



Management Board Report on Performance of mBank S.A. Group in 2018

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

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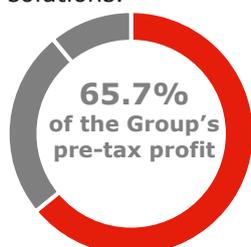
mBank Group in 2018

Universal financial services			
			
Our clients	Our employees	Mobile application	Transactions
5,685,000 retail clients 23,700 corporate clients	6,524 FTE in mBank Group	1.5 million users	Nearly 850,000 of our clients use BLIK
Mobile banking at its best			
Customers acquired by mobile	Clients logging in to the account via mobile devices	mAccelerator	Omnichannel: application, mLine, chat, video
Mobile onboarding - opening an account via application, without a courier or visiting the branch	an average of 27 logins a month 38% of clients uses the mobile application	Cooperation in scope of i.a. cybersecurity and robotisation	32.2% of all mLine interactions came from mobile application
Key results and indicators			
Revenues	Cost to income ratio	Total assets growth	ROE net
PLN 5,059 million	42.8%	+10.9% year on year	9.5%
Basic facts for investors			
Capitalisation	Share price	Member of the WSE indices, including:	mBank ratings
PLN 18.0 billion (EUR 4.2 billion)	PLN 424.2		Fitch: BBB Standard & Poor's: BBB+

A comprehensive offer in three main business segments

Retail Banking

Retail operations in Poland, the Czech Republic and Slovakia. Service for individual clients and microenterprises, constantly improved with new solutions.



Gross profit:
PLN 1 183.3 M

Number of clients: **5.7 M**



Number of branches: **174¹**



Increase in loans
(excluding FX effect): **7.5%**

Increase in deposits: **18.4%**

¹Including 141 branches in Poland and 33 in Foreign Branches, without mKiosks and mFinanse outlets.

Corporate and Investment Banking

Supporting the development of SMEs and corporates based on the bank's many years of experience in providing services to enterprises.



Gross profit:
PLN 545.7 M

Number of clients: **23,700**



Number of branches: **46**



Increase in loans
(excluding FX effect): **15.2%**

Increase in deposits: **1.4%²**

²Excluding repo/sell-buy-back transactions.

Financial Markets

Services on behalf of clients and mBank, including sales of financial products, liquidity management, mBank balance sheet management, interest rate risk and custody services.



Gross profit:
PLN 83.4 M



IRS / FRA market share: **10.7%**

Market share of
Treasury bills and bonds: **14.3%**

Mid-term bank debt market share: **23.4%**

Key additional services provided by the mBank Group companies

mLeasing



Financial and operating leasing of cars, trucks, machines and real estate.

mFactoring



Domestic and export factoring with and without recourse, as well as import guarantees.

mFinanse



An open platform for the sale of financial services: loans, accounts, insurance, investment and savings products.

mBank Hipoteczny



The loan offer on the real estate market and the issue of covered bonds.

Introduction

In 2018, the Polish economy saw numerous phenomena that contributed to development of the banking sector and stimulated lending. Private consumption was the main driver of the economy, propelled by favourable situation on the labour market (record-low unemployment), fast-rising household income, unflinching consumer optimism, relatively high immigration to Poland, active real estate market and solid growth in consumer credit. At the same time, the banking sector continued to operate in a low interest rate environment - the NBP reference rate has not been changed since 2015. Heavy burdens imposed on the banking sector, such as the tax on certain financial institutions (so called "banking tax") and the contribution to the Bank Guarantee Fund (BFG), which cannot be recognised as tax deductible expenses, new regulations (e.g. MIFID 2), and unfavourable conditions on the capital market hampered growth of net profit. In addition, increasing capital buffers and curbs on dividend payment did not help banks to reach high profitability ratios.

Thanks to its unique business model and consistently implemented strategy, mBank Group developed dynamically in 2018. The Group's income exceeded PLN 5 billion, while recurring income reached an all-time high. **Net profit of mBank Group hit record and stood at PLN 1,316.5 million.** The key events of 2018 include:

- Increase in income by 14% (9% net of profit from a one-off transaction), including a rise in net interest income by 12%.
- Increase in net interest margin by 10 bps to 2.6%, attributable to a change in the structure of assets.
- Improvement in efficiency, measured by the cost-to-income ratio, to 44.7% (net of profit from a one-off transaction).
- Accelerating client acquisition – another 343 thousand individual and 1,658 corporate clients entrusted to use mBank services.
- Increase in gross loans by 10%, excluding the FX effect.
- Dynamic inflow of funds into current and saving accounts of retail clients (+19%).
- Record-high sales of non-mortgage loans (PLN 8.9 billion, i.e. +25%); an increase in mortgage loan sales by 35%.
- High quality of capital base – capital ratios surpassing regulatory requirements: Tier I at 17.5%, Total Capital Ratio at 20.7%.
- Strengthening of mBank's position as a mobile and transactional bank – the largest share of mobile application users in the client base on the market.
- Innovations and products enhancing customer experience:
 - Safe and fast mobile Apple Pay payments;
 - Video-onboarding of retail clients on smartphones via iOS and Android;
 - User-friendly mobile authorisation for corporate clients in mCompanyNet, replacing the old-fashioned codes typing;
 - Credit offer for e-commerce through API in cooperation with Allegro and DotPay;
 - Behavioural user verification pilot programme launched in cooperation with Centrum Bezpieczeństwa Cyfrowego;
 - Scanning data for cash transfers with a smartphone and many others.

Increase in the balance sheet and profitability supported by favourable macroeconomic conditions

Deposits +12%

Net loans +12%

Net profit +21%

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 property, 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

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, fully online bank. **In 2018 we celebrated our 18th birthday.** 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 is the 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	Continuation of strategy implementation and development of the foreign branches

In 2018, we continued to focus the offer of mBank Group on digital DNA, which underlies our internal processes, tools and services for clients. We have been effectively implementing the strategy aimed at creating a modern and innovative transactional bank, which offers an integrated range of products and services both for individual and corporate clients. Concentrating on new challenges and maximising efficiency, in 2018 we launched e-commerce services via mElements. For more information regarding the subsidiaries, please refer to chapter 1.2. Composition of mBank Group. In June 2018, we signed an agreement with Orange Polska S.A. on termination of the cooperation under the Orange Finance project. The clients are going to be offered special terms of transferring to mBank's main electronic banking and mobile platforms.

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.

Client empathy	Looking to the future	Simplifying	Engagement	Professionalism
Cooperating and understanding customers’ needs	Openness to change and innovation	Simple solutions and clear communication	Motivation and focus on results	Knowledge, competencies and skills



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 **BLIK**, **Google Pay** and **Apple Pay** payments. mBank has been accompanying its customers in their everyday lives for 18 years now, providing a wide range of additional services based on online or mobile banking. These involve, among others, the possibility to create a free-of-charge **trusted profile** in mBank’s transactional platform in order to handle administrative matters online in the public administration services, and the possibility to submit an application for the “**Family 500+**” benefit online. Further benefits include additional services, such as **mOkazje** (mDiscounts).



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. 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**. Big enterprises and international corporations successfully use the integrated range of commercial banking solutions, with particular focus on the advanced platform of **transactional banking**. This comprehensive product offer is complemented by **investment banking** services, such as equity capital management (ECM), debt capital management (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.

