the 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 in the composition of the Supervisory Board and the Management Board, or at least to reach a minimum gender minority of 33% both in the Supervisory Board and the Management Board until 2026 or at the legally required level.

Results of policies implemented:

	2020	2021	2022
Number of women on mBank's Management Board	0	0	0
Participation of women in mBank's Management Board	0.0%	0.0%	0.0%
Number of women on mBank's Supervisory Board	4	3	3
Participation of women in mBank's Supervisory Board	50.0%	37.5%	37.5%

Data as at the end of 2022

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;
- cyber incidents 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, in particular at the time of increased criminal activity in cyber area, triggered by the war in the Ukraine.

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, in 2022 the Security Department has completed the first edition of the Security Academy, dedicated to mBank employees. Under this initiative 113 trainings were held for over 10,000 participants. They 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 the 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 For more information on data protection and its implementation at mBank, please visit our website.

Results of policies implemented:

GRI 418-1 Complaints concerning incorrect processing of personal data of clients and other data subjects:

In 2022, we received 22 new complaints from the Office for Personal Data Protection (UODO). We also continued correspondence with the UODO regarding the complaints from previous years. The complaints concerned the bank's processing of personal data of, among others, our clients and potential clients.

In 2022, mBank's data protection officer confirmed 145 breaches of GDPR at the bank. After analysis and estimation of the risk of violation of rights and freedoms, we notified 58 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. We conduct product impact studies against independent standards, including the EU Taxonomy and materiality analysis. The impact of the product on both 5 environmental issues and 6 social goals is assessed.

We conduct the ESG analysis in the application, where we also evaluate other aspects of each product introduced to the bank's offer. The products are evaluated according to defined acceptance paths, depending on the scale of the change and the level of risk involved. Thanks to this approach, we limit the risk of introducing products that have a negative impact on ESG aspects, do not match the needs of customers, and have a negative impact on mBank's reputation. By developing our offer in the spirit of ESG, we not only limit potential risks, but also make better use of emerging business opportunities.

The product introduction policy defines 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. The 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.

In the information and materials that we address to clients, we use simple and understandable language, in accordance with the mKanon. We also apply the principle of transparency and adequate scope of information. The descriptions of our products are clear, concise and contain all the important features that affect their usefulness and attractiveness. We do not hide the conditions that are necessary to use them. We inform clients about the risks associated with the use of the product. We openly inform customers about the costs. We present our offer, including the pricing policy, in a transparent manner. Changes in our price lists are communicated to customers well in advance.

Results of policies implemented:

Responsible products

In 2022 we have fulfilled our declarations the mBank Group's business strategy for 2021-25 and enabled launching every new banking product together with its ESG assessment. We have also delivered our strategic goal to expand our offer with at least one pro-ecologic product in each business line annually. The first product of this type, made available to customers in December 2021, is the EKO mortgage loan. Customers can use it when buying real estate on the primary or secondary market. If a residential property meets certain energy efficiency requirements, we offer customers lower financing costs. In turn, in 2022, we made available to our clients, among others: payment cards made of 85% recycled plastic, as well as leasing of photovoltaics and electric cars with a subsidy from the "My electric car" programme. At the same time, in the area of corporate banking, we conducted a pilot of an offer of ESG-linked loans.

These products are described in more detail in section 12.4, in section dedicated to threats arising from adverse environmental change (mainly climate change). Our range of banking products and services that support ESG goals can be found on this page.

Responsible sales

As regards responsible promotions and sales, in 2022 we trained 265 of our employees in applying the principles of simple and clear communication in line with mKanon. Additionally, the Polish Language Foundation, with which we cooperate in this area:

- certified another group of ambassadors of mKanon. These are people from various units of the bank who ensure that our communication is compliant with mKanon. In total, we have 34 people in this group,
- supported us with consultations on language correctness and conducted workshops for our employees,
- awarded the Language Quality Seal to our website concerning debt collection. This certificate is in the form of seal and confirms that the content on the website is user-friendly, linguistically correct and understandable.

Responsible complaints

Matching the products to the customer's needs, as well as the way they are advertised and sold, is illustrated by the complaint data. When analysing them, it should be remembered that they also reflect other issues, such as the quality of after-sales service.

Percentage of complaints resolved in favour of the client	2020	2021	2022
Retail banking	76%	76%	76%
Corporate banking	74%	68%	55%

Complaints – number and resolution time:

- Retail segment: in 2022, we processed a total of 271,500 complaints. We analyse the complaints on an ongoing basis and based on this, together with business advisors, we take initiatives to minimise their number. We resolved nearly 55% of complaints within 1 business day (60,6% in 2021).
- Corporate segment: in 2022, we processed a total of 3,874 complaints. 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. In 2022, 36% of the complaints were closed within 5 business days (24% in 2021). The average time for processing of a complaint was less than 10 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.

<u>Results of policies implemented:</u>

1,214 employees, who serve investment clients, received relevant training in 2022 (100% of target group).

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 Bureau 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 Bureau 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 Bureau 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.

As part of each model investment strategy in the portfolio management and investment advisory service, we assumed that at least half of the assets within the managed portfolios or for which we issue recommendations will consist of financial instruments that take into account sustainable development factors.

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:

In 2022, the value of assets in the management service in ESG model investment strategies, designed for mBank's private banking clients, decreased by 20% to PLN 153 million as of end of the year. At the same time the share of the above-mentioned strategies in the total assets in model investment strategies for this group of clients increased from 29% to 32%.

Policy on preventing mobbing, discrimination and other unacceptable behaviour

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; We describe them and introduce clear action plan in the Policy in case 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:

In 2022, the Committee reviewed 7 cases, of which 3 applied to mBank S.A. (all under investigation), and 4 applied to other subsidiaries of mBank Group (3 cases closed, 1 under investigation).

In 2022, we made available to all employees a new version of the training on counteracting mobbing and discrimination. Material on this topic has been available to bank employees already for several years. We have introduced a newer, more up-to-date version of e-learning. During the training, we remind employees what mobbing is, we familiarize them with examples of stories of people who have become victims of mobbing and discrimination, and we present statistics that describe the situation in Poland. We also explain the terminology and show the relationship between actions to combat discrimination and actions for diversity and inclusion. The new version of the training was communicated to all employees at mBank, together with instructions on how to report adverse actions. In 2022, we trained 539 people in anti-mobbing and discrimination training.

In 2022, mBank also introduced mandatory training for all employees, which introduced the subject of diversity and inclusivity. The scope of the training covers the basics of microaggression and the prevention of exclusionary practices. In addition, we conduct workshops related to our value model and meetings focusing on the subject of diversity, equality and inclusion in individual departments - adequate topics answer the question of how to prevent discriminatory behaviour. In 2022, 1,465 people completed the training.

Diversity and Inclusion Policy

In 2022, we adopted the Diversity and Inclusion Policy. It sets out our goals in connection with mBank's strategy until 2025 and sums up our efforts in this scope made over the last years. The policy focuses on four areas:

- raising and fostering employees' awareness about diversity,
- counteracting discrimination, including analysing the problems encountered by the employees,
- gender neutrality in the processes implemented at mBank,
- increasing the number of employees with disabilities.

The principles of equal treatment and respect for diversity underpin all employee processes.

We implement diversity and inclusion management rules and promote them among all stakeholder groups. By managing diversity, we create an environment where people feel respected and appreciated. This enables our current and future employees to fulfil their potential, which will contribute to the company's successes.

We are actively involved in building an inclusive work environment as part of our organisational culture. We strive to make mBank a workplace where everyone feels respected, develops professionally and gets involved. We build good relations among employees and continually foster a sense of fairness and safety. We oppose exclusion and discrimination in employment on the basis of, among others, sex, age, disability, race, religion, lack of religious belief, nationality, political opinion, trade union membership, ethnic origin, sexual orientation, gender identity, family status, and form of employment.

The diversity policy is supported by a number of policies and procedures, including:

- mBank Code of Conduct – a set of minimum standards and behaviours which mBank expects from its employees,
- Remuneration Policy, which is based on the gender equality principle,
- Policy on Preventing Mobbing, Discrimination and Other Unacceptable Behaviour,
- Model of Values and Behaviours,

- Order of the President of the Management Board on the Rules for Whistleblowing via mSygnał, an Anonymous Communication Channel, and the Procedure for Analysing Whistleblowers' Reports.

If someone creates a situation which encourages unacceptable behaviour or behaves in such a way, they put themselves at the risk of being subject to disciplinary and/or criminal liability. Employees who believe that they have been discriminated against on any grounds, have defined options for reporting violations, including mSygnał. We appointed mBank's Unacceptable Behaviour Committee. Its role is to counteract discrimination in the workplace, prevent unacceptable behaviour and investigate issues reported by employees.

Procedures supporting diversity at mBank are supervised by the Management Board Representative for Diversity and Inclusion, who is responsible for building a diverse workplace, coordinating initiatives planned in and arising from the policy, and presenting recommendations and results of activities taken to the Management Board, Supervisory Board and the Sustainable Development Committee. At mBank, we also have the Chief Ethics Officer, whose role is to ensure that we abide by our professional ethics – the attitudes, behaviours and rules applicable to the bank as an institution of public trust.

Results of the implemented policy:

- In September 2022, we introduced a mandatory training course in diversity and inclusion for our employees (by the end of the year, 1,465 persons completed it).
- We defined a list of successors for managerial positions, which ensures the assumed gender participation. We also constantly monitor succession to directorial positions. We report on the share of women and men participating in recruitment for leadership positions on an ongoing basis.
- In 2022, we achieved our goal of equal representation of both genders in recruitment and promotion processes (52% of recruited and promoted managers were women).
- In 2022 we have started activities that will help us employ more people with disabilities.
- We added a module dedicated to diversity in teams to the training programme for new managers. We also organise meetings addressing this issue in departments and teams in different areas of the bank.

Thanks to the actions taken, mBank was included on the list of Poland's most advanced companies as regards diversity and inclusion management. The list was compiled by the Responsible Business Forum, the coordinator of the Diversity Charter, which was signed by mBank in 2018. The level of diversity management at mBank was assessed in the Diversity IN Check survey.

In January 2022, mBank became a member of the Bloomberg Gender-Equality Index for the second time. The index comprises 418 companies from 45 countries across 11 sectors. The companies included in it are assessed in terms of their commitment to gender equality and transparent disclosures. Bloomberg's experts appreciated our involvement in transparency and setting a new standard in reporting gender diversity data.

mBank's remuneration policy

The bank has a Remuneration Policy which contains the rules for awarding remuneration to employees. Its first pillar is the approach to shaping remuneration through the prism of total remuneration (fixed and variable remuneration). The second pillar, which plays a key role in the remuneration process, is the dialogue between managers and employees, which provides comprehensive information and justification for decisions.

The bank's remuneration management system is designed to:

1. Building high employee engagement by providing a market-based remuneration package that is commensurate with contributions.
2. Retaining the best employees (ensuring optimal work conditions) and attracting talent to the organisation (practices and internships programme).
3. Ensuring the protection of the rights and interests of the bank's clients and preventing conflicts of interest. We renumerate employees and appreciate their work in such a way that financial and/or non-financial forms of remuneration does not encourage employees to favour their own interest or bank's interest over the bank clients' interest.
4. Supporting sound and effective risk management at mBank Group and discouraging staff from taking excessive risks, exceeding the risk appetite approved by the Supervisory Board.
5. Ensuring cost efficiency in terms of the salary budget (enabling flexible salary management, which allows for optimal employment of the available budget).

An important element of remuneration management at mBank is the separate "Remuneration policy for employees with significant impact on the risk profile". This is a tool supporting the management system at mBank Group and enhances caring for long-term well-being of the organisation while avoiding excessive risk exposure.

