

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

Dear Shareholders,

In spite of adverse developments in the external environment, 2015 was a very successful year for mBank Group. Net profit attributable to the shareholders of mBank reached PLN 1,301.2 million, which represents an increase of 1.1% year on year. This satisfying result was achieved under conditions of strong pressure exerted both by factors affecting the revenue of financial institutions and by unfavourable one-off events faced by the Polish banking sector. Following the interest rate cuts in October 2014, the Monetary Policy Council (RPP) decided to continue the easing and reduced the reference rate by another 50 basis points to the historically low level of 1.5%. As a result, net interest margin decreased further in H1 2015. As another factor adversely impacting the revenue of the sector, the interchange fee on cashless card transactions in Poland was reduced to one of the lowest levels in Europe. The interchange fee decreased from 0.5% to 0.2% on debit cards and 0.3% for credit cards as of 29 January 2015. However, thanks to dynamic business expansion, which was additionally supported by robust economic growth, including continued recovery of consumption and investments, mBank Group generated its historically highest core income of PLN 3,408.5 million. Net interest income increased by 0.8% driven by growing lending in key segments. Net fee and commission income decreased by 0.5% year on year as rising transactional activity of clients was insufficient to bridge the gap opened by the interchange fee reduction within such a short time horizon.

In 2015, the Polish banking sector suffered its first bankruptcy in 15 years. Following the insolvency of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, banks had to contribute an additional PLN 2.0 billion to the Bank Guarantee Fund (BFG) to pay out guaranteed deposits. The total contribution of mBank and mBank Hipoteczny reached PLN 141.7 million. Another significant cost in Q4 2015 was a contribution to the Borrower Support Fund set up at Bank Gospodarstwa Krajowego for clients in a difficult financial position. The contributions were determined pro rata to the held portfolio of housing mortgages which are more than 90 days overdue. The contribution of mBank Group amounted to PLN 52.1 million.

These unforeseen costs were offset in 2015 by the sale of the subsidiary BRE Ubezpieczenia TUIR to AXA Group as well as the sale of the Bank's interest in PZU. On 27 and 30 March 2015, after all required regulatory approvals were granted, the sale to the strategic insurance partner was closed, including agreements establishing long-term co-operation between mBank Group and AXA Group in the distribution of life and non-life insurance products. As a result, mBank clients gained access to a wide range of insurance products offered via the online and mobile platforms and in brick-and-mortar branches. The one-off positive impact of the sale on the pre-tax profit of mBank Group recognised in Q1 2015 was PLN 194.3 million. In early December, the Management Board of mBank decided to divest and sell its interest in PZU equal to 0.55% of the company's share capital. The selling price was set at PLN 37.75 per share and, net of the cost of sale, the revenue was PLN 125.0 million.

As a result, mBank Group earned a total revenue close to PLN 4.1 billion in 2015, representing an increase of 3.9% year on year. Based on the reported results, the cost/income ratio was 50.2%; net of the positive and negative one-offs, the normalised C/I was 49.3%, compared to 44.9% a year earlier. Superior efficiency is a key attribute of mBank's operational model, and its structural cost advantage consistently sets the Group apart from other financial institutions in Poland. The recurrent administrative expenses including depreciation and amortisation increased by 5.1% year on year to PLN 1,860.5 million in 2015. This was mainly driven by a nearly double regular contribution to BFG as its rate was raised from 0.137% in 2014 to 0.239% of total risk exposure. As a result, mBank's contribution increased by PLN 65.6 million year on year. The Group's headcount grew by 223 FTEs in 2015, resulting in a modest increase of personnel costs. To ensure highest quality and security of mBank's electronic platform, the IT expenditure increased while other material costs remained at the level of 2014.

mBank Group's cost of risk was 54 basis points in 2015. Net loan loss provisions decreased by 18.4% year on year to PLN 421.2 million. The high exchange rate of the Swiss franc prevailing since January 2015 did not impair the capacity of mBank's retail clients to repay their debt, and the solid economic conditions and relatively low unemployment supported the quality of the loan portfolio. Furthermore,

mBank's understanding of sector risks prevented excessive exposure to sectors in a weaker position and ensured a diversified corporate portfolio with a well-distributed structure. As a result, mBank Group's NPL ratio decreased to 5.7% at the end of 2015 and the coverage ratio rose to 58.9%.

Consequently, return on equity decreased to 11.8% from 13.1% in 2014. The ROE of the Group should be considered from the perspective of the continuous improvement of the capital position. This approach derives from regulatory initiatives designed to enhance the stability and security of the Polish sector and its resilience to extreme market scenarios. Following announcements made earlier in the spring, on 23 October 2015 the Polish Financial Supervision Authority (KNF) issued individual recommendations imposing additional capital requirements on banks with significant exposures to FX residential mortgage loans. mBank's capital buffer was 4.39 percentage points, of which at least 75% or 3.29 percentage points must consist of Tier 1 capital. It was the highest additional requirement among all Polish banks, largely due to the fact that mBank calculates the total risk exposure under the advanced internal rating-based approach (AIRB). As a result, risk weights for mortgage loans denominated in foreign currencies are much lower at mBank than under the standardised approach followed by most institutions in Poland, which was not a factor considered in the single methodology applied to all players in the sector. However, even in view of such high requirements imposed by KNF, mBank Group's capital ratios are still well above the regulatory minimum.