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 is presented below:

Segment	Retail Banking	Corporates and Financial Markets	
		Corporate and Investment Banking	Financial markets
Bank	<ul style="list-style-type: none"> ■ Retail customers, Private Banking clients and microenterprises ■ Affluent retail customers (Private Banking and Wealth Management) 	<ul style="list-style-type: none"> ■ Corporations and non-banking financial institutions (K1) ■ Large Companies (K2) ■ Small and Medium Enterprises (K3) 	<ul style="list-style-type: none"> ■ Banks ■ Corporate clients in scope of trading and sales ■ Market and Liquidity Risk Management
Consolidated subsidiaries	<ul style="list-style-type: none"> ■ mLeasing Sp. z o.o. – Retail ■ Asekum Sp. z o.o.¹ - Retail ■ mBanku Hipoteczny S.A. - Retail ■ mFinanse S.A. 	<ul style="list-style-type: none"> ■ mLeasing Sp. z o.o. – Corporate ■ Asekum Sp. z o.o.¹ - Corporate ■ mBanku Hipoteczny S.A. - Corporate ■ mFaktoring S.A. ■ Garbary Sp. z o.o. ■ Tele-Tech Investment Sp. z o.o. 	<ul style="list-style-type: none"> ■ mFinance France S.A. (special purpose entity reserved for financing activities of the bank) ■ mLeasing Sp. z o.o. – within the scope related to fund raising ■ mBank Hipoteczny S.A. – within the scope related to fund raising
	<p>Other subsidiaries</p> <ul style="list-style-type: none"> ■ mCentrum Operacji Sp. z o.o. (outsourcing services provider) ■ BDH Development Sp. z o.o. (real estate management) ■ Future Tech FIZ 		

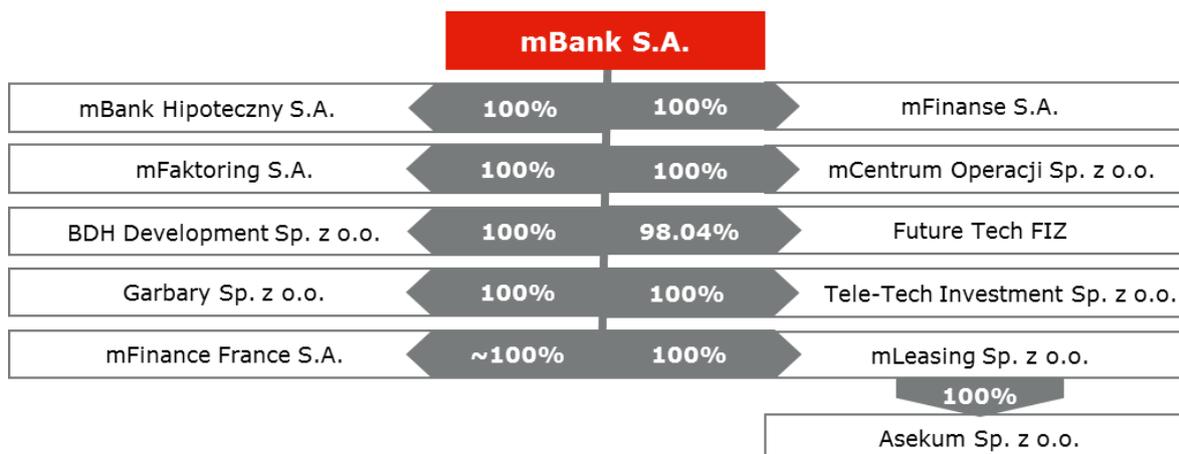
¹mBank owns 100% shares in Asekum Sp. z o.o. indirectly, through mLeasing Sp. z o.o.

The key events regarding the structure of mBank Group in 2018 comprise finalising the sale of an organised part of enterprise of mFinanse in the part providing insurance intermediation in the field of group insurance contracts. The transaction was carried out in two stages: on March 26, 2018, the bank sold 100% shares in Latona S.A. to Phoebe IVS located in Denmark and subsequently mFinanse sold an organised part of enterprise of mFinanse to Latona. Moreover, in Q4 2018 mFinanse sold an organised part of enterprise providing, among others, insurance intermediary services in scope of group insurance of leasing assets to Asekum Sp. z o.o. mLeasing owns 100% shares in Asekum Sp. z o.o. Financial result of mLeasing includes the result of Asekum Sp. z o.o. owing to its full consolidation.

Last year mBank continued optimisation of processes and tasks between the subsidiaries. In first half of the year the real estate owned by Garbary Sp. z o.o. was sold. In February 2018, two organised parts of enterprise were derived from mCentrum Operacji (mCO). One of them was sold to Digital Teammates S.A. (DTM), the majority stakeholder of which is Future Tech FIZ (established under the mAccelerator project). The processes performed under the organised part of enterprise which was sold embrace those of the highest automatization potential and DTM performs their robotisation. Remaining operating activity, previously performed by mCO, was integrated with mBank.

At the end of 2018 second stage of sale transaction of Archicom Polska S.A. (previously mLocum) was finalised, i.e. the sale of 28.99% of Archicom Polska S.A. shares to Archicom S.A. Sale of Archicom Polska S.A. is consistent with mBank Group's plan to withdraw from real estate operations and focus on its key activities in financial sector.

mBank Group (including consolidated subsidiaries) as at the end of 2018 was composed as presented on the diagram below.



Key Subsidiaries of mBank Group from the perspective of client offer

	<ul style="list-style-type: none"> the longest track record of issuing covered bonds on the Polish capital market improving stability and diversification of mBank Group funding through raising long-term funding in form of mortgage covered bonds financing commercial investments on the real property market, lending to the public sector entities in the area of municipal investments and real properties of local government units analysis and advisory services addressed to investors and entities active on the commercial real property market rating of Fitch Ratings: long-term „BBB”, short-term „F2”. Rating of mortgage covered bonds „A”
	<ul style="list-style-type: none"> third position on the real-estate leasing market and fourth place on leasing market in 2018 offer including leasing, loans, car fleet rental and management for both corporate clients and individuals various leasing products in corporate segment, including lease of private and commercial cars, heavy transport vehicles, car fleet management, lease of machines and equipment, real property lease in the retail segment the subsidiary operates the “Leasing in Retail” programme addressed to micro-enterprises and SMEs, which can sign lease contracts using dedicated lease processes
	<ul style="list-style-type: none"> sixth position on the Polish factoring market among the members of the Polish Factors Association – rise by 2 positions compared to 2017 financing of ongoing business operations, receivables management, credit protection, maintenance of debtors’ settlement accounts and enforcement of receivables; the offer includes also domestic and export factoring with recourse and credit protection, as well as import guarantees mFaktoring’s offer available in all mBank branches providing services to SMEs and corporations in Poland
	<ul style="list-style-type: none"> intermediary operations as an open platform for selling financial products of various institutions, including mBank the offer includes loans, accounts, insurances as well as investment and savings products for both individuals and companies offer of 13 financial entities in more than 184 outlets across Poland

mBank's Authorities

Supervisory Board of mBank

As of December 31, 2018, the Supervisory Board of mBank was composed as follows:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Tomasz Bieske - Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski - Member of the Supervisory Board
8. Jörg Hessenmüller - Member of the Supervisory Board
9. Gurjinder Singh Johal – Member of the Supervisory Board
10. Michael Mandel - Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board
12. Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board.

There are four independent members of the Supervisory Board: Tomasz Bieske, Janusz Fiszer, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska.

Management Board of mBank

As of December 31, 2018, the Management Board of mBank was composed as follows:

1. Cezary Stypułkowski - President of the Management Board, Chief Executive Officer
2. Frank Bock - Vice-President of the Management Board, Head of Financial Markets
3. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer
4. Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology
5. Lidia Jabłonowska-Luba - Vice-President of the Management Board, Chief Risk Officer
6. Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking
7. Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking

For more information on changes in the Management Board and Supervisory Board of mBank, see chapter 14. Statement of mBank on application of corporate governance principles in 2018.