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)	2020	2021	2022
senior management	69%	71%	68%
middle management	79%	83%	82%
other employees	76%	79%	77%
Ratio of total pay of women to men (mBank)	**2020**	**2021**	**2022**
senior management	62%	63%	69%
middle management	78%	83%	81%
other employees	74%	78%	75%

Initiatives at the bank, which are currently under way, aim to equalise salaries for comparable positions while also supporting women's promotions. In 2022 we achieved our goal of equal representation of both genders in recruitment and promotion processes (52% of recruited and promoted managers were women). In a longer perspective this shall minimise the differences between average remuneration of women and men.

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.

Dialogue with the emoplyees and mBank S.A. Workers' Council rules

The Management Board of mBank runs an open dialogue with employees. Several meetings are organised over a year, where the Management Board answers questions asked by the employees. Additionally, we run a cyclical Pulse Check questionnaire, where our employees can assess their satisfaction from the work conditions or express their dissatisfaction, as well as indicate, what they would like to change in the organisation.

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.

The Workers' Council meets with HR partners and the president of the Management Board of the bank in order to express its opinion concerning the quality of cooperation between the Council and the bank. We treat these meetings as a way to identify issues requiring possible change. In 2022, the topics discussed with the Council concerned: the approach to remuneration and payroll benchmarks, spending funds from the Social Benefits Fund, changes planned in the bank.

There is also an Independent Trade Union of mBank Employees at mBank. We are open to cooperation with this organization to the extent specified by law. In 2021, the media described the situation of dismissal of one of the bank's employees who was a union member. In July 2022, the parties reached a settlement that ended the dispute.

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:

- Universal Declaration of Human Rights,
- International Labour Organisation standards,
- OECD Guidelines (especially on the fight against corruption),
- The Rio Declaration on Environment and Development – Agenda 21,
- United Nations Convention against Corruption,
- 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,
- 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 2022 and who read and declared that they comply with the "Supplier Principles": 100%.

In January 2022 a new "Code of Sustainability for mBank Suppliers and Partners" came into force. 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.

We collect the signed statements also form our suppliers contracted in the past. In this manner we ensure that they comply with basic ESG standards. To make it easier for our suppliers, we have published "An ESG guide for mBank Group Suppliers".

Climate and environmental policies and due diligence

mBank Group mitigates its climate impact mainly through lending policies which govern our approach to the financing of industries with positive and negative climate impact.

Since 2019, we have applied the **Credit Policy for Industries Relevant to EU Climate Policy**. In 2022, we tightened the criteria of mBank's climate policy. In its current form, it excludes, among others, the financing of coal and lignite mines, shale gas exploration and nuclear energy and restricts the financing of coal-fired power generation in the broadest sense. Moreover, the policy regulates the possibility of financing projects from the fuel sectors (e.g. fuel trade) and indicates preferred areas for investment, such as projects supporting biodiversity and water management. The policy complements other sectoral policies, covering sectors such as agriculture, food, automotive, metals, broadly defined construction, real estate and healthcare. 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 regularly publish sector analyses. Regardless of the sector, we conduct an expert assessment of the sustainable development risk, with a particular focus on the level of direct and indirect emissions of greenhouse gases generated by business.

Since 2018, we have applied our **Credit Policy for Financing Renewable Energy Sources (RES)**. It now provides for the allocation of PLN 4 billion to the financing of wind farms and photovoltaics (originally the figure was PLN 0.5 billion but we increased it in 2019 and 2020).

Our Climate Policy and Renewable Energy Sources Financing Policy are described in detail in section 12.4 "Key risks and risk management", in the part pertaining to 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. The updates are made based on analyses of scientific research and latest decisions of the European Commission regarding sustainable development.

Results of policies implemented:

	2020	2021	2022
Investments in large-scale RES systems (MW)	972.0	365.5	341.9

As of end of 2022, the RES portfolio at mBank reached a level of PLN 3.4 billion. The level of RES utilisation limit stood at 85%. In sole 2022 mBank financed 7 investments in scope of photovoltaics and 4 investments of wind farms. We dedicated nearly PLN 636.5 million for these projects.

mBank is raising funds in the form of green bonds, which are described in more details in section 12.4 Key risks and risk management, in the subsection "Threats arising from adverse environmental change (mainly climate change)". Information on mBank Group principles of Green Bond issuance is also described on our website.

Policy on mBank's handling of reputation risk-sensitive industries

This policy, which is updated every year, 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 to which mBank applies special service rules.

The policy excludes serving e.g. entities and individuals that:

- operate in the pornographic industry,
- spread extremist ideologies,
- provide online services that are generally recognised as controversial (e.g. distribute illegal software, films and recordings coming from illegal sources, publish horoscopes, enable cryptocurrency exchange, offer pharmaceuticals and quasi-medicinal products, are not legally operating online pharmacies and do not hold a permit of the Chief Pharmaceutical Inspectorate for distance sales of medicinal products),
- use child labour, forced labour or otherwise grossly violate human rights in their activities,
- economically exploit environmentally valuable areas,
- pose a risk to the global cultural heritage,
- operate currency exchange bureaus.

The entities covered by special service standards include, among others, entities from the defense industry. The policy applies to entities producing and trading in explosives, arms, ammunition, products and technologies for military or police use. These include all objects and materials which can be used to hurt and kill people in armed conflicts (both domestic and international) as well as spare parts and the necessary accessories (e.g. electronic parts).

In accordance with the policy, we do not finance the supply of weapons or armaments intended for conflict zones and do not serve or finance entities involved in the research, production of or trade in controversial weapons, including unconventional types of weapons. At the same time, the bank acknowledges that countries have an inalienable right to protect themselves against external and internal threats. Therefore, we only engage in transactions in which we can clearly identify the end recipient. Entities from the defense industry should only cooperate with governments represented by relevant authorities.

Regardless of the sector, we also do not establish business relationships with:

- entities which 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 issues relevant to sustainable development. These relate to areas such as corporate governance, data security and privacy, customer relations, employee relations, ethical business and responsible investment financing. Further details about these documents can be found at our website.

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, who are the owners of the operating risk within their tasks and duties;

II. the second line of defence includes mainly the risk and security units and compliance function;

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). During the meetings held in 2022, the Committee approved, among others: a map of ESG goals for the organization, classification criteria and a pool of contracts financing RES for the purpose of green bonds issuance, criteria for a marketing ecosymbol, criteria for sustainable financing for corporate clients transactions, mBank's ethical programme, ESG criteria in a product process. During the meetings of the committee members also discussed the objectives of mBank's ESG strategy for 2023, the results of greenwashing risk scenario, the "Commitment to Financial Health and Inclusion" declaration and ESG standards for investment funds. The Committee is chaired by the Vice President of the Management Board, Chief Risk Officer.

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 in particular:

- legal risk,
- conduct risk,
- IT risk,
- cyber risk,
- external fraud risk,
- internal fraud risk,
- outsourcing risk,
- HR and organisational risk,
- physical security risk,
- performance, delivery and process management error 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 2022, 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;
- cyber threats;
- geopolitical situation, including war in Ukraine. mBank Group regularly monitors the situation and applies actions. No significant operational losses have been recorded with this respect.

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,
- unfavourable 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 Consolidated Financial Statements 2022.

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 an advanced monitoring,
- we have implemented and 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 centres
- we have implemented Active/Active architecture for critical IT systems.

We continuously 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.

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 2022, we continued to focus on cyber security of our clients and their services as well as employees and internal systems they use. 2022 was a year of transition from the home-office to the flexible hybrid work model. Almost all mBank employees worked in such a model, in line with the relevant security requirements both on-site and remotely. With active participation of our cybersecurity team, we have broadened the scope of services offered to banking clients in an online form and ensured their safety.

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 and Czech Cyber Security Act No. 181/2014 (UBC). We continue 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. They are aimed at avoiding such cases in the future and limiting risks involved.

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.

We run the process of implementing new products or services and modifying existing ones with the use of a standardised IT tool. 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 2022 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

The risk of errors in performance, delivery and process management is understood, among others, as the risk of:

- failed transaction service,
- data entry errors,
- delayed task performance,
- process management issues,
- issues affecting relations with business partners.

The risk of errors in performance, delivery and process management is managed in accordance with the operational model of three lines of defense. The bank has established a Data Quality and Information System Development Committee whose mission is to create conditions necessary to establish, maintain and develop an effective system supporting data quality management across the organisation and to develop information systems in accordance with procedures and internal regulations.

We mitigate the risk of errors in performance, delivery and process management by:

- implementing the Information Management Strategy and Data Governance Programme,
- pursuing the Data Management Policy and Standards,
- ongoing monitoring of and regular reporting on data quality,
- discussing key recovery measures during meetings of the expert group, the members of which are Data Stewards,
- discussing and approving key remedial measures during meetings of the Data Quality and Information System Development Committee,

- carrying out the process of handling quality incidents by means of automated (Informatica Data Quality) or manual submission of tickets in Jira (Register of Data Errors),
- in-depth analysis of internal and external complaints and process excellence,
- control mechanisms and their independent monitoring as a part of a continuous control function,
- identification of non-compliances, monitoring of the implementation of recovery plans defined for identified non-compliances, including in-depth case studies, defining improvements and designing appropriate control mechanisms,
- ongoing recording of operational events and losses, risk analysis based on the Register of Operational Losses (RSO), and the loss reporting process,
- ongoing monitoring of KRIs and RIs; whenever a warning or alarm threshold is exceeded, we take recovery measures defined for every risk factor.

In 2022 we worked, among others, on improving the quality of client data. We expanded the inspections of personal data of retail and brokerage bureau clients, as well as inspections of data from the Risk and Finance areas. We also enhanced the automated data quality measurement system.

As part of the implementation of recovery plans in the control function process, we introduced automated solutions to some of the manual processes as well as additional two-stage monitoring, which reduces the risk 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 among 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 2022, in the area of counteracting fraud, we have focused our activity on protecting customers and the bank against fraudulent extortion techniques, including through social engineering. Thanks to effective mitigants in the field of Anti-Fraud Policy and tools, extortion patterns have been limited to a great extent.

Outsourcing risk

Outsourcing risk is understood as the risk of adverse influence of a third party conducting a process, providing a service or performing a task under an agreement, which would otherwise be conducted, provided or performed by the bank (the bank is also understood as an investment company in accordance with the EBA Guidelines and Delegated Regulation (EU) 2017/565).

Outsourcing poses risk, in particular operational, business, legal, compliance and reputational risk. The Management Board of the bank is responsible for the regulatory compliance of outsourcing agreements and oversees their implementation. In particular, the Management Board is responsible for the process of making decisions to outsource critical functions.

The Management Board has appointed the Compliance Department to manage and coordinate the outsourcing process across the bank, including the foreign branches.

We manage outsourcing risk based on the model of three lines of defence:

- 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,
- the second line of defence is composed of:
  - the Compliance Department, in particular the outsourcing coordinator, who supervises the outsourcing process and reports to the bank's authorities, and

  - other units from the risk management and security areas that participate in the process of concluding and implementing outsourcing agreements and have their roles defined in the Internal Instruction on Outsourcing,
- the third line of defence is the Internal Audit Department (DAW), which performs the independent internal audit function. DAW carries out regular audits of outsourcing in order to assess the effectiveness and adequacy of the risk management system in outsourcing and to evaluate outsourcing risk management.

Organisational units of the bank which are owners or administrators of outsourcing agreements are responsible for the management of risks generated by such agreements, among other things, by:

- performing analyses of the purpose of outsourcing agreements,
- performing analyses of the effectiveness of contractors,
- performing analyses of function risk, including assessment of function criticality,
- performing analyses of counterparty risk (due diligence, conflicts of interest),
- preparing drafts of outsourcing agreements (or, if needed, a draft of a notification or application to the Polish Financial Supervision Authority),
- consulting drafts of outsourcing agreements with the competent organisational units of the bank,
- if needed, agreeing on the template of an outsourcing agreement or of an amending annex to such an agreement with the outsourcing coordinator,
- archiving outsourcing agreements,
- monitoring and controlling the quality and timeliness of activities performed under agreements,
- regular (at least once per year) monitoring of the effectiveness of active outsourcing agreements.

