

## **Letter from the Chairwoman of the Supervisory Board of mBank S.A. to the Shareholders**

Dear Shareholders,

The year 2023 did not bring the stability we have all been waiting for since the outbreak of the Covid-19 pandemic. Russia's continued hostilities in Ukraine and the escalation of the Israeli-Palestinian conflict in Gaza continue to fuel the sense of global insecurity. Geopolitical uncertainty is one of the biggest obstacles to the stability of the global financial markets. It has brought back a series of well-known risks from the past that seemed unlikely to return any time soon: inflation, cost-of-living crises, trade wars, capital flight from emerging markets, widespread social unrest, and geopolitical confrontations. New challenges and new opportunities emerge in view of the rapid development of generative artificial intelligence technology and the accelerating climate crisis. Investments in the implementation of the European Sustainable Finance Agenda are increasing while technological advances open an optimistic vision of the future of the green transition.

According to the latest research by the Polish Bank Association for 2023, banks in Poland have become too small to finance significant investment projects. The banking sector's assets in relation to GDP have fallen to 88.5 percent from 97.1 percent in 2022. This puts Poland at the bottom of the European Union ranking, behind other countries in Central and Eastern Europe such as the Czech Republic (131.4 percent) or Hungary (108 percent). This is worrying as Poland has for years reported one of the lowest investment rates in the European Union. The investment needs of climate transition are huge as we have to catch up with the other member states while around 70 percent of energy consumption in Poland is produced from fossil fuels. According to estimates by the Polish Sustainable Finance Platform, the cumulative investment gap to achieve climate neutrality in Poland by 2050 will be between EUR 1.64 trillion and EUR 2.04 trillion between 2028 and 2050. In order to boost the banks' ability to finance the economy, it is essential to increase the banks' capital, which is difficult due to the industry's public burden, the highest in Europe, as well as other government interventions totalling PLN 33 billion in the last two years.

Last year brought a sharp slowdown in Poland's economic growth. GDP growth dropped to around 0.2 percent from 5.3 percent in 2022 but the bottom of the cycle appears to be behind us. Price indices peaked at the beginning of 2023. From then on, inflation dropped, mainly due to diminishing cost pressures caused by the global supply shock. In December 2023, inflation stood at 6.1 percent on an annualised basis, remaining far from the NBP's strategic inflation target. Persistently high interest rates caused a slowdown in lending. However, the government's "First Housing" programme (2 Percent Safe Loan) was very popular among consumers. More than 100,000 applications were submitted for a preferential loan under this funding scheme in 2023. Meanwhile, the volume of deposits grew steadily and their maturity mix evolved.

Despite a host of considerable challenges posed by the demanding external environment, the mBank Group earned its highest revenue ever, reaching PLN 10.8 billion. The main driver of growth was net interest income, which increased by 21.7 percent year-on-year. This was clearly driven by effective management of deposit and loan margins in a high interest rate environment. Consequently, the net interest margin increased from 3.71 percent in 2022 to 4.18 percent in 2023.

As in the previous two years, the cost of legal risk associated with foreign currency mortgage loans remained a significant burden. The case law was predominantly unfavourable to banks in 2023, aggravated by a high influx of new lawsuits. The mBank Group recognised legal risk costs related to foreign currency loans of PLN 4.9 billion in the profit and loss account for 2023. These costs were mainly due to updated assumptions regarding the population of clients litigating against the Bank, the expected distribution of court judgments, the cost of the settlement programme, and changes in other model parameters, in particular following the CJEU judgment in case C-520/21 on remuneration for the use of capital in the event of invalidation of a foreign currency loan agreement. Significant progress was made in the execution of the programme of settlements with borrowers as an alternative to lengthy and costly litigation. The Bank concluded 13,321 settlements with clients as at the end of 2023; compared to the end of 2022 (1,886 settlements), this demonstrates high efficiency of the engagement. The provision coverage of the CHF-indexed loan portfolio was 99.5 percent. Combined with the Bank's capital allocated to the "Foreign Currency Mortgage Loans" segment, this ensures strong protection in the event of the materialisation of legal risks relating to foreign

currency loans. At the same time, the Bank focused on its cost efficiency, which ensured a cost/income ratio (C/I) of 28.5 percent for 2023 (34.3 percent in 2022).

The mBank Group closed 2023 with a pre-tax profit of PLN 970.6 million. Its net profit was PLN 24.1 million against a net loss of PLN 702.7 million in 2022. It should be stressed that the financial performance of the core business, i.e. excluding the Foreign Currency Mortgage Loans segment, confirms the effective deployment of the unique features of the business model and opens a positive outlook to continue organic growth and thus increase shareholder value. The mBank Group's core business generated a net profit of PLN 5,041.9 million in 2023, twice as much as in 2022. The Group's ROE was 40.0 percent in 2023 vs. 22.1 percent in 2022.