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. Retail branches network covers 325 various outlets whereas corporate network comprises 46 points of service, additionally supplemented by branches of mBank Group subsidiaries. We continue to expand our branches network in order to maximize comfort of cooperation with the clients. When contacting the consultants in the branches, clients can not only use products and services of mBank Group, but also install and learn to use mobile and internet banking.

Retail network:

- 95 mBank branches
- 34 light branches
- 12 advisory centres
- 143 mKiosks
- 41 Financial centres and agency service points of mFinanse

Czech Republic

- 11 financial centres and light branches
- 13 mKiosks



Corporate branches:

- 29 corporate branches
- 17 corporate offices
- 21 mLeasing outlets
- 8 mFactoring outlets
- 5 outlets of mBank Hipoteczny

Slovakia:

- 4 financial centres and light branches
- 5 mKiosks

Depending on their needs, our clients can take advantage of full product offering and cash services in traditional mBank's 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, including Wealth Management. 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 draw non-mortgage loan.

Bearing in mind comfort of our clients and best availability of our services, in 2018 we opened 25 new points of contact within retail banking network, marking mBank's availability in smaller towns. We are the only big commercial bank in Poland expanding its physical branch network. This decision results mainly from the strategy of organic growth and a remarkable potential that we see in the direct contact with our current and potential clients.

1.4. Information for investors



mBank shares have been listed on the Warsaw Stock Exchange (WSE) since 1992. In 2018, the number of mBank shares increased by 24,860. As a result of new issues, mBank's registered share capital grew by PLN 99,440. New shares were issued pursuant to:

- Resolution No. 21 of the 21st Annual General Meeting of the Bank dated March 14, 2008 on issuing bonds with the pre-emptive right to take up shares of mBank S.A., and on conditional increase of the share capital by way of issuing shares with exclusion of the pre-emptive right of the existing shareholders in order to enable the participants of the incentive programme to take up the mBank S.A. shares, and on applying for admission of the shares to trading on the regulated market, and on dematerialisation of the shares (as amended); and

mBank shares belong to WSE indexes:

- WIG
- WIG-Poland
- WIG20
- WIG30
- WIG 20TR
- WIG 30TR
- WIG-Banki
- Respect Index

- Resolution No. 3 of the 16th Extraordinary General Meeting of the Bank dated October 27, 2008 on issuing bonds with the pre-emptive right to take up shares of mBank S.A. and conditional share capital increase by way of issuing shares with exclusion of the pre-emptive right of the existing shareholders in order to enable the participants of the employee incentive programme to take up the bank's shares, and on application for admission of the shares to trading on the regulated market, and on dematerialisation of the shares (as amended).

Information concerning mBank shares	2017	2018
Total number of shares	42,312,122	42,336,982
Nominal value per share (PLN)	4.00	4.00
Registered share capital (PLN)	169,248,488	169,347,928
Share price at closing of the year's last trading session (PLN)	465.00	424.20
P/E ratio	18.0	13.6
P/BV ratio	1.4	1.2
Maximum share price (PLN)	487.80	533.50
Minimum share price (PLN)	338.00	374.00
Company capitalisation at the year-end (PLN billion)	19.7	18.0
Average traded volume (PLN million)	8.7	8.1
Dividend per share (PLN)	-	5.15

mBank shareholders and share price on the WSE

mBank shareholders: Commerzbank AG has been the strategic 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 declined due to the implementation of the managerial options programmes in the bank. As at the end of 2018, Commerzbank AG held 69.33% of shares and votes at the General Meeting. The remaining 30.67% of mBank shares in free float are held mainly by financial investors, including Polish pension funds, and Polish and foreign investment funds. Nationale-Nederlanden Otwarty Fundusz Emerytalny (OFE) was the only investor with more than 5% of votes at the General Meeting. In accordance with the lists of shares of WSE-listed companies held in funds' portfolios at the end of 2018 published by open-end pension funds (OFE), Nationale-Nederlanden OFE held 5.0% of mBank shares. The third largest shareholder of mBank was AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK, which held a 4.1% stake.

On February 4, 2019 the bank was notified by Nationale-Nederlanden Otwarty Fundusz Emerytalny about decreasing the share in the total number of votes at the General Meeting of the Bank below 5%.

For more information about significant holdings and the dominant shareholder, read the chapter 14.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank.

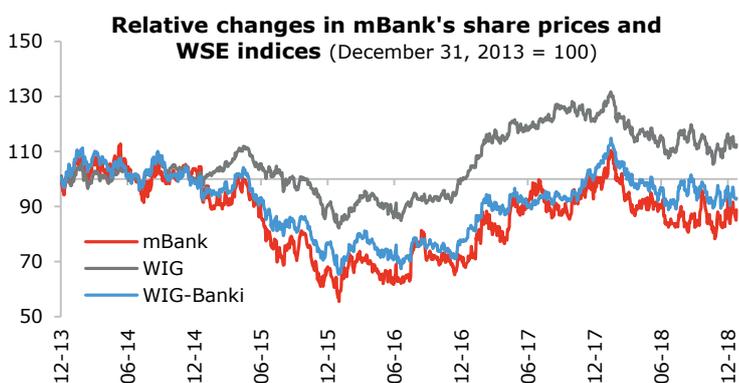
Performance of shares in 2018: The situation on the WSE was largely affected by foreign investors' sentiment towards the emerging markets basket. A stronger US dollar and further monetary tightening in the United States in 2018 drove investors to move their assets from riskier markets to US bonds. Despite favourable economic situation in Poland and outstanding GDP growth compared with other EU economies, the WSE was adversely affected by the outflow of foreign capital. This was caused by a stronger dollar, rising US Treasury yield and by investors realising profits generated in 2017, which was a good year for the equity market. Domestic capital also failed to provide a boost to the stock exchange. Share prices were under pressure from a redemption of shares in equity funds managed by investment fund companies (TFI) coupled with reduced demand on the part of open-end pension funds. Trends in global equity markets were not of much help, either. Since January 2018, many of them have seen share prices in decline or under consolidation.

mBank's share price at close of trade in 2018 (December 28) stood at PLN 424.20, which represents a decline by 8.8% compared with the last trading day of 2017 (December 29) or by 7.7% compared with the share price adjusted for dividends paid on June 7, 2018. In the banking sector only Bank Millennium performed better (-0.8%), partly thanks to investors' positive reaction to the news of Eurobank's acquisition. The biggest losers were banks ending the year in the red: Getin Noble Bank (-77.2%) and Idea Bank (-89.5%). mBank's capitalisation amounted to PLN 18.0 billion (EUR 4.2 billion) as at the end of 2018

compared with PLN 19.7 billion (EUR 4.7 billion) at the end of 2017. P/BV (price/book value) ratio for mBank Group stood at 1.2 at the end of 2018 compared with 1.4 a year before. P/E (price/earnings per share) ratio amounted to 13.6 compared with 18.0 in 2017.

mBank shares' quotation vs. indices	End of 2017	End of 2018	Change
WIG	63,746.20	57,690.50	-9.5%
WIG-20	2,461.21	2,276.63	-7.5%
WIG-Banki	8,481.97	7,453.65	-12.1%
mBank S.A. (zł)	465.00	424.20	-8.8%

Throughout 2018 WIG-Banks Index sank by 12.1%. The general decline in share prices on the WSE was triggered by the receding prospects for higher interest margins amid a stable interest rates perspective. Moreover, the stock performance of financial sector companies was also affected by the collapse of large debt collector in H1 and the suspicion of corruption scandal in the Polish Financial Supervision Authority (PFSA) that broke in November 2018.