We follow the principle of maximum mitigation of outsourcing risk, which is why we regularly evaluate the standing of outsourcers and monitor the implementation of outsourcing agreements.

We continued to implement the EBA guidelines on outsourcing in 2022.

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.

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 subsidiaries 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.

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 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 mSygnał functions at mBank Group, 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, the bank drew constructive conclusions regarding the organization of work, including the implementation of a hybrid work model and activities aimed at supporting building awareness about behaviour in the face of health and epidemic threats. We have described these initiatives in more detail in section 1.7. "Key events and projects in mBank Group in 2022".

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).

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 centres. 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;
- coordinate investments in electronic security systems,
- coordinate equipping facilities with specialized banking devices, such as multi-safes, safes, transfer sluices, depositories, cashier recyclers,

- regular maintenance of electronic and mechanical security systems;
- physical/technical security audits of facilities;
- issuing security opinions for the bank's infrastructure projects;
- handing physical security incidents.

In 2022, we conducted a number of audits, as a result of which the level of physical security and technical security of the bank's facilities was raised. We have started projects aimed at modernizing the technical security systems in the branches. We have conducted specialized training related to the safety of employees in the event of dangerous situations.

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 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 and in credit analysis processes. 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 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. 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.

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 (mSygnał) which is accessible on all internet-enabled devices.

An application GRC Manager 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. Thanks to the continuous upgrade of the application we have improved the reporting function on 2022.

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 Consolidated Financial Statements 2022.

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. We care for our activity not to be harmful for natural ecosystems and biodiversity. 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. Additionally, we take action to minimise use of paper, plastic and CO_2 emissions resulting from digitalisation of sales and client servicing processes.

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 funding for its clients and PLN 5 billion from other sources, such as bank syndicates or green bonds issues by our clients. 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.

In 2022, we joined the Science-Based Targets Initiative (SBTi), which is an important part of our ESG strategy. SBTi is a global, science-based and renewed score, applied by additional non-financials and financial organisations in the calculation and reduction of the carbon footprint. We are the second bank in Poland to make such a commitment. As part of this initiative, within two years we will prepare decarbonization targets for selected areas of our loan portfolio for the validation.

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 (in other words risk of transition into low-emission economy).

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 centre 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, through financial exposure to our clients, who are directly exposed to climate change effects. 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.

Our analysis shows that the exposure of mBank's corporate and retail portfolio to physical risk related to the geographical location of corporate clients and location of real estate being collateral to the loans is very low. While the analyses in this area will be refined in terms of methodology, the obtained preliminary results indicating a slight threat to the corporate loan portfolio related to the negative effects of climate change are consistent with the expectations and modelling of potential climate changes for Poland in the perspective of the next few decades.

According to our analysis it also appears that 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_2 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. Given the importance of mBank's ESG strategy assumptions, it gained importance in the credit granting process.

Following the changes introduced in 2022, we focus mainly on financing projects supporting biodiversity and water management in energy-intensive industries (e.g. production of pulp, paper and paperboard, production of ceramics and glass and production of cement and lime) and projects for the construction of electric vehicle charging stations. mBank's climate policy defines the rules under which we determine and assess climate risk in industries related to conventional power and heat production, in the mining and mining-related sectors, and in the petroleum and transport industries.

Our climate policy explicitly prohibits the financing of construction of hard coal and lignite mines and expansion of the production capacity of the existing mines. Additionally, the policy prohibits us from financing coal-fired power stations, nuclear power plants, and production of and trade in radioactive materials (except for the healthcare sector). Our climate policy also bans the financing of entities whose core activity involves shale gas exploration and extraction. In the energy and heating industry, we are additionally not allowed to finance entities operating coal-fired power generating units or modernisation projects connected with coal-fired boilers and power units, as well as new clients whose share of electricity from hard coal or lignite (measured by production capacity) is more than 50%.

The financing rules applicable to carbon-intensive projects and industries are complemented by a holistic tool, introduced in 2021 and expanded in 2022, for analysing and quantifying the ESG risk at the level of an industry on the basis of a standardised set of criteria. It also serves as a repository of ESG information enabling us to build up in-depth knowledge about our clients' needs among the bank's employees. 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 and set directions of our clients' transformation more efficiently.

At the end of 2022, more than two-thirds of the carrying amount of exposure in the corporate portfolio was characterised by marginal, very low and low environmental risk, and less than one-third of the exposure posed medium and high risk. Very high environmental risk was identified for less than 0.1% of the carrying amount of exposure in the corporate portfolio.

As for social risk, more than two-thirds of the value of the balance-sheet exposure in the corporate portfolio was characterised by very low and low risk, and slightly more than one-fourth of the exposure posed medium risk. High social risk was identified for only 1% of the balance-sheet exposure at the end of 2022. Our corporate portfolio does not contain any exposures posing higher-than-medium corporate governance risk: all existing exposures of mBank are characterised by marginal or very low risk of this type.

Climate change provides not only risks but also opportunities for mBank. The key opportunity related to climate protection is the ability to create new banking products and services addressing the evolving needs of our clients. An example of such a product is the financing of renewable energy sources (RES). Under the credit policy applicable to this area, which was adopted in 2018, the bank will allocate PLN 4 billion to wind and solar farm construction projects (originally PLN 0.5 billion, increased to PLN 4 billion in 2020). The decision to increase the limit for financing renewable energy projects results, among other things, from considerable interest in the financing and a high loan repayment rate, as well as a promising outlook for the industry. mBank was one of the first banks to finance wind energy. Currently, due to the pressing need to ensure energy security and foster the energy transformation in Poland, we give due recognition to the increasingly important role of photovoltaics. We also expect that the offshore wind energy will continue to grow in importance. We are working on projects based on PPA (Power Purchase Agreements). Under that model, an investor who wants to develop a green energy source, typically a wind farm, initially signs a long-term energy sale agreement, for instance with a manufacturer.

In 2022, we continued to develop further RES financing options in the bank's corporate branches for photovoltaic and wind projects of up to 5 MW and 10 MW, respectively. The opening up of RES financing in the corporate branches is expected to enable better diversification of the RES portfolio and support the development of a higher number of companies.

Our ESG activities oriented at combating climate change include raising awareness among our employees and clients. In 2022, in cooperation with an advisory firm, we organised workshops for our clients on the impact of climate risk on the credit risk of a company. We also share our knowledge and experience in the area of climate risk during meetings with academics (Warsaw School of Economics), industry-specific associations (Polish Association of Corporate Treasurers), during market-oriented training and thematic conferences dedicated to ESG-related issues in the banking sector.

We want responsible lending to be founded upon our employees' knowledge on the ESG factors. This is why we are developing and strengthening the industry expertise at the bank through the initiatives of the sector analysis team. They prepare materials and organise workshops to support the bank's employees in taking responsible credit decisions. This way they help build a credit portfolio with an adequate level of security.

Internal initiatives promoting knowledge carried out in 2022 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 training initiatives, educational materials are created in-house and made available to employees to outline regulatory developments, the United Nations Sustainable Development Goals and climate stress testing, among others.

We organise internal meetings for our employees on environmental issues, especially those related to the climate. This way we want to help them obtain the necessary knowledge and encourage them to take an active part in implementing the strategic ESG objectives of the entire bank. We are planning to train all our employees in ESG issues in the coming years.

In 2022, we carried out climate risk stress tests of the European Central Bank (EBC), which were the first such tests carried out at the European level. We worked together with Commerzbank guided by 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.

This pioneering exercise improved our knowledge and skills in the area of climate risk assessment. The stress tests helped us build greater awareness of climate risk and determine our vulnerability and resilience to its materialisation.

We analysed forecasts about the bank's income from high-emission industries. The analysis showed that if the adverse climate change scenario unfolds, mBank's exposure to large fluctuations in income generated

from high-emission industries will be low. This is a consequence of the bank's former strategic decisions to reduce exposures to high-emission industries.

In the operational and reputation risk area we focused on scenario analysis. We developed 11 risk scenarios, including a flood scenario, climate activists scenario and a sanctions scenario. The greenwashing scenario proved to be the only material scenario. In this scenario we assumed that the lack of a uniform market approach may lead to the simultaneous use of varying definitions and/or interpretations in assessing the sustainability of investment products. This, in turn, elevates the risk that "green" investment products may be perceived differently by different interested parties or that their perception may change over time. Our analysis looked into potential threats posed by the fact that the ESG compliance of the investment products or bonds offered by the bank or our partners may be put into question. In addition, we took into account the risks arising from non-compliance with the law, unreliable classification of products, inappropriate marketing, fraud or errors committed by our partners.

We continue the work on a set of essential data that will enable us to more precisely estimate the potential consequences of energy transition and predict the financial effects of the adverse consequences of extreme weather events. We have started collecting data on energy performance certificates of our client's real estate and information on their greenhouse gas emissions (in scope 1 and 2 in accordance with the GHG Protocol). We will use the data in climate stress test analyses and other internal analyses.

In 2022, we continued analyses of the potential impact of selected aspects related to the transition risks of our corporate clients. The analyses used, among other things, the ESG assessment system implemented at the bank. One of the aspects covered by our analyses was the impact of the integrated macroeconomic scenario on earnings and the capital position; the scenario assumed, among others:

- high inflation,
- significant interest rate hikes.

The macroeconomic assumptions were supplemented to include also sector-specific assumptions. Due to the short time horizon (two years), our analysis took into account issues which may have an impact on clients in the nearest future. From among the aspects related to energy transition, we focused on the impact of energy prices on the solvency of companies operating in energy-intensive industries.

In 2019, mLeasing offered the financing of photovoltaic installations. Initially, the subsidiary financed only micro-installations with a capacity of up to 50kW. Since September 2022, mLeasing has been financing photovoltaic installations regardless of their capacity, provided that the generated electricity is used for internal purposes of the company. The maximum financing period is seven years and the minimum contribution of the company is 10% of the investment value, provided that the financing is granted under a simplified procedure. In Q3 2022, the subsidiary added the financing of energy storage and heat pumps. Throughout 2022, mLeasing financed a total of 368 installations and devices in this market segment worth jointly PLN 61 million. In 2022, the subsidiary continued to enrich its offering of green assets financing solutions, and consequently, it will launch the financing of electric vehicle charging infrastructure in Q1 2023.

Compared with the previous year, zero or low emission cars (electric and hybrid cars) accounted for 22.5% of the total number of financed vehicles in 2022, which represents an increase by 1 p.p. In value terms, it marks a hike by 7 p.p. (up to 26.5%). The number of financed electric (zero emission) cars more than doubled, with their value up by 2.6 times compared with 2021. Also in 2022, mLeasing joined the "Mój elektryk" programme ("My Electric Car"), which offers subsidies on electric cars of up to PLN 70,000 to business clients.

mBank private banking clients have been given the opportunity to invest responsibly in line with the ESG standards already since 2019. As part of 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. Every model investment strategy in the portfolio management service is based on the assumption that sustainable financial instruments comprise at least half of the assets included in the portfolios under management. In addition to the investment limits set in investment strategy documents, we additionally set ESG limits for ESG investment strategies, which determine the expected exposure to financial instruments assigned a specific ESG Score or ESG Fund Score. On a semi-annual basis, we inform clients of the actual exposure to such instruments on our official website.

We also broadly promote ESG factors in other mBank's investment services, including not only the management service but also the investment advisory service, with webinars for clients and continuous training for front-line employees. Just like in the case of model investment strategies in the portfolio management service, our investment advisory service is based on the assumption that sustainable financial instruments comprise at least half of the assets recommended by us.

