Opinion of the Supervisory Board of mBank S.A. on the situation of the Bank in 2017 including assessment of the internal control system and the Bank's relevant risk management system

Basis: Rule III.1. (1) of the Code of Best Practices for GPW Listed Companies

Considered from the economic perspective, the year 2017 was the best year for the global economy since 2011, marked by faster GDP growth in most countries of the world. Poland participated in that general trend. 2017 was one of the best years for the Polish economy since the crisis. Growth accelerated mainly thanks to rising private consumption driven by increased disposable income of households, low unemployment, and the positive impact of the government's housing support programme 500+. Inflation was stable: following a sharp increase at the turn of 2016 to 2017, the consumer price increase stabilised below the inflation target of 2.5%. GDP growth of c. 4.6% was the highest since 2011.

In the positive macroeconomic environment, the banking industry was under pressure of record-low interest rates, uncertainty about the future of CHF-denominated loans, increasingly stringent regulatory requirements, and additional financial burdens (including the contribution to the Bank Guarantee Fund and the bank tax). Taking into account all these factors, the Supervisory Board welcomes the activities and achievements of the Bank in 2017.

Notwithstanding the many challenges, the profit before tax was PLN 1.528 million in 2017. The consolidated net profit attributable to the shareholders of mBank amounted to PLN 1,092 million, up by 6.0% on a recurrent basis (net of one-off transactions).

In 2017, total income was historically high at PLN 4,454 million. The 3.7% year-on-year increase of total income was driven by business expansion and positive volume trends. Importantly, the growth was fairly regular and steady quarter after quarter. The year-on-year increase in income was mainly driven by the following factors: the net interest income grew by 10.7%; the net fee and commission income grew by 9.5%; and the trading income grew by 20.2%. In 2017, the core income combining the net interest income and the net fee and commission income contributed 92.7% of the total income of mBank Group. In the opinion of the Supervisory Board, that proportion is very satisfying compared to the industry benchmark.

The Supervisory Board closely monitors the loan loss provisions, which increased by nearly 39% year on year. The high level of provisioning was largely caused by the low comparative base of 2016, when some corporate and retail debt was sold and the credit risk provisions were released. The Supervisory Board recognizes that it is important to maintain high quality of the loan portfolio through a prudent approach to risk management.

In the opinion of the Supervisory Board, operating costs were well under control. Total costs including amortisation increased by 4.7% year on year. The Supervisory Board is aware of the impact of the contribution to the Bank Guarantee Fund (+19% year on year), combined with the implementation of a number of projects in 2017, including the new head office in Łódź, changes to the branch network, as well as investments in technology and security. The Supervisory Board welcomes the high effectiveness of the Group, exceeding the industry average, as measured by the cost/income ratio which was 45.9% in 2017 compared to 45.7% in 2016 and 50.1% in 2015.

The Supervisory Board welcomes the changes to the Group's funding structure in 2017, including debt issues and the optimisation of the deposit base. The deposit base remained stable year on year while the share of current account balances increased in line with the strategy focused on the position of mBank as a convenient and user-friendly transactional bank.

In the opinion of the Supervisory Board, the business of mBank and the Group in 2017 ensured full safety of liabilities. mBank Group's Tier 1 ratio was 18.3% and its total capital ratio was 21.0% at the end of 2017. As such, the capital base of mBank Group met the regulatory requirements and supported the planned business expansion at the acceptable level of risk appetite.

In view of all the developments described above, the Supervisory Board gives a positive opinion on the position of mBank S.A. in 2017.

The Supervisory Board appreciates the engagement and efforts of the Bank's Management Board and employees in the past year, aimed at increasing the long-term shareholder value of the Bank. At the same time, the Supervisory Board trusts that these efforts will continue in 2018 and beyond.

Assessment of the internal control system and the Bank's relevant risk management system

The internal control system in mBank S.A. is comprised of institutional controls exercised by the Internal Audit Department, as well as functional controls.

The Supervisory Board has an Audit Committee which monitors internal audit matters on an ongoing basis. The Internal Audit Department is functionally subordinated and reports to the Audit Committee. The Audit Committee of the Supervisory Board was regularly apprised of a broad range of audit-related issues in 2017 including, among others, assessments of the internal control and risk management systems, implementation of major audits in the Bank and subsidiaries of the Group. The Committee also assessed and approved the Audit Plan for 2018. Furthermore, the Chairman of the Supervisory Board received copies of reports of all audits conducted in the Bank and subsidiaries of the Group by the Internal Audit Department. The Audit Committee of the Supervisory Board was also supported by the external auditor who regularly reported the findings and conclusions of its audits of the financial statements in 2017.

The Supervisory Board gives a positive opinion on the internal control system in mBank S.A. in terms of both its functional and institutional part.

At meetings of the Audit Committee, the Compliance Department communicated issues in the compliance area and provided the Supervisory Board with all reports of the Compliance Department as well as amendments to the Compliance Rules to be approved by the supervisory body.

On risk matters, the Supervisory Board acts through its Risk Committee, which exercises ongoing supervision of all risks, in particular credit risk (including concentration risk), market risk, operational risk, liquidity risk, interest rate risk, and business risk. The Risk Committee issues recommendations on significant exposures carrying the risk of a single business entity. Furthermore, the Risk Committee reviewed key issues including the performance of the Bank's portfolios, the risk parameters, as well as the provisions of the Bank and the Group. The Risk Committee reviewed the risk management strategies of mBank Group and the strategic risk limits, and issued a positive recommendation on the approval of the new Concentration Risk Management Strategy of mBank Group.

Furthermore, the Bank has a range of committees whose functions relate directly to risk management in mBank Group. These include the Credit Committee of the Bank's Group, the Data Quality and IT Systems Development Committee, the Capital Management Committee, and the Assets and Liabilities Committee.

The Supervisory Board gives a positive opinion on the risk management system in mBank S.A. In the opinion of the Supervisory Board, the system covers all risks which are relevant to the Bank and the Group.

In view of growing requirements for the Supervisory Board with regard to IT and ICT security in banks, the Supervisory Board has appointed, by way of a resolution, the IT Security Working Group of the Supervisory Board. The IT Security Working Group exercises on-going supervision of the Bank's IT and IT security activities and discusses the Management Board's IT and IT security reports, which are also presented at meetings of the Supervisory Board.

Maciej Leśny

Chairman of the Supervisory Board