In 2018, WIG20 Index and the broad-based WIG Index fell by 7.5% and 9.5% respectively. Lotos Group, which saw its share price surge by 53.4%, and CD Project, a video game maker, up by 50.1%, were the strongest performers among the twenty largest companies. On the other hand, the biggest annual losses were reported by: Eurocash (-33.5%), a wholesale FMCG distributor, Alior Bank (-33.1%) and CCC (-32.2%), a footwear manufacturer.

Change	2014	2015	2016	2017	2018
mBank	-0.4%	-36.9%	+6.8%	+38.7%	-8.8%
WIG-Banks Index	-0.7%	-23.5%	+2.9%	+35.4%	-12.1%
EURO STOXX Banks Index	-4.9%	-4.9%	-8.1%	+10.9%	-33.3%

Investor Relations at mBank



The Investor Relations, Group Strategy and Macro Research Department, acting in cooperation with the Management Board and other organisational units of the bank, provides analysts and investors with reliable and complete information about mBank Group, in compliance with the reporting obligations arising from the group's operation on the regulated market. mBank applies the corporate governance principles described in detail in mBank's statement on application of corporate governance principles in 2018.

Reliable and transparent communication with stakeholders and equal access to information help build confidence among capital market participants, which positively affects the company's value. mBank has been actively communicating with capital market participants, which includes activities addressing and adjusted to the needs of individual groups of capital market participants, in accordance with the best market standards and practices.

The bank contacts its stakeholders in Polish and English at meetings, during teleconferences, via e-mail and through regularly updated information published on the official website. **Investor relations website** (<https://www.mbank.pl/en/investor-relations/>) features information divided into categories, in particular on the financial standing of mBank Group, its shareholding structure, General Meetings, ratings and mBank share price performance on the WSE. In addition, it includes current and periodic reports and the consensus estimates for the group. **Interactive Business Intelligence application - mBank Analyzer** offers a quick and easy insight into mBank Group’s historical financial results and business data. We encourage new investors to read the key facts and figures about mBank Group and details of the “mobile Bank” strategy in a dedicated tab on the investor relations website. Analysts and mBank’s investors are kept abreast of the major developments in mBank Group in a monthly **Newsletter** and e-mails.

In 2018, investors and stock market analysts participated in four **conferences** announcing mBank’s financial results, both in person and online. Every conference was attended by about twenty representatives of brokerage houses and investors. All meetings with the Management Board accompanying the announcement of quarterly figures were broadcast on the Internet in Polish and English and posted on the bank’s website. Relations with analysts, shareholders and potential investors are also strengthened through meetings at **conferences in Poland and abroad**. In 2018, mBank participated in four conferences in Warsaw, six conferences abroad (in Zuers, Frankfurt, Prague and three times in London) and organised individual meetings between institutional investors and the Management Board representatives after the announcement of Q1 2018 results. Moreover, the bank organised one roadshow in the United States. Throughout the year, apart from meetings at conferences and roadshows, the Management Board members and/or the Investor Relations team held individual meetings with investors and analysts.

Just like every year, in 2018 the Management Board representatives met with analysts from **rating agencies**. Moreover, the bank has been in regular contact with rating agencies through teleconferences and emails exchanged with analysts.

1.5. Ratings of mBank and mBank Hipoteczny

mBank has ratings from Fitch Ratings (Fitch), S&P Global Ratings (S&P), Moody’s Investors Service (Moody’s) and Capital Intelligence Ratings (CI). Fitch and S&P ratings have been assigned at mBank’s request, which means that they are based on detailed information provided to the agencies and talks between Fitch and S&P analysts and mBank’s representatives. The Fitch rating for mBank Hipoteczny and its covered bonds is also a solicited rating. Ratings assigned by Moody’s and Capital Intelligence are based on publically available information.

Ratings of mBank and mBank Hipoteczny assigned by Fitch Ratings

In 2018, Fitch Ratings did not change the ratings and rating outlooks for mBank and mBank Hipoteczny. Last time mBank’s rating was changed on March 7, 2016, when Fitch Ratings upgraded mBank’s long-term foreign currency IDR from “BBB-” to “BBB” and the short-term foreign currency IDR from “F3” to “F2”. The outlook on the long-term rating is stable. On November 30, 2018, Fitch affirmed all ratings and the outlook on the long-term rating for mBank and mBank Hipoteczny. On February 11, 2019 Fitch Ratings has affirmed the covered bond programme rating at ‘A’ and revised its outlook from positive to stable.

Fitch Ratings	Ratings of mBank	Ratings of mBank Hipoteczny
Long-term IDR	BBB (stable outlook)	BBB (stable outlook)
Short-term IDR	F2	F2
Viability rating	bbb-	
Support rating	2	2
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB	
Ratings of mortgage covered bonds issued by mBank Hipoteczny		A

Rating of mBank assigned by S&P Global Ratings

On June 21, 2018, S&P Global Ratings affirmed its long-term rating for mBank at "BBB+" and short-term rating at "A-2". Standalone credit profile (SACP) was upgraded to "bbb" from "bbb-" following an improvement in S&P's assessment of mBank's capital position and profitability. On July 16, 2018, S&P assigned its first long-term and short-term resolution counterparty ratings (RCR) for mBank at "BBB+" and "A-2" respectively. RCR is a forward-looking opinion about an entity's creditworthiness in reference to the timely fulfilment of the terms of certain financial obligations that may be protected from default within an applicable bail-in resolution process.

On the day of assigning the rating, mBank's long-term RCR was aligned with its long-term rating and Poland's sovereign rating. On October 15, 2018, following an upgrade of Poland's sovereign rating to "A-" from "BBB+" on October 12, 2018, S&P raised the bank's long-term RCR to "A-" from "BBB+". Short-term RCR was affirmed at "A-2". Moreover, on October 15, 2018, S&P once again affirmed mBank's long-term issuer default rating at "BBB+" and short-term issuer default rating at "A-2". The outlook on mBank's issuer default rating remains negative, just like the outlook for its parent entity - Commerzbank AG.

S&P Global Ratings	Ratings of mBank
Long-term Deposit Rating	BBB+ (negative outlook)
Short-Term Rating	A-2
Stand-alone Credit Profile (SACP)	bbb
Rating of unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	BBB+
Long-term resolution counterparty ratings (long-term RCR)	A-
Short-term resolution counterparty rating (short-term RCR)	A-2

Other ratings of mBank

Rating assigned by Moody's Investors Service

Moody's ratings for mBank are based solely on publicly available information. The last change in mBank's rating was made on December 19, 2017, when Moody's upgraded the long-term deposit rating from Baa2 to Baa1, baseline credit assessment (BCA) from ba2 to ba1 and adjusted BCA from ba1 to baa3. The long-term rating outlook was changed from stable to positive.

Moody's Investors Service	Ratings of mBank
Long-term deposit rating	Baa1 (positive outlook)
Short-Term deposit rating	Prime-2
Baseline credit assessment (BCA)	ba1
Adjusted BCA	baa3
Long-term counterparty risk assessment (long-term CRA)	A3
Short-term counterparty risk assessment (short-term CRA)	Prime-2

Rating assigned by Capital Intelligence Ratings (CI Ratings)

mBank's rating assigned by CI Ratings is based on publicly available information. In 2018, mBank's ratings remained unchanged.

Capital Intelligence Ratings	Ratings of mBank
Long-Term Rating	BBB+ (stable outlook)
Short-Term Rating	A2
Financial strength rating (FSR)	BBB
Support rating	2

Ratings of Poland, mBank and Commerzbank – comparison

The table below compares long-term ratings (foreign currency) for mBank, Commerzbank and Poland assigned by the three top agencies, as at the end of 2018.