For a long time, mBank has been preparing for raising funds in the form of green bonds. The mBank S.A. Group Green Bond Framework was published in May 2020 and then updated in February 2022. 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 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. This was 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 for funding from the 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 Sustainable Development Committee of mBank Group. Compliance with the CBI criteria has been confirmed by Sustainalytics. Information on mBank Group principles of Green Bond issuance is also described on our website.

We strive to expand our product offering and adapt our current product portfolio in line with ESG objectives, thereby mitigating potential risk. We launch new products in accordance with the New Product Policy referred to in chapter 12.3 "Policies, due diligence and their outcomes".

In 2022, we fulfilled our commitment made in the ESG Strategy of mBank Group for 2021–2025 to add at least one "green" product to the product range of every business line annually, starting from 2021. In August 2022, Corporate Banking added a loan for the financing of sustainable growth to its product range. We have worked out the purposes of the loan and the conditions that must be met by applicants based on the Taxonomy and market standards (including the Sustainability-Linked Loan Principles developed by Loan Syndications & Trading Association). Moreover, it is noteworthy that all sustainable loans must comply with the bank's internal policies.

The eco-friendly mortgage loan for the purchase or construction of energy-efficient real estate offered to retail clients in Q4 2021 was highly popular among clients, with the total volume of granted loans reaching PLN 300 million in 2022. The eco-friendly loan can be used to finance the purchase of real estate both on the primary and secondary market. In order to check if a building is energy efficient, we use the EP ratio provided in the energy performance certificate or the designed energy performance, which indicates the building's annual demand for non-renewable primary energy. 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. This way, we enable clients to buy real estate and, at the same time, take care of the environment, now and for the future. Energy-efficient buildings are also less expensive to maintain and rely less on growing prices of raw materials and energy. As part of this solution, we offer a promotional margin (lower by 0.2 p.p.) and do not charge the origination fee. In order to use this preferential credit offer, a client is required to attach to the application the energy performance certificate or, if the building concerned is still under construction, a statement on the designed energy performance to confirm that the parameters of the real estate comply with the applicable credit rules.

In 2022, we made the eco-friendly mortgage loan available also to entrepreneurs being retail banking clients of mBank. Also from 2022, this group of clients can take out the eco-friendly loan for any purpose. The loan can be used for environmentally friendly purposes, such as:

- purchase of renewable energy sources,
- heat recuperation systems,
- purchase of electric or hybrid cars, motorcycles and scooters,
- purchase of water treatment stations (private intake), rainwater recovery systems and sewage treatment plants.

We care not only about the environment, but also about our clients, who can cut their operating costs thanks to our products. What is more, the preferential terms (lower margin and no origination fee) apply from the moment the loan is granted.

In April 2022, we launched new environmentally friendly cards made from 85% recycled plastic. Since then we have been systematically replacing subsequent types of cards that expire, are lost, stolen or damaged with recycled plastic cards. So far we have issued more than 695,000 recycled plastic cards for clients, saving almost three tonnes of plastic. In the coming years we are planning to move to cards from 100% recycled plastic and popularise digital cards. In 2022, to celebrate the 30th grand finale of the Great Orchestra of Christmas Charity (WOŚP), in addition to a plastic card designed to mark the occasion, we also offered a virtual WOŚP card (Mastercard Mobile). One in six issued WOŚP cards was a mobile card. For cards issued to mark the Pol'and'Rock Festival, the ratio was one in four. The move to mobile cards enabled us to save another 682 kilogrammes of plastic (almost 3.7 tonnes in total).

12.5. Key performance indicators

Business and CSR indicators:

Key performance indicators	2020	2021	2022
Number of mBank's mobile clients (Poland and foreign branches)	2.58 million	2.96 million	3.34 million
NPS (corporates)	41	34	34
NPS (retail)	19	24	21
Costs of execution of statutory activities of mBank Foundation	PLN 2.37 million	PLN 2.35 million	PLN 2.67 million

Employment indicators:

Key performance indicators (mBank Group)	2020	2021	2022
Number of employees (FTEs)	6,688	6,738	7,014
Number of employees (headcount)*	9,426	9,464	8,364
Turnover rate**	16%	18%	15%
Employment rate***	14%	17%	17%
Engagement score	53%	49%	58%

* The data include all persons employed at the end of a given year in the mBank Group. The difference in employment between 2022 and 2021 results from the change in the form of employment of network employees at mFinanse.
** 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)	2021	2022
Electric energy (GWh)	26.2	23.7
including renewable energy sources (GWh)*	13.3	21.1
Gas (thousand m^3)	145.1	203.1
Central heating (thermal energy, TJ)	43.2	38
Gasoline (thousand L)	1,174.0	1,280.3
Diesel fuel (thousand L)	144.3	62.7

*The data include use of electricity in mBank which was produced from renewable energy sources or has a guarantee of origin.

Since 2021, we have been using electricity from renewable energy sources in the largest buildings of the bank's headquarters 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. As at the end of 2022 electricity from RES accounted for 100% of mBank electricity consumption (either directly or from a guarantee of origin).

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).

In May 2022 mBank employees returned to the offices in a hybrid work model. In the headquarters, the new work model is based on 40%-60% of work performed remotely. Working in a hybrid model allowed us to reduce the number of workstations in Wieża mBank by 30%.

Greenhouse gas emissions

We have counted mBank Group's greenhouse gas emissions in 2022 in a broad approach, including all three emission scopes:

- Scope 1 – direct emissions from the combustion of fuels in company-owned sources, as well as from
- escaped refrigerants,
- Scope 2 – emissions from the consumption of externally purchased or supplied energy,
- Scope 3 – other indirect emissions arising in the value chain:
  - Category 1 "Purchased goods and services" – emissions resulting from the consumption of office and marketing paper, purchased payment cards and car fleet cards, as well as courier services,
  - Category 2 "Capital goods" – emissions arising from purchased IT equipment (printers, printers with scanner, laptops, PC towers, PC monitors, marketing campaign displays, smartphones, mobile phones, tablets),
  - Category 3 "Energy and fuel-related emissions not included in Scope 1 and 2" – emissions
  - resulting from electricity and heat transmission losses and well-to-tank emissions upstream in the energy and fuel production chain.
  - Category 7 "Employee commuting" – includes emissions from the transportation of employees between their homes and their worksites during the reported period using the vehicles that are not owned as well as operated by the company (in 2022 we added this category for the first time).

Category (mBank Group)	Emissions (tonnes of CO2e per year)
CO_2e emissions – Scope 1	3,554.03
CO_2e emissions – Scope 2 (market-based)	4,565.89
CO_2e emissions – Scope 2 (location-based)	21, 399.67
CO_2e emissions – Scope 3 (category 1, 2, 3, 7*)	11,069.15
CO_2e emissions – total (incl. Scope 2 market-based)	19,189.06

When calculating our carbon footprint we apply the GHG Protocol[a] 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_2 emission reporting covers:

The emissions, expressed in CO_2 equivalent (CO_2e), also include other greenhouse gases: methane (CH4), nitrous oxide (N2O), sulphur hexafluoride (SF6), perfluorocarbons (PFCs), hydrofluorocarbons (HFCs), and nitrogen trifluoride (NF3). For Scope 2, we use a market-based methodology, i.e. an emissions factor provided by energy supplier, and a location-based methodology, i.e. a national factor.

Greenhouse gas emissions (mBank Group, tonnes of CO_2e per year)	2021	2022
CO_2e emissions – total Scope 1,2 and 3 (metric tonnes)*	24 220.53	19 189.06

* In 2022 we have included category 7 "Employee commuting" in scope 3 emissions.

[a] The Greenhouse Gas Protocol; A Corporate Accounting and Reporting Standard Revised Edition; GHG Protocol Scope 2 Guidance

Emissions intensity (mBank Group)	2021	2022
Emissions per employee (Mg CO_2 e/person)	2.34	1.86
Emissions per PLN 1 million income (Mg CO_2 e/PLN 1 million income)	3.96	2.45

Other environmental indicators

We mitigate our direct impact on the environment thanks to digitalisation of processes, and banking and operating activities. More information on our impact on the environment can be found in chapter 3.3 "ESG in the Strategy of mBank Group", where we show what we managed to find in this area in 2022.

We focus also on systemic initiatives, which relate to cutting down on energy, water, paper and plastic consumption, and reduce waste. We are introducing new products to our offer that help reduce the negative impact on the natural environment. Among them were: eco-mortgage loan for an energy-efficient house or apartment or photovoltaic leasing. In April 2022, mBank customers received the first cards made of 85% recycled plastic. So far, we have already issued over 695,000 such cards. On the occasion of the 30th Finale of the Great Orchestra of Christmas Charity, we offered our customers a card without plastic with the image of the Great Orchestra of Christmas Charity (Mastercard Mobile) for the first time. Every sixth WOŚP card issued and every fourth card issued on the occasion of the Pol'and'Rock Festival is a mobile card. In total, in 2022 we saved almost 3.7 tons of plastic.

12.6. Indicators required under the EU Taxonomy

For the year 2022 we publish indicators regarding environmentally sustainable activities according to the EU Taxonomy. This way we fulfil the obligations of Article 10 of Delegated Regulation (EU) 2021/2178[b]. These are the KPIs that must be reported by credit institutions in the transition period as obligatory disclosures. They reflect mBank Group's assets as on December 31, 2022. They refer to two environmental objectives described in Regulation (EU) 2020/852[c]:

- climate change mitigation,
- climate change adaptation.

The remaining four environmental objectives are not yet fully regulated. Therefore we have not included them in this year's disclosures.

Taxonomy-eligibility indicators

We report information on mBank Group's exposures to economic activities that are Taxonomy-eligible and Taxonomy non-eligible. When calculating the values of these indicators, we take into consideration financing for both corporate and individual clients.

In the corporate segment, we included financing for mBank Group customers who are subject to the Non-Financial Reporting Directive (NFRD).[d] This covers both financial and non-financial undertakings. We defined this group by:

- comparing the list of our clients with reference lists published on the websites of the Reporting Standards Foundation and the Instrat Foundation (as of January 2, 2023),
- screening the list of our clients to precisely determine which of them meet the criteria set in Art. 49b and art. 55 of Polish Accounting Act[e].

In this group of undertakings, we determined Taxonomy-eligible assets based on the use of proceeds or the client's main area of activity in line with PKD code.[f] We checked if they correspond with the list of economic activities described in Annexes I and II to Regulation (EU) 2021/2139.[g] In the case of general-

[b] Comission 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
[c] 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
[d] 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
[e] Accounting Act of 29 September 1994
[f] 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)
[g] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the

purpose financing (with unknown use of proceeds), we did not take into account the EU Taxonomy-eligibility Revenue and CapEx KPIs, which our corporate clients published in their 2021 reports. In such instances we recognized the entire value of financing for a given client as Taxonomy-eligible. To recognize Taxonomy-eligible assets in case, when the use of proceeds is determined, we checked whether it corresponds with the economic activities included in the abovementioned Annexes. The value of these indicators takes into account financing granted in the form of loans and advances, debt securities, leasing and factoring. This approach is in line with prudential consolidation.

In retail banking segment, we only took into consideration mortgage loans for households. In case of car loans, in accordance with the provisions of Annex V to Regulation EU 2021/2178, only those granted after January 1, 2023 should be taken into account. Therefore, we have not included them in the indicators for 2022.

The value of these Taxonomy-eligibility KPIs is:

Type of assets		Proportion in total assets
Exposures to Taxonomy-eligible economic activity	Financing for corporate clients	0.75%
	Financing for households	20.44%
	Financing in total	21.19%
Exposures to Taxonomy non-eligible economic activity	Financing for corporate clients	0.54%
	Financing for households	0%
	Financing in total	0.54%

The numerator and denominator of these indicators cover the gross carrying amount of these assets.

