

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

Dear Shareholders,

2014 was very successful for mBank Group. The net profit attributable to the shareholders of mBank stood at PLN 1,286.7 million, representing an increase of 6.7% year on year. We achieved this satisfactory result in a difficult market environment fraught with many challenges faced by the Polish banking sector. On the one hand, business activity was driven by solid economic growth, including recovery of consumption and investments; on the other hand, the steadily falling inflation prompted the Monetary Policy Council to cut the reference rate by 50 basis points to the historical low of 2.0%. This exerted strong pressures on the net interest income of banks. Another adverse factor affecting the results of the sector was the reduction of the interchange fee charged on non-cash transactions made with payment cards to 0.5% as of 1 July. It should be noted that despite these headwinds mBank Group generated a historically high core income of PLN 3,392.3 million. The net interest income increased by 11.9% amid accelerating loan volumes; the net fee and commission income was higher by 8.0% year on year, driven by growing transactional activity as well as client acquisition.

mBank Group generated total income of more than PLN 3.9 billion in 2014, which represents an increase of 7.2% year on year. Furthermore, we crossed the mark of PLN 1 billion of quarterly income in each of Q2 and Q3 2014. As a result, our cost/income ratio further improved to 44.9% in 2014, compared to 45.7% in 2013. Consequently, mBank remained a leading financial institution in Poland as measured by the effectiveness of business activity. However, it should be stressed that the strategic projects implemented by the Group in 2014 resulted in a 5.5% increase of total costs year on year. This was largely due to the initiatives that the Management Board decided to pursue with a view to potential future business expansion in many areas. The headcount of the Group increased by 244 FTEs in 2014, which contributed to an increase of personnel costs. The costs were also impacted by the additional prudential contribution introduced in November 2013 and paid by banks to the Bank Guarantee Fund.

mBank Group's cost of risk stood at 72 basis points in 2014. The Bank took a prudent approach to exposures in the East in its corporate risk segment; following the conservative provisioning methodology, mBank accommodated the growing volumes of new non-mortgage loans in its retail segment. As a result, loan loss provisions stood at PLN 515.9 million, representing an increase of 8.0% year on year. It should be noted that the coverage ratio improved to 51.9%, while the overall quality of the loan portfolio remained unchanged.

Return on equity was at 13.1% and remained stable year on year. This measure of the Group's profitability should be considered in the context of its steadily improving capital position. This approach was corroborated by the results of the asset quality review (AQR) and stress tests, published by the Polish Financial Supervision Authority in October 2014, which confirmed the high capital adequacy and safety of mBank Group's business model. The in-depth, comprehensive analysis performed under a uniform methodology across Europe highlighted the resilience of the Bank's capital buffers under the stress test scenarios of potential turbulences in the external environment. The solid financial results and regulatory indicators exceeding the recommended minimum allowed mBank to share its profits with the Shareholders once again in 2014. The dividend was PLN 17 per share, i.e. 55.7% of the consolidated net profit.

The increase of loan volumes and sales of new loans performed particularly well in 2014. mBank Group's gross loan portfolio increased by 9.6% to PLN 77.4 billion in 2014. The production of new mortgage loans was 58.1% above the 2013 sales. The successful reactivation of this product on offer is particularly relevant due to the fact that 28% of such loans granted in Poland were disbursed by mBank Hipoteczny, which adds to the pool of retail mortgage loans securing issues of covered bonds. The sales of consumer loans, whose growing share in the Group's loan portfolio is expected to make a positive contribution to our margin, increased by 16.8% in 2014.

mBank continued to build its deposit base with success. Customer deposits stood at PLN 72.4 billion at the end of 2014, representing an increase of 17.4% year on year. It is with satisfaction that we noted an inflow of funds into current accounts of individual clients: their balances, including savings accounts, increased by 15.3% year on year. Just as impressive was the growth of corporate clients' deposits: balances in current accounts alone increased by 13.9% year on year. Moreover, their growth rate exceeded that of customer acquisition, which means that it is driven by superior transactional activity, the goal of our unceasing efforts. As a result, the loan to deposit ratio decreased to 103.0%, providing clear corroboration of the successful strategic restructuring of the Group's balance sheet, which also includes further diversification of the sources of funding, among others in order to ensure a better match of the maturities of assets and liabilities. In 2014, mBank placed on the international market two EUR 500 million tranches of unsecured debt under the EMTN programme and issued PLN 750 million subordinated bonds which were added to Tier II capital in January 2015.