Rating agency	Poland	mBank S.A.	Commerzbank AG
Fitch Ratings	A- (stab.)	BBB (stab.)	BBB+ (stab.)
S&P Global Ratings	A- (stab.)	BBB+(neg.)	A- (neg.)
Moody's Investors Service	A2 (stab.)	Baa1 ¹ (pos.)	A1 ¹ (stab.)

¹ Long-term deposit rating.

Rating outlook in brackets: pos. – positive, stab. – stable, neg. – negative

1.6. Key projects and innovations of mBank Group in 2018

mBank – a strategic partner of the WOŚP

During 26th Grand Finale mBank was for the first time the official partner bank of the Great Orchestra of Christmas Charity (WOŚP). We entered into a strategic cooperation becoming the charity's main financial services provider supporting both the January public fundraiser and other activities of the foundation taking place throughout the year. In addition to providing the organisation with secure financial solutions, we offered its donors innovative ways to donate money. For the first time ever, mBank equipped 350 volunteers with payment terminals.



mBank's involvement had multiple dimensions. First of all, we supported the charity with a record-high one-off donation of PLN 7 million - doubling the amount donated by our clients. We also launched a promotional campaign ("Rachunek na dwa serca") addressed to new corporate clients as part of which monthly account maintenance fees and fees for domestic wire transfers ordered via the mBank CompanyNet electronic banking platform in the period from January to June 2018 were donated in whole to the Orchestra. The foundation received a total of PLN 77,000 as a result of the campaign.

Furthermore, mBank was the co-organiser of the Pol'and'Rock festival, an annual non-commercial music event addressed to all people who supported WOŚP. We were the patron of the Academy of the Finest Arts, a place for discussions, workshops and activity of various NGOs. We helped to organise meetings with inspiring individuals. We also offered the visitors special bank accounts for new clients with a PLN 100 cashback on purchases made during the festival, a limited edition of debit cards featuring the festival's logo, contactless payment wristbands and dedicated storage facilities where they could safely leave their belongings during the festival.

mElements - mBank Group's proposal for the e-commerce industry

In 2018, mBank set up mElements, a company specialising in innovative banking application programming interface (API) solutions. mElements maintains mBank's API platform created as a result of the EU PSD2 and uses the established know-how to expand mBank Group's offer.



The company has successfully launched a unique credit API which allows mBank to incorporate its credit processes for both retail clients and SMEs into e-commerce platforms. The solution has been used in practice by Allegro and DotPay, which enabled micro-enterprises operating on the internet to apply for a credit limit and have their credit applications processed in an online process using, among other data, information on their e-commerce sales. The process is fast and simple. All a micro-enterprise needs to do is send an online application via their e-commerce platform.

mBank will further develop and enhance e-commerce processes to offer both buyers and sellers a more convenient experience while ensuring the highest level of security and providing them with comprehensive technical support.

mAccelerator - mBank's way to support start-ups

mAccelerator has been the first investment fund in Central and Eastern Europe 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 start-ups which later should become partners for financial institutions from around the world. It focuses on cybersecurity, biometrics, robotic process automation (RPA), artificial intelligence and digital marketing (in particular chatbots and communicators).



With Bot4Business and SaveCart added in 2018, the fund's portfolio is now composed of four companies:

- Centrum Bezpieczeństwa Cyfrowego – a provider of cybersecurity solutions based on passive biometrics and 24/7 customer support in the area of online security;
- Digital Teammates - a company specialising in RPA;

- Bot4Business (B4B) – an AI-powered messaging platform;
- SaveCart - a developer of personalised offers from online shops.

B4B has been developing a platform for communication with clients via messaging apps (such as Messenger and Viber). The platform is supported by artificial intelligence and suggests consultants how to answer clients' questions. B4B provides the service to an entity from the cybersecurity industry and is in the process of acquiring another client.

SaveCart has created a client activity monitoring tool that examines client preferences and builds behavioural profiles. It uses the data to send clients real time ads, messages and shopping recommendations.

In December 2018, mBank launched a behavioural user verification pilot programme in cooperation with Centrum Bezpieczeństwa Cyfrowego. It analyses a user's interactions with the computer or mobile device, i.e. mouse and keystroke dynamics. After the trial phase the service will be made available to all clients and will constitute an additional security element. The bank will check the identity of the user who logged into the system and will be able to immediately respond to security threats.

New features of online banking

We started to refresh our online banking for individuals and SMEs (excluding the mBank CompanyNet platform for corporate clients) in 2018. The upgraded online banking will be easy to use and more flexible. We want to make it easier for users to adjust the service to their needs. The previous version was launched five years ago, which is a really long period of time in the world of technology.



We have been improving the design and rolling out new features gradually to give our clients time to learn them. All changes in the design and features have been developed in consultation with our clients.

We started the process from changing the colours used in the online banking. The new pages are white with grey tints and red action buttons. The colours are now subtler.

Our clients supported us in changing the looks and features of the service. We spent more than a year collecting their opinions and asking them about which online banking features were important to them, how they rated the existing service and how they would like to use it in the future. We also added a "Rate us" button in the online banking enabling clients to leave comments in sections which were important to them.

In August 2018, we implemented the "Qlips" service making it easier to pay bills directly in electronic banking. Clients can select providers for whom payments will be generated automatically in the transactional system. Unlike the conventional direct debit, the service enables clients to verify data before accepting a payment.

1.7. Awards and distinctions

Mobile application

- mBank's mobile application won the first prize in the mobile banking category and was honoured by internet users at the Mobile Trends Awards 2018 gala, the most prestigious event of the mobile industry in Poland;
- mBank also won international recognition for its mobile banking by making it to the top four in the BAI Global Innovation Awards competition in the category Innovative Touchpoints & Connected Experiences. BAI is a prestigious programme promoting the most innovative solutions in the financial services industry worldwide;
- mBank was named one of the top three mobile banking applications in Europe by Forrester.

Product offer and customer service quality

- Once again mBank triumphed in the Stars of Banking competition organised by *Dziennik Gazeta Prawna* daily and PwC. mBank ranked second in the Star of Innovation category (among others in recognition of its application, mobile authorisation and multi-currency card). In the main category honouring growth rate, stability, efficiency, innovation and customer relations, mBank came fourth;
- For the second time mBank won the Trustworthy Brand statuette in the third edition of a poll organised by *My Company Polska* monthly, taking the top spot in two categories: "Bank offering company accounts" and "Bank offering corporate loans". The online poll was conducted in the Polish SME sector by Kantar Millward Brown. The poll covered more than 184 product brands, but it was mBank that made it to the elite group of 21 brands that won the trustworthy brand title;
- mBank came second in the "Banks recommended for businesses" ranking organised by *Forbes*. The magazine recommended banks that were rated highest for their offer and service quality. According to *Forbes*, mBank's offer is second to none and scored 28.5 out of a maximum of 30 points. In the remaining categories: loans, deposits, mobile banking and offer diversity, mBank scored perfectly;
- mBank won the best funding bank award of the Polish Private Equity and Venture Capital Association (Polskie Stowarzyszenie Inwestorów Kapitałowych, PSIK). The PSIK Awards contest honours private equity/venture capital fund managers and consultancies, banks and law firms for their achievements on the Polish private equity/venture capital market;
- mBank was among the winners of the Global Finance contest in the category "World's Best Corporate/Institutional Digital Banks 2018", while its online transactional service for corporate clients was once again named the best in Poland;
- EUROMONEY magazine awarded mBank first place for "Best Service Bank in Poland". Corporate clients, including chief financial officers, directors, treasurers and accountants, decided that the financial services offered by mBank are the best in Poland.