Other quantitative indicators required under the EU Taxonomy

We also report other indicators required under Article 10 of the Delegated Regulation (EU) 2021/2178. These indicators measure the proportion in mBank Group's assets of exposures which are not assessed in terms of Taxonomy-eligibility:

Type of assets	Proportion in total assets
Exposures to central governments, central banks and supranational issuers	31.25%
Derivatives	0.89%
Exposures to undertakings not subject to the NFRD	28.99%
Trading portfolio	0.47%
On demand inter-bank loans	0.10%

The trading portfolio in this table consists of securities held for trading. We distinguished derivatives from the trading portfolio.

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

Qualitative Taxonomy data

Implementation of the EU Taxonomy in our processes (incl. crediting), procedures and financial products is one of the objectives of mBank Group's business strategy for 2021-25.

In striving to meet the goals of the EU Taxonomy 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 record the results of the verification in our systems for reporting purposes.

In 2022, we introduced the EU Taxonomy as a reference point when examining the environmental impact of banking products that we introduce to the market or modify. We assess their impact on ESG factors, and in the environmental area we check how they can affect the objectives included in the EU Taxonomy. Moreover, in 2022 we were conducting a pilot launch of ESG-linked corporate loans. In this case, the EU Taxonomy was one of the reference points to determine the criteria according to which we qualify a loan as supporting environmental objectives.

In accordance with our strategy, we finance investments in renewable energy sources (RES) and other "green" industries, such as recycling or electromobility, which is consistent with the assumptions of the EU Taxonomy. In the years 2021-25, we want to allocate PLN 10 billion for this purpose. More information on our investments in RES can be found in the chapter 7.3 "Corporate and Investment Banking of mBank".

13. Statement of mBank on application of corporate governance principles in 2022

13.1. Application of corporate governance principles at mBank

The general principles of corporate governance 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 Best Practice for GPW Listed Companies 2021 and the Principles of Corporate Governance for Supervised Institutions.

In addition, Recommendation Z issued by the Polish Financial Supervision Authority (PFSA) has been in effect since 2022. Recommendation Z outlines best practice with regard to the principles of corporate governance. Corporate governance covers, in particular, the bank management system, the bank's organisation, principles of operation, powers, duties and responsibilities, and mutual relations between the supervisory board, the management board and persons holding key positions at the bank. In December 2021, mBank implemented the Corporate Governance Policy which sets out basic principles and best practice for individual areas of corporate governance.

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 (https://www.gpw.pl/pub/GPW/files/DPSN2021_EN.pdf).

The Principles of Corporate Governance for Supervised Institutions are available on the website of the PFSA www.knf.gov.pl/en/MARKET/Regulations_and_practice/Practice).

Recommendation Z is available on the PFSA's website at https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_Z_70998.pdf.

Best Practice for GPW Listed Companies

The Best Practice for GPW Listed Companies 2021 ("DPSN 2021"), which has been in effect since July 1, 2021, replaced the previous version of the Best Practice for 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.

As at December 31, 2022, mBank complied with all rules laid down in DPSN 2021.

The scope of application of the rules laid down in DPSN 2021 changed in 2022.

When DPSN 2021 entered into force, in line with Article 29 of the Stock Exchange Rules, in July 2021 we submitted to the Warsaw Stock Exchange (WSE, Giełda Papierów Wartościowych – GPW) a report on the status of implementation of the rules provided for in the Best Practice. At the time we reported that we did not apply 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%."

The Diversity Policy, applicable at the bank at the time, stipulated that the total participation of women in the Management Board and the Supervisory Board would 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. Therefore, we agreed that the reference of the minority threshold to both governing bodies of the company jointly and the achievement of this ratio at the level of one body only did not make it possible to assume that rule 2.1. was applied.

This changed in Q1 2022. On February 15, 2022 we introduced the Diversity and Inclusion Policy at mBank stating that by the end of 2028 the participation of women in the Supervisory Board and Management Board of mBank should reach at least 30%.

The same solution was provided for in the Policy for the Assessment of Qualifications (Suitability), Appointment and Dismissal of Members of the Bank's Bodies and Brokerage Bureau Authorities at mBank S.A. adopted by Resolution of the Supervisory Board No. 183/22 of March 3, 2022 and approved by Resolution No. 26 of the 35th Annual General Meeting of March 31, 2022. The document states that when nominating candidates, one should be guided by the criterion of versatility and diversity, including diversity of gender, age or professional experience, taking into account the diversity policy, with respect for the principle of equal opportunities.

When selecting the composition of the Supervisory Board / Management Board, the AGM and the Supervisory Board will strive to reach gender balance in the composition of the Supervisory Board / Management Board or at least a minimum 30% share of gender minority both in the Management Board and the Supervisory Board by 2028.

The provision on reaching the gender minority share of at least 30% by 2028 separately for the Supervisory Board and the Management Board allowed the bank to comply with rule 2.1. of DPSN.

Women made up 37.5% of the Supervisory Board as at December 31, 2022. On the other hand, the Bank's Management Board consisted only of men.

In line with the Guidelines of the Corporate Governance Committee on the application of the Best Practice for GPW Listed Companies 2021, in order to comply with rule 2.1 it is necessary to adopt a policy of diversity and to include the elements indicated in this rule in the policy, including to set the target gender minority share in a given body of at least 30%. Therefore, in order to consider the rule complied with, the composition of a company does not need to meet the diversity quotas set in the Best Practices at the moment of submitting the statement. The frequency of changes in the composition of the Management Board and the Supervisory Board in principle depends on the duration of the term of office in order to ensure stability of the company's governance. The terms of office of the Management Board and Supervisory Board of mBank are five and three years, respectively.

In accordance with the Commission Recommendation of April 9, 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 with regard to 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. The information policy regarding communication with investors, media and clients is available on our website at https://www.mbank.pl/pdf/relacje-inwestorskie/pozostale/communication-policy-investors-media-clients.pdf.
- 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.
- On the bank's website (www.mbank.pl), 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, resumes of the members of these bodies, and in the case of the Supervisory Board information on the Supervisory Board Members' compliance with the independence criterion;
  - 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 issues 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;
  - ongoing and periodic information;
  - information on the application of the principles of corporate governance, and information on communication with the company.

  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).

- Aside from the information published on the company's website, 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 Management Board of the bank comment on financial and business results of the group, events having an impact on the group's operations and prospects for the future, and answer questions;
  - 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 information materials;
  - participation of our representatives in domestic and foreign investor conferences, and cycles of meetings with investors in Poland and abroad (roadshows).
- On the company's website we present the group's strategy assumptions, objectives and actions taken as part of the strategy. 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. When taking decisions at mBank Group, we factor in climate change issues, including the risks arising from them. The group's actions regarding ESG are described, among others, in the integrated report and at https://www.mbank.pl/en/about-us/corporate-social-responsibility/what-we-do/.
- 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 "mBank and corporate social responsibility", and on the bank's website. We disclose our donations to charity.

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 of mBank Group.
- 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 Diversity Policy applicable to the Management Board and the Supervisory Board of the bank aims to diversify the compositions of the Management Board and the Supervisory Board in terms of their members' traits and qualifications. 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, 2022 independent Members constituted half of the Supervisory Board composition.
- 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 gender group of 30% by the end of 2028.
- 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 containing information included in item 2.11 of DPSN 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 Supervisory Board monitors the effectiveness of those systems, among others on the basis of the reports submitted to it.
- The internal audit operates independently. The Audit Committee exercises functional supervision over the Audit Department 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 Meetings, 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. The General Meetings may be attended by the representatives of the media.
- Draft resolutions of the General Meeting concerning matters and decisions contain a justification and an opinion of the Supervisory Board.
- The Members of the Management Board and the Supervisory Board take part in the General Meetings. The Management Board presents matters included in item 4.11 of DPSN to the meeting participants and answers shareholders' questions.
- 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. At the same time, 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. mBank Group closed the year 2022 with a net loss, which means that it did not generate any funds to pay out dividends. The bank's long-term dividend strategy is to pay 50% of its net profit in dividends.

Conflicts 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. The Conflict of Interest Management Policy applicable at the bank governs, in particular, combating and managing conflicts of interests: 1) between the bank and a client or clients, 2) between a client or clients and a Member of the Supervisory Board, the Management Board, an employee and a co-worker, 3) a Member of the Supervisory Board, the Management Board, an employee and a co-worker and the bank.
- 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.
- 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.

- The bank applies the principle of equal treatment of clients and suppliers of the group. No shareholder of the bank is privileged in transactions with affiliated entities. 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 encourage correct and effective risk management and discourage from taking excessive risk.
- Remuneration of Members of the Management Board includes a fixed and a variable part. The group has an incentive programme compliant with DPSN 2021.
- 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. Remuneration is adequate to the tasks and duties of a given person and the related scope of responsibility.
- 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 and on the competences of the Remuneration Committee 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 of Corporate Governance for Supervised Institutions.

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, the company believes that 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 an 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. Holding discussions and taking decisions without an interpreter is more efficient and more secure when discussing issues being company secrets. 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 Resolution 162/21 of December 3, 2021, the Supervisory Board confirmed the departures in the application of the Corporate Governance Principles at mBank. The relevant statement is published on the bank's website.

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.

Below we present the key aspects of applying the Principles of Corporate Governance for Supervised Institutions.

Organisation and organisational structure (chapter 1)

- The organisation enables the achievement of long-term objectives of the conducted business. Strategic objectives are set forth in the strategy adopted by the Management Board and approved by the Supervisory Board.
- The bank's organisational structure is transparent and adequate to the scale of its business. The Supervisory Board regularly approves changes to the organisational structure and the division of competences between the members of the Management Board and the Managing Directors. The bank's organisational structure and division of powers are available on mBank's website at https://www.mbank.pl/en/about-us/bank-authorities/.
- The bank has in place a whistleblowing system ensuring anonymity, protection of the whistleblower and confidentiality.
- The bank has in place business continuity plans. The Business Continuity Management Policy of mBank S.A. has been approved by the Supervisory Board.

Relations with shareholders of the supervised institution (chapter 2)

- The bank takes into account the interests of all shareholders, ensures that they have access to information and the ability to actively participate in the General Meetings with the use of electronic means of communication.
- Shareholders are allowed to influence the operation of the bank only through the decisions of the General Meeting, without infringing on the competences of other bodies.

- In accordance with the law, transactions with affiliated entities are concluded under internal regulations guaranteeing transparency and compliance with market standards.
- Decisions on dividend payouts depend on the need to maintain an appropriate level of equity and the achievement of strategic objectives, taking into account general and individual recommendations issued by the PFSA.

Managing body (chapter 3)

- The Management Board of mBank is a collegial body. Its Members have the required expert knowledge, competences, professional experience and reputation adequate to perform the functions vested in them, and they do not carry out any activity that would lead to conflicts of interest or otherwise adversely affect their reputation.
- Five members of the six-member Management Board, including the President, hold Polish citizenship and speak Polish. Management Board meetings are held in English (deviation from the principle 16 (1)).
- The Members of the Management Board are jointly responsible for the decisions that fall within the Management Board's area of competence, regardless of the internal division of responsibility for individual areas.

Supervisory body (chapter 4)

- The Members of the Supervisory Board complement one another's knowledge, experience and skills in a way ensuring due supervision over all areas of the bank's operation.
- The Members of the Supervisory Board do not carry out any professional or non-professional activity that could lead to conflicts of interest or otherwise adversely affect their reputation as members of a supervisory body.
- The eight-member composition of the Supervisory Board is adequate to the nature and scale of the bank's business. An adequate share of independent members is ensured. The independence criteria are met by, among others, the Chairwoman of the Supervisory Board and the Chairman of the Audit Committee.
- The Supervisory Board has an adequate number of Members who speak Polish (four out of eight Members) and have experience in and knowledge of the Polish financial market. Meetings of the Supervisory Board are held in English (deviation from the principle 4 (1)).
- The Supervisory Board makes an annual assessment of the application of the Principles of Corporate Governance for Supervised Institutions which is included in the report on the Supervisory Board's activity.