The impact of adverse factors exerting pressure on the capital ratios was mitigated by the Bank's proactive measures to maintain robust capital buffers, both for the Tier 1 ratio and the TCR (14.71 percent and 17.04 percent for Tier 1 and TCR, respectively, at the end of 2023).

This was possible, among others, thanks to the synthetic securitisation transaction on a portfolio of retail non-mortgage loans with a total value of PLN 9.96 billion. The transaction was unique in many respects, both in its value (the largest securitised portfolio in Central and Eastern Europe) and by virtue of its innovative edge and comprehensive scope; it was structured with synthetic excess spread (SES) under the new draft RTS (EBA/RTS/2023/02) in line with the STS criteria (simple, transparent and standardised securitisation) under Regulation 2021/557 of the European Parliament and of the Council. In addition, the MREL requirements were more than met with the issuance of green senior non-preferred bonds at a total nominal value of €750 million under the EMTN Programme. This is the largest bond issue in mBank's history and the second benchmark transaction under the mBank Group's Green Bond Framework. More than 120 investors participated in the bookbuild, with demand hitting €1.48 billion (73 percent were ESG investors). The success of this issue demonstrates that ESG factors are key in European capital market transactions and that well-structured green bonds attract a large and diversified investor community. Furthermore, the bank demonstrated the stability and safety of its liquidity management, as evidenced by high levels of the liquidity ratios LCR and NSFR and a net loan-to-deposit ratio of 61.2 percent.

This performance was possible thanks to the determined implementation of the mBank Group's strategy for 2021-2025 "From an icon of mobility to an icon of possibility." Responding to the dynamically changing environment, mBank performed a fundamental review of its development directions and strategic objectives in 2023. The Supervisory Board took note of the Management Board's report on the status of implementation of the mBank Group's strategy and the revision of selected business targets and measures while maintaining the Group's key development directions.

The mBank Group constantly strives to be a leader in sustainable development in the banking industry, which is why the ESG strategy is an integral part of the mBank Group Strategy. The Group's determination to consistently integrate environmental, social and governance factors in every part of its business is evidenced by its revised aspirations and key directions of action. The Bank supports businesses and consumers in the green transition and offers a reduced margin for mortgage loans on properties that meet high energy efficiency standards. The Bank works to increase its participation in financing RES projects and sustainable financing, and in arranging green bond issues for customers. In 2023, mBank committed more than PLN 5.3 billion in sustainable loans and almost PLN 4.4 billion in capital for sustainable financing, including more than PLN 1 billion in sustainable and green bonds and more than PLN 1 billion in Sustainability Linked Loans. In 2023, mBank continued its work on reducing and reporting its carbon footprint and on submitting climate targets to the Science Based Targets initiative.

An integral part of mBank's ESG strategy is building an inclusive work environment. The Bank was once again recognised by the Responsible Business Forum as one of the best employers managing diversity and building an inclusive culture. The Bank is one of the best rated employers according to the Kincentric Poland survey.

Communication with shareholders and investors is of key importance for mBank. Thanks to the high utility value of its reports, the Bank won for the eleventh consecutive year the special award "The Best of the Best" in last year's edition of The Best Annual Report competition organised by the Institute of Accounting and Taxation for the best annual report in the category of financial institutions. In the same ranking, the Bank once again received an award for the best corporate governance compliance statement.

It is gratifying to see that the mBank Group remains aware of the responsibility but also the opportunity that comes from developing sustainable finance and an ESG agenda.

It is important to note the actions taken by mBank to maintain its position as a leader in digitalisation in banking. The expansion of the range of services available in remote channels, including new functions in the mobile application for retail clients and the mBank Company Mobile application for corporate clients, and the development of personal finance management functionalities contributes to the growth of mBank's base of both retail and corporate clients, especially those using mobile applications. In the age of a technology race, mBank creates its products and services to be intuitive and easy to use, in line with the slogan "technology at your service". What is essential to clients is a sense of security, a priority also in the digital context. mBank's audio crime series "Jazgot", aimed at raising public awareness of cyber security, was awarded gold in the "Golden Clips" competition in the category "Content Marketing - Branded Content".

On behalf of the Supervisory Board, I would like to thank the Management Board and the employees of mBank for their cooperation and commitment, and you, dear Shareholders, for your trust. I am confident that despite the uncertainty in many aspects of socio-economic life and the dynamically changing regulatory environment, mBank will continue to successfully implement its strategy "From an icon of mobility to an icon of possibility" in 2024, generating the expected return on investment and ensuring stable development of mBank, so important to clients, employees, regulators, and other stakeholders.

Professor Agnieszka Słomka-Gołębiowska

Chairwoman of the Supervisory Board