Other awards

- mBank's campaign "Year 1999" won the golden statuette in the "Effie Awards Poland 2018" in the "Finance" category. The campaign was addressed to people who came of age in 2017;
- mBank won the prestigious "Golden Clip" for the best campaign in the "Finance" category. The success was owed to mBank's innovative and engaging campaign accompanying its move to new headquarters in Łódź ("Przystanek mBank");
- The 2018 survey of journalists' opinion about banks and their Public Relations policy, done by ARC Rynek i Opinia institute, showed that mBank's press office is the best in Poland;
- mBank is one of the best Listed Companies in 2017. In the ranking organised by *Puls Biznesu*, mBank came third and was the only bank among the winners. The team led by Ernest Pytlarczyk ranked second in the category "Best Investor Relations";
- In the "Golden Banker" competition organised by Bankier.pl and *Puls Biznesu* daily mBank triumphed in two categories: Socially Responsible Bank (for the book "Mathematics is everywhere. Family adventures with mathematics" published by mFoundation) and Social Media (the best social media appearance). In

January mBank made its debut in joining the 26th Grand Finale of the Great Orchestra of Christmas Charity (WOŚP) and was the first in Poland to livestream the event with a "donate" option;

- mBank was once again recognised for applying the best security practices. The award was granted not only for the security tools and procedures used in the bank, but also for its additional educational efforts in the area of safe electronic banking. For three years we have been running the "Be Cautious Online" campaign ("Uważni w sieci") raising people's awareness of the threats lurking online and promoting positive behaviours keeping them safe;
- Again mBank joined the prestigious group of companies included in the RESPECT Index on the WSE. It includes most liquid companies which undertake socially responsible initiatives for the environment, community and employees;
- mBank was named one of the best employers in Poland once more, and was awarded the Top Employer 2018 title given to companies that create the best working conditions and care for employees' talents and development at all levels of the organisation. At the same time, mBank was awarded two distinctions for the Best Employer Branding Campaign;
- mBank's Social Media team was awarded in the category "Best Contact Centre Team" in the Golden Receiver contest organised by SMB Polish Marketing Association. Moreover, mBank was among the winners of the category "Excellent Client Communication" for the project "Talk to your client like with a good friend";
- Industry experts praised mBank for its online security campaign ("Uważni w sieci"), which impacted not only mBank clients, but also on all internet users. mBank's commitment to educating clients was awarded at the Secure Tech conference in the Best Practice category;
- Once again mBank won the ranking organised by Bankier.pl in the category "best mobile application developed by a commercial bank". The bank was appreciated for its payment infrastructure, scoring the maximum points in this category, and for high quality customer service in the area of finance management on mobile devices;
- In the HR DREAM TEAM 2018 mBank was awarded a statuette for the project "To help. Not to annoy. To delight. Anywhere." in the category "Effective and friendly recruitment". The contest promotes highly effective teams implementing projects in the Human Resources area;
- Voted by international experts, mBank secured the top spot as the "Best Private Bank in Poland" in a competition organised by *PWM* and *The Banker* magazines, for the second time.

More information on awards and distinctions can be found on the bank's website in the "Press Centre" section: <http://media-mbank.pl/> .

2. mBank Group’s environment

2.1. Macroeconomic environment

Economy and the banking sector in Poland

Key macroeconomic indicators	2018	Banking sector parameters	2018
Real GDP growth rate (forecast)	5.1%	Base interest rate	1.5%
Nominal GDP per capita (EUR)	12,200 ¹	Loan to Deposit ratio	92.4%
GDP per capita in PPS (EU-28=100)	70% ¹	NPL ratio	6.8%
Average annual inflation rate	1.6%	Total Capital Ratio (TCR)	19.1%
Average annual unemployment rate	3.5%	Net Return on Assets (ROA)	0.8%
Population	38 million	Net Return on Equity (ROE)	7.2%

Source: Statistics Poland (GUS), Eurostat, Polish Financial Supervision Authority.

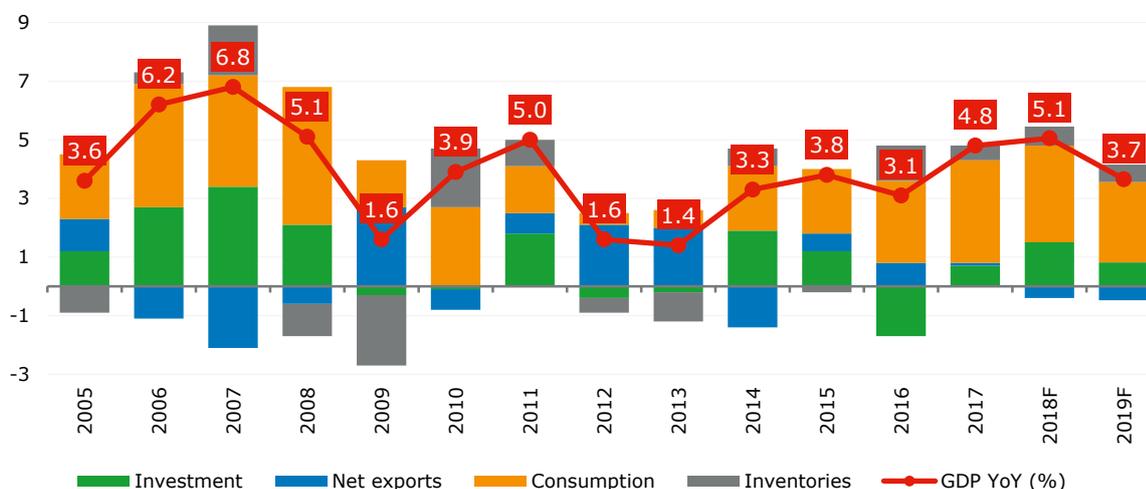
¹ Data as at the end of 2017.

Summary of developments

In 2018, the world’s major economies experienced a slowdown and an overall economic desynchronization. While the US growth, driven by fiscal stimulus, stepped up a gear, China and the euro zone saw their macroeconomic figures and corporate sentiment sink month by month. At the end of 2018 Poland’s main trade partners grew at the slowest pace in several years, affected by a combination of sluggish external demand, problems dogging the automotive industry and supply-side constraints. With its GDP falling for two consecutive quarters, Germany is feared to have slipped into a “technical” recession in the second half of last year.

For the majority of the year, the Polish economy seemed to be immune to these trends. As a matter of fact, Poland’s GDP was growing even when the German economy was clearly slowing down. It was not the first and probably not the last time this happened. Each time before, and 2018 was no exception, it was a result of the timeline of EU funding utilization (in particular funding spent on investment) and was temporary in nature. In the end, our trade and capital links turned out to be strong and the economic slowdown finally got hold of Poland too, which was evidenced by a gradual worsening of economic indices and a slump in monthly data from the industry and construction sectors in H2 2018. Although at the end of the year Poland’s economy slowed down a bit (the bank estimates the GDP growth to have fallen from 5.2% to about 4.7% year on year), the overall economic performance in 2018 will still be the best since 2008. The average annual GDP growth is estimated at 5.1% year on year in 2018.