Remuneration Policy (chapter 5)

- We have in place a transparent policy on remunerating the Members of the Management Board, the Supervisory Board and the persons holding key functions at the bank.
- The Remuneration Policy is adopted by the General Meeting at least once every four years. At least once a year, the Supervisory Board carries out an in-depth review of the Remuneration Policy and assesses it in terms of the achievement of its objectives and compliance with its provisions.
- The Supervisory Board supervises the Remuneration Policy, including verification of compliance with its criteria and conditions justifying granting variable remuneration components to the Management Board.
- Remuneration of the Members of the Management Board is determined by the Supervisory Board, and of the Members of the Supervisory Board by the General Meeting, accordingly to their functions and the scope of the bank's business.

Information policy (chapter 6)

- We meet all criteria for transparent, reliable information policy which factors in the needs of shareholders, the media and clients.
- We ensure that current and periodic reports are published within the deadlines required by the applicable laws, and that their content enables investors to assess the bank's operations.

Promotion and client relations (chapter 7)

- In the process of offering financial products and services we strive to ensure reliability of the information provided to clients. The advertisements of our products and services comply with all requirements of the Principles of Corporate Governance for Supervised Institutions.
- The financial products and services offered by the bank are adequate to the needs of clients to whom they are addressed.
- We have in place publicly available, clear and transparent rules for handling claims and complaints, guaranteeing fairness, thoroughness, impartiality and compliance with the law and the principles of fair trade and good conduct. The Supervisory Board monitors these processes on an ongoing basis.

Key internal systems and functions (chapter 8)

- The Internal Control System, covering all levels of the organisational structure, was developed and implemented by the Management Board and is subject to assessment by the Supervisory Board. The independence of the internal audit function and the compliance sub-unit is guaranteed.
- We have in place an adequate and effective risk management system which comprises, among others, identification, measurement, estimation, monitoring and application of mechanisms controlling and mitigating the risk level. The Management Board is responsible for effective risk management, while the Supervisory Board exercises supervision over the effectiveness of risk management.

Exercising rights arising from assets purchased at clients' risk (chapter 9)

- By purchasing assets at a client's risk, the bank (the Brokerage Bureau of mBank) acts in the client's interest, executes their order in line with the regulations and the general terms of service in force. The decision-making process is duly documented.

Recommendation Z

In accordance with the requirements of Recommendation Z, the Management Board of the bank is responsible for introducing internal governance in the bank, ensuring its observance, as well as for periodic assessment and verification aimed at adapting the internal governance in the bank to the changing internal situation and the bank's environment.

The Management Board of mBank, based on the report on the assessment of the internal control system and the risk management system, as well as information on the functioning of the internal governance provided by the relevant units of the bank, concluded that the bank adjusted its internal regulations to external requirements. The Management Board assessed that the bank's internal governance is properly organized and indicated areas for further improvement.

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 25th 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 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.

In the mBank Group strategy for 2021-2025 entitled "From the Icon of Mobility to the Icon of Possibilities", we defined a new model of values of the Group. The model comprises authenticity, empathy, courage, responsibility and cooperation. Those values build the culture of trust and good intentions, which makes the workplace a comfortable place for everyone to speak their mind.

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 subsidiaries subject to consolidation, as well as additional information prepared by these subsidiaries that is 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 standalone and consolidated 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 and the Group 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 2021" contest organised by the Institute of Accountancy and Taxes (Instytut Rachunkowości i Podatków – IRiP), the results of which were announced in October 2022, we won the title "Best of the Best" for the best annual report in the category of financial institutions for the tenth time in a row.

Information on the entity authorised to audit financial statements

We abide by the principle regarding the rotation of statutory auditors. On March 31, 2022, the 35th Annual General Meeting of mBank S.A. selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. as the auditor to review the financial statements of mBank S.A. and the consolidated financial statements of mBank S.A. Group for the years 2022-2023. The recommendation regarding the selection of the auditor was made following an election procedure adopted by mBank, which meets the applicable criteria.

The bank's and mBank Group's financial statements for the years 2018-2021 were audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa.

The total value of remuneration paid to KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. in 2022 for auditing and reviewing the financial statements and the consolidated financial statements of mBank S.A. amounted to PLN 3,443,000 gross.

The total value of other remuneration paid to KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. in 2022 for providing other services to mBank S.A. amounted to PLN 2,212,000 gross.

Statutory auditor's services other that 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 KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. in 2022 is presented below.

1. Review of the standalone interim financial statements of mBank S.A. and the consolidated interim financial statements of mBank S.A. Group as at and for the 6-month period ended June 30, 2022.
2. Review of the mBank S.A. Group's special purpose consolidated financial information for Q1 2022 including the interim condensed consolidated financial statements of the mBank S.A. Group and the interim condensed standalone financial statements of mBank S.A. as at and for the three-month period ended 31 March 2022.
3. Review of the consolidation package of mBank S.A. for Commerzbank AG as at and for the 3-month period ended March 31, 2022, the 6-month period ended June 30, 2022 and the 9-month period ended September 30, 2022.
4. Audit of the consolidation package of mBank S.A. for Commerzbank AG as at and for the year ended December 31, 2022.
5. Verification of the disclosure document regarding the capital adequacy of mBank Group as at June 30, 2022 and December 31, 2022.
6. Assessment of compliance with the requirements for storing assets of mBank S.A. clients for the year ended December 31, 2022.
7. Assessment of the remuneration report prepared by the Supervisory Board for the year ended December 31, 2022.
8. Performing the agreed procedures related to the issuance and preparation by the bank of the Prospectus under the EMTN Programme and the issuance of comfort letters.
9. Review of the interim financial statements of two subsidiaries as at and for the 6-month period ended June 30, 2022.

10. Audit of selected balances in the consolidation package of three subsidiaries and specific audit procedures on the consolidation package of three subsidiaries of mBank S.A. as at and for the year ended December 31, 2022.
11. Review of selected balances in the consolidation package of three subsidiaries as at and for the 3-month period ended March 31, 2022 and 9-month period ended September 30, 2022.
12. Review of selected balances in the consolidation package of three subsidiaries and specific audit procedures concerning the consolidation package of three subsidiaries of mBank S.A. as at and for the 6-month period ended June 30, 2022.
13. Review of the consolidation package of three subsidiaries for Commerzbank AG as at and for the year ended December 31, 2022.

13.3. Significant blocks of shares

As at December 31, 2022, mBank's share capital amounted to PLN 169,733,980 and was divided into 42,433,495 shares, including 42,422,495 ordinary bearer shares and 11,000 ordinary registered shares. Commerzbank AG is our majority shareholder.

As at the end of 2022 Commerzbank directly held 29,352,897 shares of mBank. In 2022, 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 2022, Commerzbank held 69.17% of mBank's share capital and votes at the General Meeting, compared with 69.25% at the end of 2021.

As at December 31, 2022, 30.83% 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.

As a result of the merger of PTE Allianz Polska S.A. with Aviva PTE Aviva Santander S.A. on December 30, 2022, the share of funds managed by PTE Allianz Polska S.A. in the total number of shares and votes at the General Meeting of mBank exceeded 5%.

The funds Allianz Polska OFE, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz Polska OFE managed by PTE Allianz Polska S.A. held a total of 2,148,729 shares, constituting 5.06% of the share capital and the total number of votes at the General Meeting of mBank.

In accordance with the lists of shares of WSE listed companies held in funds' portfolios as at December 31, 2022 published by open-end pension funds, open-end pension funds jointly held 18.3% of mBank shares (17.7% at the end of 2021). The largest shareholders of mBank were: Nationale-Nederlanden OFE (4.7% compared with 4.8% as at the end of 2021), Drugi Allianz Polska OFE (previously AVIVA OFE AVIVA Santander; 3.9% compared with 3.7% as at the end of 2021), PZU OFE "Złota Jesień" (3.3% compared with 3.1% a year before) and Aegon OFE (1.5%, no change compared with December 31, 2021).

mBank shareholders	Number of shares	% share in the number of shares and the total number of votes
Commerzbank AG	29 352 897	69.17%
Other shareholders, including:	13 080 598	30.83%
Pension Funds managed by PTE Allianz Polska S.A. (Allianz Polska OFE, Allianz Polska Dobrowolny Fundusz Emerytalny, Drugi Allianz Polska OFE)	*2 148 729*	*5.06%*

On February 7, 2023, mBank received from PTE Allianz Polska S.A. notification of a decrease in the share of funds managed by PTE Allianz Polska S.A. in the share capital and the total number of votes at the General Meeting of mBank below 5% as a result of the sale of the bank's shares on February 3, 2023.

Following the sale of mBank shares, the funds managed by PTE Allianz Polska S.A., i.e. Allianz Polska OFE, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz Polska OFE, held a total of 2,115,048 mBank shares, representing 4.98% of the bank's share capital and the total number of votes at the General Meeting.

Each share carries one voting right at the General Meeting. There are no preferred shares. The rights and obligations related to mBank's shares arise from generally applicable laws, in particular the provisions of 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 medium-sized enterprises and a strong partner for around 26,000 corporate client groups and almost 11 million private and small-business customers in Germany. The Bank's two Business Segments – Private and Small-Business Customers and Corporate Clients – offer a comprehensive range of financial services. Commerzbank transacts approximately 30% of Germany's foreign trade and is present internationally in almost 40 countries in the corporate clients' business. The bank focuses on German medium-sized enterprises (Mittelstand), large corporations and institutional clients.

As part of its international business, Commerzbank supports clients with German connectivity and companies operating in selected future-oriented industries. In the Private and Small-Business Customers segment, the bank, provides services to customers through online and mobile banking under the Commerzbank and comdirect brands, an advisory centre and directly at the bank's outlets.

In 2022, the Commerzbank Group generated a net profit of more than EUR 1.4 billion.

Currently Commerzbank implements its Strategy 2024 announced in February 2021. The strategy is focused on customer centricity, digitalisation, sustainability, and profitability.

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 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 2022

The 35th Annual General Meeting of mBank held on March 31, 2022 passed amendments to the By-laws of mBank connected with the planned extension of the range of financial services provided for in the bank's

strategy for 2021-2025, clarification of provisions governing the powers of the General Meeting, update of the catalogue of internal regulations of the bank and its share capital.

In 2022, mBank's By-laws were amened as follows:

- in the chapter on the bank's operations a provision was added stipulating that the bank may perform or act as an agent in the performance of certain activities referred to in the By-laws at the request of other banks, credit institutions, financial institutions, lending institutions or related entities, as long as such activities are covered by the scope of operations of the requesting entities;
- in the chapter on the General Meeting a provision was added stipulating that acquisition and disposal of real property, perpetual usufruct or share in real property does not require a resolution of the General Meeting;
- in the chapter on the Management Board the section on the forms of internal regulations of the bank was corrected;
- the share capital was increased as a result of the implementation of incentive programmes for Management Board Members and mBank employees.

13.6. Procedures and powers of 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/en/about-us/corporate-governance-and-best-practices/).

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 Management Board Report on Performance of mBank S.A. Group 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 annulment of shares and resolutions to annul shares, in particular setting the policy of share annulment 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 online. 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;
- speak up 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 five years. At least half of the Management Board Members, including the President, 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. 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 2022, the composition of the Management Board of mBank remained unchanged. As at December 31, 2022 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

On January 17, 2023, Andreas Böger, Vice-President of the Management Board, Chief Financial Officer, resigned from his function, effective as of 30 April 2023, to take up the position of the Divisional Board Member – Group Finance at Commerzbank AG.