It should be noted that the volumes and the sales of new loans grew dynamically. Gross loans of mBank Group increased by 5.2% year on year to PLN 81.4 billion in 2015. The production of new mortgage loans increased by 41.8% year on year in 2015. Importantly, 42.3% of mortgage loans granted in Poland were disbursed by mBank Hipoteczny, adding to the pool of assets eligible for covered bond issues. The sales of consumer loans, whose rising volumes contribute to a steady improvement of net interest margin, grew by 8.5% year on year. It should be emphasised that corporate lending excluding reverse repo transactions increased by a high 11.8% year on year in 2015 with a strong contribution of term loans granted to small and medium-sized enterprises.

mBank continued to develop its deposit base, which reached PLN 81.1 billion at the end of 2015, representing an increase of 12.0% year on year. The balances of retail on-sight accounts, which include current accounts and savings accounts, grew by a strong 16.1% year on year. Corporate deposits increased at an even more impressive rate: balances of corporate current accounts alone grew by 24.3% year on year in 2015. Importantly, the growth rate was greater than client acquisition, which suggests that it resulted from improved transactional activity, a key objective of mBank's efforts focused on offering the most convenient online and mobile transactional banking systems. These growth rates helped to further improve the loan-to-deposit ratio, which stood at 96.7% at the end of 2015, compared to 103.0% a year earlier. The ratio, brought down to less than 100% after many years, demonstrates the success of the long-term restructuring of our balance sheet and growing independence of funding provided by Commerzbank.

One of the key factors differentiating mBank in the Polish banking sector is the capacity of organic growth, which has become our key competitive advantage. The results of client acquisition in 2015 were once again more than satisfactory. Our corporate client base increased by 1,775 companies and stood at 19,562 at the year's end. The number of mBank's retail clients increased by 177.6 thousand in Poland and as much as 57.6 thousand in the Czech Republic and Slovakia. We also added 160.7 thousand accounts to the Orange Finanse client base. All in all, mBank now serves 4,947.3 thousand clients on the three markets. A key project in 2015 was the migration of former MultiBank transactional service users to the mBank platform, successfully completed in October. We also continued to develop and improve our mobile application to ensure that clients can conveniently manage their finance wherever they are.

The results of the Retail Banking Line improved year on year as the pre-tax profit stood at PLN 1,060.7 million. The improvement was driven by the booked one-off revenue on the sale of the insurance subsidiary, while the core income remained under pressure due to the interest rate cuts and reductions of the interchange fee on card transactions. mBank's foreign branches in the Czech Republic and Slovakia also improved their results and made a bigger contribution to the performance of retail banking, not only in the acquisition of clients and deposits but also the steadily growing volume of loans and revenue. Intensified sales initiatives and the re-positioning of the offer helped

to largely step up lending in both countries as the gross balance-sheet volumes increased by 31.0% year on year. In turn, Corporates and Financial Markets reported a pre-tax profit of PLN 617.6 million in 2015, a decrease of 8.2% year on year due to a much lower net trading income and gains on investment securities. In 2015, the Group expanded its offer for SMEs, steadily building up mBank's position in this market segment which has a promising growth potential.

In 2015, mBank Group was very active in the implementation of strategic initiatives. mBank Hipoteczny issued more than PLN 1.5 billion of covered bonds, a record on the Polish market. Following its divisionalisation, mLeasing strengthened the foundations of its business expansion in the corporate and retail segments and reported significant growth in the SME segment. The subsidiary moved up to the second position among leasing companies present on the Polish market in 2015. Dom Maklerski mBanku was also active in major transactions on the Warsaw Stock Exchange. In April 2015, with the support of mCorporate Finance as a financial advisor and mBank as underwriter, it completed the IPO of the German manufacturer of aluminium wheels Uniwheels AG. The IPO of PLN 504 million was the biggest public offering on the Polish market since the end of 2013. mBank Private Banking celebrated its 20th anniversary in 2015. This coupled with business successes, including a nearly 21% increase in total assets under management, which in total with mWealth Management exceeded PLN 12.0 billion at the end of 2015.

To summarise, despite many new adverse regulatory developments, which will be faced by the banks in 2016, including the bank tax and increased capital requirements, I am certain that the expansion of the Group's business results based on client relationships will remain on a growth trajectory. mBank has competitive advantages which allow it to grow its strategic segments under any market conditions. Our excellent business and advisory competences, professionalism and state-of-the-art technologies allow us to acquire new clients in three countries and provide them with top-quality service. Coupled with fast developing distribution channels, further growth of transactional activity as well as active cross-selling, this ensures that mBank's revenue will grow steadily.

I wish to thank you, our Shareholders, for your confidence and support. Let me assure you that our company has key advantages which will enable us in the coming years, despite the many challenges and costs, to grow our business model successfully and deliver satisfying results.

I thank the Supervisory Board for its close co-operation and unwavering support.

I also thank our employees whose commitment and engagement contributed to the success of mBank Group in 2015. I believe that we are relatively well prepared to leverage our strengths and successfully face the market conditions in 2016.

Yours faithfully,

Cezary Stypułkowski