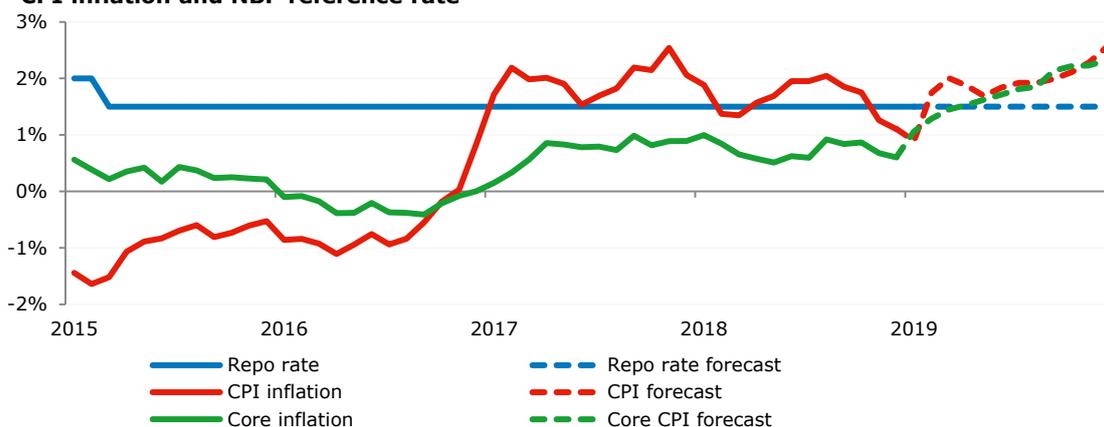
Contributions to GDP growth



Private consumption and public investment were the two main drivers of the economy. The sources of the consumption boom (in early 2018, consumption was rising at a 5% pace), have been already extensively discussed. It is worth reiterating that it was propelled by favourable situation on the labour market (record-low unemployment), fast-rising household income, especially from contract-based employment, unflinching consumer optimism, relatively high immigration to Poland, active real property market and solid growth in consumer credit. Public investment was largely supported by the calendar. Firstly, increased number of EU subsidy contracts signed at the end of 2016 and in 2017 bore fruit in 2018, laid a basis to make up for the previous spending delays. Consequently, public investment surged by a massive 30%, which likely marks the year-on-year peak. Secondly, local government elections represented a distinctive landmark in the investment plans pursued by local government units, as in the middle of the year they doubled (sic!) the estimated value of their investment expenditure. In fact, local governments accounted for half of the overall growth in investment in the reviewed period. At the same time, private corporate investment remained relatively low in 2018 (and could even be named a constant disappointment). The available data show that investment of Polish-owned private companies and small and medium-sized enterprises has been growing at a slackening pace. The main culprit, the bank gathers, is the mounting pressure on margins put by rising labour and energy costs as well as intense competition making it difficult to pass higher costs onto consumers. Also the staff shortages growing throughout 2018 were likely to make investment less profitable to numerous companies.

Contrary to many forecasts, inflation dropped in 2018 (prices rose by 1.6% year on year on average) and reached a mere 1.1% year on year in December. Throughout the year it was following a smooth path, which was helped by several factors. Firstly, following a bumpy 2017, food prices were slowing down virtually throughout the entire year, largely due to low prices of fruit (attributable to good weather) and deceleration of previous rises in egg and butter prices. Secondly, fuel prices, which had been pushing inflation up for almost the entire 2018, dropped significantly at the end of the year. Thirdly (but perhaps most importantly), growth in prices across all the remaining categories was disappointing, and consequently, base inflation steadied at 0.5-1.0%. In particular, inflation fails to reflect the dynamic rise in salaries, even in the labour-intensive services category. Growth in prices in these categories remained relatively slow. As a result, inflation in Poland was low not only given the phase of the economic cycle, but also compared with the neighbouring countries. The relatively large and highly competitive internal market, technological advancement, excessive margins dating back to the years when the growth in salaries was weak, and stable exchange rate - are only some of the reasons behind low inflation. At the end of the year, both individuals and corporates were preoccupied with a two-digit rise in electricity prices on energy exchanges. So far, however, it has had only a minimal effect on the prices of goods and services, while the regulatory freeze on electricity prices hints that this situation will continue into 2019.

CPI inflation and NBP reference rate

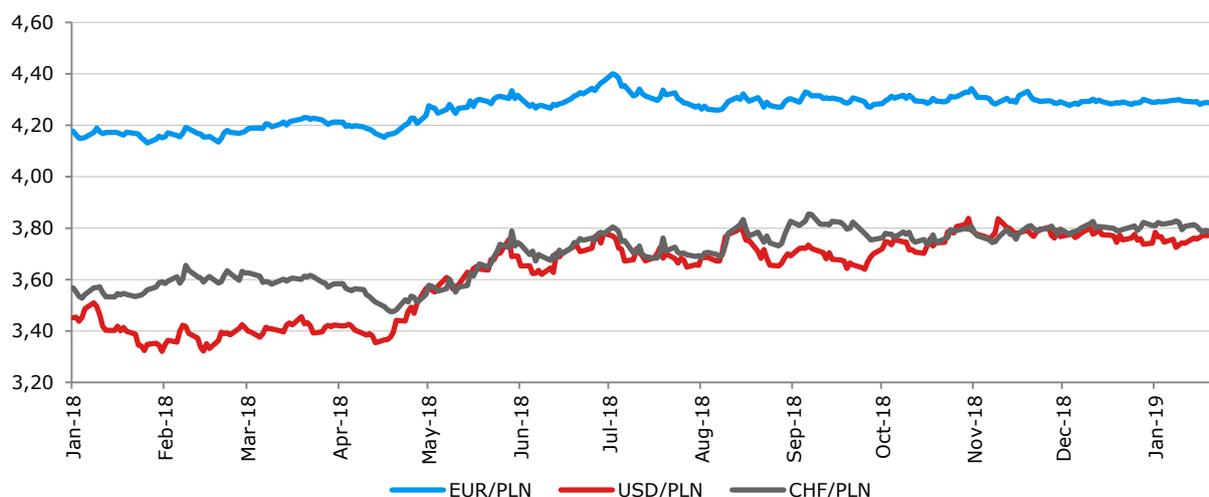


Last year was another year of monetary stability with interest rates remaining flat throughout 2018. The Monetary Policy Council’s rhetoric was becoming more dovish along with the deterioration in global sentiment. At the same time, neither the Polish economic data, nor inflation readings encouraged the Council to soften or tighten its stance. Projections assuming weaker growth and inflation remaining close to the target over the next two years added to the rationale for an unchanged monetary policy. At the end of the year, the MPC’s declarations to keep interest rates unchanged were extended by the end of its

current term of office. In its current composition, the Monetary Policy Council does not expect any interest rate increases or decreases.

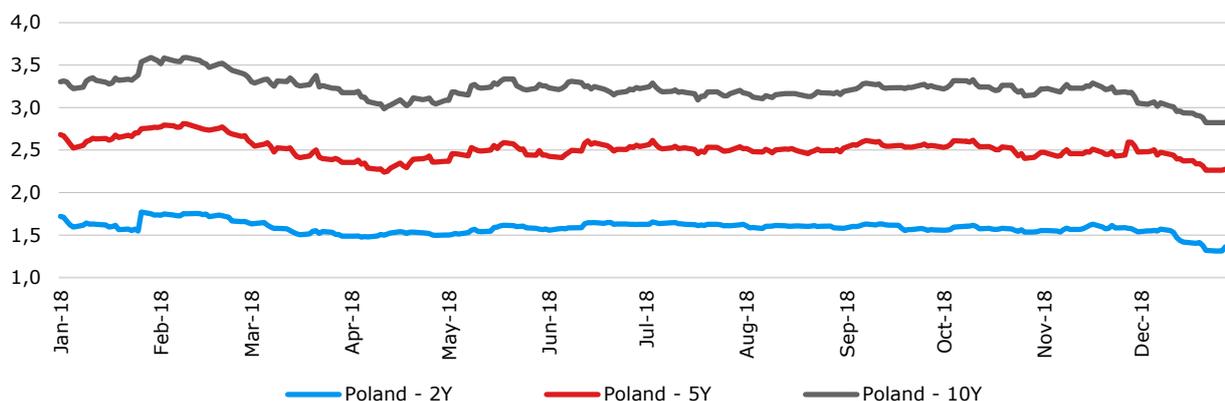
Last year was marked by the weakening of the zloty. The zloty depreciated against the euro by approx. PLN 0.15 (from PLN 4.16 to PLN 4.30), against the Swiss franc by over PLN 0.20 (from PLN 3.56 to PLN 3.79) and against the US dollar by more than PLN 0.30 (from PLN 3.45 to PLN 3.80 at the end of the year). The changes against USD and CHF derive largely from a moderate weakening of the euro against a basket of other currencies in 2017, whereas the depreciation of the zloty against the euro deserves a wider comment. It may be attributed to deteriorating outlook for the Polish and global economy and portfolio capital outflow from emerging markets. Further weakening of the zloty was prevented by strong fiscal performance and the fact that markets did not discount domestic risks (political stabilisation and a reduction in risk premium). Nevertheless, the entire year was marked by record-low fluctuations, compared with both the previous years and other emerging markets assets. Consequently, to Poland, being a sound and open economy, the exchange rate is no longer a key factor mitigating adverse shocks.