On January 17, 2023, the Executive and Nomination Committee of the Supervisory Board recommended Pascal Ruhland, the Divisional CFO for the corporate clients segment at Commerzbank AG, for the position of the Vice-President of the Management Board, Chief Financial Officer. His appointment as a Member of mBank's Management Board by the Supervisory Board depends of the positive assessment of the candidate's suitability.

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 Programme.

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 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, with effect as of 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 head of the Software Development Department, he co-created the Polish service centre of F. Hoffman-La Roche. In the following years, as 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 director of the market risk management division and then 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 vice-president in charge of risk, and then as 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 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 Programme (AMP 189) at Harvard Business School in 2015 and the Strategic Management in Banking programme 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 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 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:

- Internal Resource Committee (Chairman: Andreas Böger)
- Capital, Assets and Liabilities Committee (Chairman: Andreas Böger)
- Data Quality and IT Systems Development Committee (Chairman: Andreas Böger)
- Foreign Branch Supervision Committee of mBank S.A. (Chairman: Cezary Kocik)
- Credit Committee of mBank Group (Chairman: Marek Lusztyn)
- Retail Banking Risk Committee (Chairman: Marek Lusztyn)
- Corporate and Investment Banking Risk Committee (Chairman: Marek Lusztyn)
- Financial Markets Risk Committee (Chairman: Marek Lusztyn)
- Model Risk Committee (Chairman: Marek Lusztyn)
- Investment Banking Committee (Chairman: Marek Lusztyn)
- Sustainability Committee of mBank S.A. Group (Chairman: Marek Lusztyn).
- IT Architecture Committee of mBank Group (Chairman: Krzysztof Dąbrowski)

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 programme for the Management Board based on shares is presented in Note 43 of the Consolidated Financial Statements of mBank S.A Group for 2022 in line with the International Financial Reporting Standards.

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 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 was 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 date of the AGM approving the consolidated financial statements of mBank Group for the year for which the bonus was awarded.

The deferred bonus (the part paid in cash and the part paid in subscription warrants) is paid in five equal tranches in the 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 12 months after the date on which the consolidated financial statements for the previous calendar year are approved by the AGM. 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 a decision of the Supervisory Board.

The remuneration of the Members of the Management Board in 2021-2022 is presented in the following tables.

2022

		Remuneration paid in 2022 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2021	Deferred bonus*
1.	Cezary Stypułkowski	3,603,032	365,125	-	252,000
2.	Andreas Böger	1,743,395	233,704	-	126,000
3.	Krzysztof Dąbrowski	1,656,000	197,668	-	126,000
4.	Cezary Kocik	1,656,000	272,295	-	144,000
5.	Marek Lusztyn	1,656,000	222,943	-	-
6.	Adam Pers	1,656,000	168,811	-	132,000
	Total	**11,970,427**	**1,460,547**	**-**	**780,000**

**In 2022, the third deferred tranche as part of the settlement of the cash portion of the bonus for 2018 and the second deferred tranche as part of the settlement of the cash portion of the bonus for 2019 were paid. The bonus for 2021 was awarded in whole in subscription warrants.*

		Remuneration paid in 2022 (in PLN)			
		Basic remuneration	Other benefits	Bonus for 2021	Deferred bonus*
Remuneration of former Members of the Management Board who ceased to perform their functions in 2020					
1.	Lidia Jabłonowska-Luba				
2.	Frank Bock				

**In 2022, the 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 portion of the bonus for 2018 and the second deferred tranche as part of the settlement of the cash portion of the bonus for 2019.*

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
	Total	**11,892,665**	**1,423,271**	**-**	**1,278,316**

**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 (with a payment date in 2021) as part of the settlement of the cash portion of the bonus granted during his period as Managing Director. The bonus for 2020 was awarded in whole 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, the 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 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. Christoph Heinz, Jarosław Mastalerz and Przemysław Gdański were paid the third deferred tranche as part of the settlement of the cash portion of the bonus for 2017.*

The bank's shares held by the Members of the Management Board:

As at December 31, 2022, mBank shares were held by: Cezary Stypułkowski – 27,884, Andreas Böger – 2,994, Krzysztof Dąbrowski – 2,240, Cezary Kocik – 1,392, Marek Lusztyn - 303 and Adam Pers - 26.

As at December 31, 2021, four Members of the Management Board held mBank shares: Cezary Stypułkowski – 25,230, Andreas Böger – 1,646, Krzysztof Dąbrowski – 892 and Cezary Kocik – 256.

Assessment of the adequacy of internal regulations regarding the functioning of the Management Board and self-assessment of the effectiveness of the Management Board

In accordance with principle 8.9 of Recommendation Z on the principles of internal governance at banks issued by the Polish Financial Supervision Authority, the Management Board of mBank performs a self-assessment of the adequacy of internal regulations concerning 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 Rules of the Management Board and other internal regulations, inter alia, on 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, which includes planning, making decisions about ongoing activities, human resource management, monitoring of results and reacting to changes in the external environment.

Internal governance at mBank complies with law and is transparent and effective. The regulations governing the operation of the Management Board are updated to amended laws, regulatory environment or Group standards or whenever the situation so requires.

In 2022, the Management Board as a whole and all its individual members actively performed their management duties with due diligence and dedication. The Management Board focused on the achievement of goals defined in the mBank Group Strategy for 2021-2025 entitled "From an icon of mobility, to an icon of possibility".

In 2022, income posted by mBank Group reached its all-time high. The net loss of mBank Group attributable to Owners of mBank (PLN -702.7 million) generated in 2022 was largely driven by events not resulting from business development in 2022: costs of legal risk related to foreign currency loans, credit holidays and payments to the Borrower Support Fund and the institutional protection scheme.

The group's profitability should be assessed from the perspective or its core business (excluding the FX mortgage loans segment). Despite the negative impact of credit holidays as well as contributions to the commercial banks protection scheme and the Borrower Support Fund (Fundusz Wsparcia Kredytobiorców – FWK), mBank Group generated a net profit of PLN 2,518.7 million from its core operations in 2022. This translated into a return on equity of 22.1%, which confirms that mBank's business model is working well and the Management Board is capable to effectively exploit its unique features.

The PLN 3,112.3 million legal risk costs incurred in 2022 for FX mortgages increased the provision coverage for the CHF portfolio to above 54%. In Q4 2022, mBank started to offer settlements to clients having active CHF mortgage loans, including clients engaged in a dispute with the bank.

The Group retained a tight grip on costs, and consequently, remained highly cost effective amid double-digit inflation. The normalised cost/income ratio in 2022 stood at 34.3%. Thanks to strict risk monitoring and credit decisions adequate to the situation, the Group maintained the high quality of its loan portfolio and the cost of risk in 2022 (68 basis points) was by 8 basis points lower than a year ago.

In 2022, mBank Group increased its market shares in household loans and household deposits and maintained its market shares in corporate volumes at the level similar to 2021.

The Group's Total Capital Ratio and Tier 1 Capital Ratio remained comfortably above the minimum capital requirements at a level adequate for the Group's risk exposure. Risk-weighted assets were reduced mainly due to two synthetic securitisation transactions on the corporate loan portfolio exercised in 2022. mBank's liquidity was strong as reflected by the high surplus of liquid assets and liquidity measures remaining well above the regulatory minimums.

The Management Board's assessment of the effectiveness of its actions is positive. In 2022, the Group posted healthy operational and business results.

The positive assessment of the effectiveness of the Management Board in 2022 is supported, among others, by:

- increase in the number of bank accounts held by individuals and micro-enterprises and higher number of corporate clients from the SME segment;
- continuous development of digital solutions and mobile services, which translates into a rising number of active users of mBank's mobile app;
- increasing share of digital channels, in particular the mobile app, in the sales of non-mortgage loans;
- successful track record in the e-commerce area, especially the dynamic increase in transactions executed via Paynow;
- rising value and number of transactions made by payment cards issued by mBank and BLIK transactions;
- further automation, robotisation, optimisation and streamlining of operational processes and improved reliability and cybersecurity of the Group's systems;
- continued efforts towards sustainable development, among others, launch of financial products and services supporting climate and environmental protection and joining the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets initiative (SBTi) in order to accurately measure the carbon footprint of the loan portfolio;
- a number of awards and distinctions won in industry contests and rankings, including: Banking and Insurance Leaders contest, Stars of Banking ranking, Global Private Banking Awards and Mobile Trends Awards contests, Trustworthy Brand survey and the 2022 Golden Banker ranking.

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 not 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, be habitually resident 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.

Throughout 2022 the composition of the Supervisory Board remained unchanged. Dr. Armin Barthel resigned as Member of the Supervisory Board of mBank as of December 31, 2022, without stating the reason for his resignation. Under a resolution of the Supervisory Board of mBank dated December 9, 2022, dr. Hans Georg-Beyer was appointed Member of the Supervisory Board, as of January 1, 2023.

Moreover, on October 14, 2022, Arno Walter submitted his resignation as Member of the Supervisory Board, effective as of March 30, 2023. Arno Walter will focus on his role as an Executive for Private and Small Business Clients Division Management at Commerzbank AG.

As at December 31, 2022, the Supervisory Board of mBank S.A. was composed as follows:

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, 2022 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 Słomka-Gołębiowska 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 in mBank S.A. In 2017, she became a member of the audit committee of the United Nations World Food Programme (WFP). From May 16, 2019 to May 20, 2021, she was a member of the supervisory board and the audit committee of Budimex S.A. Agnieszka Słomka-Gołębiowska has 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 Professor Oliver Williamson, recipient of the Nobel Memorial Prize in Economic Sciences. 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 received a PhD 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 Orlopp 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 (until December 31, 2022)

From April 2016 to December 2022, Armin Barthel was holding the positions of Chief Compliance Officer (CCO) and Anti-Money Laundering Officer of Commerzbank AG Group. He was 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 law firm Hengeler Mueller.

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 license 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 WSE (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 Gren 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 Programme 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.

Given that since the beginning of 2023 Dr. Armin Barthel has no longer been a Member of the Supervisory Board of mBank, and as of January 1, 2023 Dr. Hans-Georg Beyer was appointed Member of the Supervisory Board, we present his biographical note below.

Hans-Georg Beyer – Member of the Supervisory Board

Hans-Georg Beyer studied at the Witten/Herdecke University (Business Economics) and SKEMA Business School. In 2020, he received a PhD at the University of St. Gallen (HSG) based on a doctoral thesis on risk governance at board level of European banks.

Dr. Hans-Georg Beyer has many years of experience in Commerzbank Group, among others in positions related to managing the compliance area and the internal audit area. He holds the function of Chief Compliance Officer and Divisional Board Member Group Compliance at Commerzbank AG. He is responsible for all compliance units of Commerzbank Group, including the compliance units in its foreign branches and subsidiaries.

Four Members of the Supervisory Board of mBank (Agnieszka Słomka-Gołębiowska, Tomasz Bieske, Aleksandra Gren and Mirosław Godlewski) meet the independence criterion. Marcus Chromik, Bettina Orlopp, Arno Walter and Hans-Georg Beyer (Armin Barthel in 2022) 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, 2022 are presented below (in the first place the Chairperson of each Committee).

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee	IT Committee
Professor Agnieszka Słomka-Gołębiowska	Dr. Marcus Chromik	Tomasz Bieske	Dr. Bettina Orlopp	Aleksandra Gren
Dr. Marcus Chromik	Mirosław Godlewski	Aleksandra Gren	Tomasz Bieske	Mirosław Godlewski
Dr. Bettina Orlopp	Dr. Bettina Orlopp	Dr. Armin Barthel[1)]	Mirosław Godlewski	Dr. Marcus Chromik
	Professor Agnieszka Słomka-Gołębiowska		Dr. Marcus Chromik	

[1)] Until December 31, 2022. Since January 1, 2023, dr. Hans-Georg Beyer has been a Member of the Audit Committee.