One of the key qualities which makes mBank unique in the Polish banking sector is the capability of organic growth, which we have turned into our major competitive advantage. Client acquisition initiatives launched in 2014 produced the expected results as 190 thousand individuals in Poland, 48 thousand in the Czech Republic and 41 thousand in Slovakia were added to the retail client base. Furthermore, we started serving 41 thousand clients of Orange Finance in Q4 2014. The total number of mBank accounts was close to 4.7 million.

The profit before tax of Retail Banking increased year on year to PLN 1,063.7 million. Despite mounting pressures in the latter half of the year, total revenues grew by 7.9% year on year. With a view to further strengthen our leading position as the most convenient transactional bank in the market, following the successful launch of the New mBank online platform, we launched a refreshed mobile application as well. With specially configured functionalities, it offers flexible and user-friendly personal finance management options. mBank's foreign branches in the Czech Republic and Slovakia have a special place in the Group's growth strategy and they increasingly contribute to the results of Retail Banking, not only with customer acquisition and new deposits but also with steadily growing loan volumes and income. Sales initiatives which were stepped up in both these countries in combination with process improvements helped to grow new lending, as demonstrated by an increase in gross balance-sheet volume by 37.0% year on year. A project developed jointly by mLeasing and Retail Banking achieved excellent results as PLN 227 million of leasing capital was financed in 2014. As a result of these initiatives, the company strengthened its position as Poland's top three leasing provider with a market share of 7.4% while its sales in the movables segment grew at a dynamic rate close to 40%.

The profit before tax of Corporates and Financial Markets also increased to PLN 629.4 million in 2014. Its total revenues grew by 9.7% year on year. Despite adverse factors such as overliquidity in the corporate sector and a spread squeeze in FX transactions, the successful integration of the corporate and investment banking offer boosted the performance. The activity of the Group in the segment of small and medium-sized enterprises was reorganised in 2014. mBank had been historically less active in this segment which represents a large part of the Polish economy and has a promising potential for growth.

mBank Group was very active with its strategic initiatives in 2014. mBank Hipoteczny issued PLN 1 billion of covered bonds, an all-time record on the Polish market. Our approach is truly pioneering, as demonstrated by the fact that the issues were for the very first time based on retail mortgage loans granted in collaboration with mBank (agent model) as well as loans purchased from mBank (pooling model). It should be noted that mBank Hipoteczny issued three EUR tranches for a tenor of 15 years, the longest maturity available to Polish issuers excluding Treasury securities.

We announced a strategic alliance with an insurance partner in September 2014. The agreement with AXA completed a project geared at unlocking the full potential of BRE TUiR, based on the experience of a leading international insurer with a track record in bancassurance. In the deal, mBank's subsidiary Aspiro sold 100% shares of BRE TUiR. Following the mandatory approvals, agreements will be signed to govern the distribution of insurance products. As a result, mBank

Group clients will get a superior offer of life and non-life insurance products available via the online and mobile platforms as well as from traditional branches.

Another strategic project of the Group was to develop a mobile retail bank in partnership with Orange. The joint offer is initially addressed to individual clients but it will be extended to cover small and medium-sized enterprises as well. With its banking licence and extensive experience in state-of-the-art electronic banking platforms, mBank delivers the banking solutions, while Orange leverages its well-developed distribution network and client base and remains responsible for marketing and sales.

An important part of delivering the strategy was the launch of the reorganisation and unification of mBank branches under the One Network concept. The first integrated advisory centre was opened in June. It offers corporate, retail and private banking products, as well as leasing, factoring and brokerage services under one roof. Two "light" branches were opened in the second half of 2014 in shopping malls. They are equipped with advanced technology which supports attractive and convincing presentation of the offer.

In summary, despite the many challenges faced by banks in 2015, I am optimistic about further financial performance of the Group. We have competitive advantages which should under all conditions ensure our ability to continue with stable growth. Our excellent business and advisory competences, professionalism and engagement as well as advanced technologies allow us continuously acquire new clients in three countries and offer top quality services. Combined with further development of the distribution channels, the efforts invested in promotion of transactional services as well as active cross-selling, this ensures that mBank's income will be growing steadily.

I would like to thank you, our Shareholders, for the trust you put in us. Let me assure you that our company has the key advantages empowering us to successfully develop our business model and deliver solid profitability in the years to come.

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

I also wish to thank our employees whose steady engagement contributed to the success of mBank Group in 2014. I do believe that we are relatively well prepared to meet the regulatory and market challenges.

Yours faithfully,

Cezary Stypułkowski