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.

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 2022 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).
- Dr. Armin Barthel (until December 31, 2022) – 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.
- Dr. Hans-Georg Beyer (from January 1, 2023) – Divisional Board Member Group Compliance and Chief Compliance Officer in Commerzbank, appointed a Member of the Audit Committee as of January 1, 2023; awarded the CFA charter (Chartered Financial Analyst). He has comprehensive knowledge and skills in finance, banking and accounting.

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 meets the requirements set out in Article 16 (2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16, 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 April 16, 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.

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 between the bank and members of the bank's authorities provided for in the Banking Law, 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.

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.

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.

The Report of the Supervisory Board on its activities, including, among others, the report on the activities of the standing committees of the Supervisory Board in the reporting year is appended to the set of materials for the Ordinary General Meeting and can be found on mBank's website (https://www.mbank.pl/en/investor-relations/general-meeting/).

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. 31 on the Remuneration Rules for the Members of the Supervisory Board of mBank S.A. adopted by the 35th Annual General Meeting of mBank S.A. held on March 31, 2022. The Chairperson of the Supervisory Board earns PLN 21,000 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 2021-2022 is presented in the table below.

		Remuneration paid in 2022 (in PLN)	Remuneration paid in 2021 (in PLN)
1.	Agnieszka Słomka-Gołębiowska	441,381	383,829
2	Bettina Orlopp	-	-
3	Tomasz Bieske	429,419	429,349
4.	Marcus Chromik	-	-
5.	Mirosław Godlewski	255,780	255,780
6.	Aleksandra Gren	255,780	246,645
7.	Fred Arno Walter	144,000	110,710
8.	Armin Barthel	216,000	40,065
1	Joerg Hessenmueller[1)]	-	-
2.	Sabine Schmittroth[2)]	-	-
	Total	**1,742,360**	**1,466,378**

[1)] Jörg Hessenmüller resigned from the Supervisory Board with effect from September 30, 2021.
[2)] Sabine Schmittroth resigned from the Supervisory Board with effect from March 25, 2021.

Activity of the Supervisory Board in 2022

In 2022, the Supervisory Board held 7 meetings and adopted 94 resolutions. 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, corporate governance principles, mBank's By-laws, and the Rules of the Supervisory Board.

The Members of the Supervisory Board were in ongoing contact with the Management Board and monitored the situation at the bank in the context of changes in the economic situation and regulatory environment.

At its meetings in 2022, the Supervisory Board discussed and assessed the current results of mBank Group and individual business lines in the context of the financial plan. The Supervisory Board also discussed and accepted other legally required detailed reports covering different areas of the bank's activity, including regular risk, compliance, audit, bancassurance, IT and IT security reports.

During their regular meetings in 2022, 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.

In 2022, the Audit Committee issued a statement on the selection of an audit firm responsible for auditing financial statements of mBank and mBank Group in line with the applicable laws. In addition, the Committee approved the report from the procedure of selecting the audit firm and issued a recommendation concerning the selection of the audit firm to audit financial statements of mBank and mBank Group for 2022 and 2023.

The Audit Committee was regularly informed about the bank's performance and financial position. These issues were discussed in detail during the Committee's meetings with representatives of the external auditor. Moreover, each quarter, the Committee recommended that the Supervisory Board approve the Disclosures concerning mBank Group's capital adequacy. The Committee also issued opinions on the cooperation with the external auditor in the scope of services not related to the financial statements audit.

Having familiarised itself with the information received from the bank's Management Board, the Audit Committee recommended the Supervisory Board to assess significant transactions concluded by the bank with affiliated entities in 2021 as transactions concluded at arm's length in the normal course of the bank's business.

In 2022, the Committee received and reviewed, on an ongoing basis, reports on the effectiveness of the control function and the status of recovery plans, reports on compliance risk management, and reports presenting the results of audits and the status of the implementation of recommendations, including recommendations issued after inspections conducted by the Polish Financial Supervision Authority. In addition, the members of the Audit Committee and the Chairwoman of the Supervisory Board received reports on all audits conducted by the Internal Audit Department at the bank and the subsidiaries.

The Risk Committee supported the Supervisory Board in exercising constant supervision over all types of risk occurring in mBank Group's business activities. In 2022, the Committee paid particular attention to the threats arising from the armed conflict between Russia and Ukraine, in particular the impact of high energy prices, potential gas shortages, as well as inflation and rising interest rates on the financial situation of individual borrowers and corporate clients. At the meetings the Committee discussed in detail also the issues related to foreign currency mortgage loans, including the shape of the settlement programme with the borrowers. In addition, due to the high costs of legal risk related to foreign currency loans, the accumulation of negative macroeconomic factors, as well as the costs of the government's credit holiday programme, the Commission closely supervised the bank's current and projected capital position.

The Remuneration Committee considered matters relating to, among others: the principles of remunerating the Members of the Management Board, persons having a material impact on the bank's risk profile (risk takers) and mBank employees, setting and accounting for the achievement of MbO targets and determining the amount of bonuses for the Members of the Management Board and the bonus pool for mBank employees. The Committee also analysed initiatives aimed at bridging the gender pay gap and measures supporting women in taking up senior managerial positions as well as comparing the remuneration of mBank employees with the market. Diversity issues were also discussed on numerous occasions. In addition, the Remuneration Committee periodically reviewed the Risk Takers Identification and Remuneration Policy.

The IT Committee supported the Supervisory Board in supervising mBank's IT and ICT security area. At its meetings, the IT Committee discussed in detail periodic reports of the Management Board on IT and IT security. The Committee also dealt with additional materials referring to the current situation (such as war in Ukraine) as well as other topics in its field of expertise.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2022 is presented in the table below.

	Attendance[1)]
Agnieszka Słomka-Gołębiowska	7/7
Bettina Orlopp	7/7
Armin Barthel	7/7
Tomasz Bieske	7/7
Marcus Chromik	7/7
Mirosław Godlewski	7/7
Aleksandra Gren	7/7
Arno Walter	7/7

[1)] Attendance at meetings / number of meetings during the term of office

Attendance[1)] of the members of individual committees of the Supervisory Board is presented in the table below:

Executive and Nomination Committee		
Prof. Agnieszka Słomka-Gołębiowska	Dr. Marcus Chromik	Dr. Bettina Orlopp
6/6	6/6	6/6

[1)] Attendance at meetings / number of meetings during the term of office in a committee

Risk Committee			
Dr. Marcus Chromik	Mirosław Godlewski	Dr. Bettina Orlopp	Prof. Agnieszka Słomka-Gołębiowska
6/6	6/6	6/6	6/6

[1)] Attendance at meetings / number of meetings during the term of office in a committee

Audit Committee		
Tomasz Bieske	Aleksandra Gren	Dr. Armin Barthel
6/6	6/6	6/6

[1)] Attendance at meetings / number of meetings during the term of office in a committee

Remuneration Committee			
Dr. Bettina Orlopp	Tomasz Bieske	Mirosław Godlewski	Dr. Marcus Chromik
4/4	4/4	4/4	4/4

[1)] Attendance at meetings / number of meetings during the term of office in a committee

IT Committee		
Aleksandra Gren	Mirosław Godlewski	Dr. Marcus Chromik
3/3	3/3	3/3

[1)] Attendance at meetings / number of meetings during the term of office in a committee

13.8. mBank's Diversity Policy

We are guided by the principle that diversity creates added value for the organisation. Elements of the diversity policy are present in various regulations, procedures and processes. On February 15, 2022, the Management Board of the bank adopted mBank's Diversity and Inclusion Policy.

Our people make the difference. At mBank, we show respect and appreciation for people of all sexes, ages, disabilities, races, religions (or lack of religious belief), educational backgrounds, nationalities, political opinions, ethnic origins, sexual orientations, gender identities, family statuses, lifestyles, forms of employment and other forms of cooperation, people who speak different languages, regardless of their trade union membership.

We build relationships based on trust and partnership, and make sure our employees feel safe. We prioritise equal opportunities and chances and pay special attention to people who otherwise could be excluded or marginalised.

In line with the key assumptions of our Diversity Policy:

1. We create an organisational culture based on respect for diversity and integrate the principles of equal treatment into company policies and procedures.
2. We implement the principle of equal treatment and manage diversity in the following areas: recruitment, development, access to promotion, benefits, succession planning and remuneration.
3. We prevent and counteract unacceptable behaviour, including discrimination and mobbing. We carry out regular educational activities, addressed, in particular, to the management.
4. We explore our employees' perception of diversity and equal treatment. Regular analysis of the Pulse Check survey results allows us to address problems on an ongoing basis.
5. We raise awareness among employees by organising training courses, educational programmes and social campaigns.

The bank aims to:

- reach a 30% participation of women in the Supervisory Board and in the Management Board of mBank by the end of 2028;
- increase the participation of women in recruitment for managerial positions to 50%,
- reduce the wage gap in peer groups (to a maximum of 5%).

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. to the Management Board and the Supervisory Board.

The Suitability Policy aims at introducing principles which must be fulfilled so that key functions at the bank are held by individuals having the requisite qualifications, expert knowledge, skills, professional experience, abilities and aptitudes, and reputation adequate for the performed function. It is important to ensure the diversity of the bank's governing bodies.

The principle of diversity is applied to guarantee an adequate selection of members of the bank's body in the manner engaging a broad set of qualities and competences to achieve a variety of views and experiences, knowledge and skills which are adequate to the position held and which guarantee that members of the bank's body will individually and collectively issue independent opinions and sound decisions concerning the entire scope of the bank's operations.

The principle of diversity applied when selecting members of the bank's body is based on objective merit-based criteria concerning candidates' education, skills and professional experience. Additional criteria supporting diversity of the composition of the bank's body are gender and age. The objectives concerning the diversification of the bank's body are taken into account during the candidate selection only to the extent to which doing so does not impair the operations and suitability of the bank's body.

Taking into account the result of the suitability assessment when selecting the composition of the Supervisory Board/Management Board, the AGM and the Supervisory Board strive to reach gender balance in the composition of the Supervisory Board/Management Board or at least a minimum 30% share of gender minority in both the Management Board and the Supervisory Board till 2028.

The Supervisory Board is composed of representatives of mBank's main shareholder, representatives of science and business, and persons having legal knowledge and experience in banking. The number of female Members is taken into account as well.

At the end of 2022, there were three women among the eight Supervisory Board Members, making up 37.5% of the total number of Members.

Supervisory Board of mBank										
	31.12.2018		31.12.2019		31.12.2020		31.12.2021		31.12.2022	
	number of members	%	number of members	%	number of members	%	number of members	%	number of members	%
Women	2	17.0%	2	20.0%	4	50.0%	3	37.5%	3	37.5%
Men	10	83.0%	8	80.0%	4	50.0%	5	62.5%	5	62.5%
Total	**12**	**100%**	**10**	**100%**	**8**	**100%**	**8**	**100%**	**8**	**100%**

In 2022, the six members of the Management Board of the bank were all men.

Management Board of mBank										
	31.12.2018		31.12.2019		31.12.2020		31.12.2021		31.12.2022	
	number of members	%	number of members	%	number of members	%	number of members	%	number of members	%
Women	1	14.0%	1	14.0%	0	0.0%	0	0.0%	0	0.0%
Men	6	86.0%	6	86.0%	7	100%	6	100%	6	100%
Total	**7**	**100%**	**7**	**100%**	**7**	**100%**	**6**	**100%**	**6**	**100%**

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.

Glossary

ABB – Accelerated book building

AIRB – Advanced Internal Rating-Based

AROR – metric presenting adjusted revenues on risk weighted assets, calculated as revenues minus banking tax and cost of risk/risk weighted assets (RWA)

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

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 2022 (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.