Currency exchange rates in 2018



Those who expected market interest rates to decline were the biggest winners on the market for Treasury debt securities. At the end of 2018, bond yields and swap rates hit their lowest since 2015, while market interest rates saw only mild increases. Yields on 10-year Polish Treasury debt securities are currently quite similar to the yields on their US counterparts. Throughout the year the market was affected by several trends: fears mounting over global economic growth, especially at the end of 2018; low supply of Treasury debt securities (resulting from strong fiscal performance); lower-than-forecast inflation; inflows and outflows of capital from emerging markets in response to decreases and increases (respectively) of market interest rates in the United States and in Europe. Judging from the performance of the local bond market in 2018, it seems clear that Poland represents features characteristic for a developed rather than an emerging-market economy.

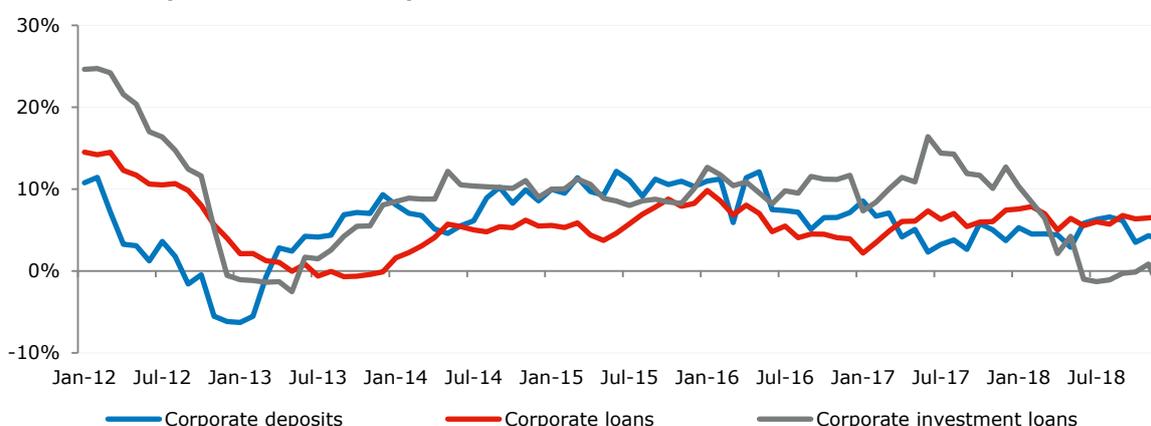
Bond yields in Poland



Banking sector

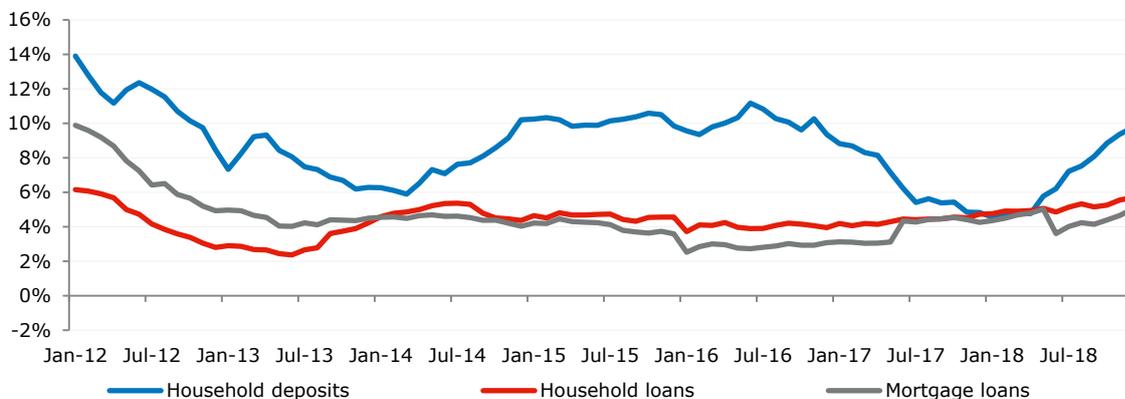
In 2018, the growth in lending accelerated compared with the previous years. Net of the FX effect, growth in household loans and corporate loans observed throughout 2018 rose from 4.5% to 5.6% year on year and from 6.0% to 6.5% year on year, respectively, with the first category obviously playing a greater role. The strongest growth in retail loans since 2012 was driven by the nearly two-digit surge in consumer credit and record-breaking sales of real property loans. The quarterly origination of the latter (PLN 13.6 billion) hit a historic high in the PLN-denominated loans category. The entire 2018 is likely to have seen a record-high volume of new loans, exceeding PLN 50 billion, thereby breaking the 2008 record. It stems directly from the highly active real property market and upbeat consumer sentiment. Consumer credit, in turn, should be treated as a gauge lagging behind the consumption cycle; in other words, it supports consumption at the time of a slowdown rather than fuels it during a revival. The corporate segment saw a big change in the structure of loans with working capital loans and overdraft facilities systematically replacing investment loans. On the one hand, the change is a result of the insignificant role played by bank loans in financing investment, while on the other hand, it was spurred by increased demand for liquidity triggered by rising salaries and a tighter tax system.

Poland: Corporate loans and deposits



The year 2018 was marked by faster growth in deposits in some sectors. Household deposits were rising continuously throughout the year with growth rate almost doubling (from 4.8% to 9.4% year on year), whereas corporate deposits followed a horizontal trend (the growth rate went down from 5.0% to 4.3% year on year). Much of the surge in retail deposits was attributable to households shifting from investment funds and other financial instruments towards bank deposits notwithstanding the historically low interest rates. It was propped up also by an increase in the household savings ratio. The relatively low growth in corporate deposits compared with the previous years was a consequence of performance pressure in the enterprises sector.

Poland: Household loans and deposits



Economy and the banking sector in the Czech Republic

Key macroeconomic parameters	2018	Banking sector indicators	2018
Real GDP growth rate (forecast)	3.0%	Base interest rate	1.75%
Nominal GDP per capita (EUR)	18,100 ¹	Loan to Deposit ratio	74.4%
GDP per capita in PPS (EU-28=100)	90% ¹	NPL ratio	3.2%
Average annual inflation rate	2.1%	Total Capital Ratio (TCR)	18.8% ¹
Average annual unemployment rate	2.4%	Return on Assets (ROA)	1.1% ¹
Population	10.6 million	Return on Equity (ROE)	15.1% ¹

Source: Eurostat, Česká národní banka (CNB).

¹ Cumulative data for 9 months (as at September 30, 2018) or the latest data available

GDP, inflation, interest rates and FX rates

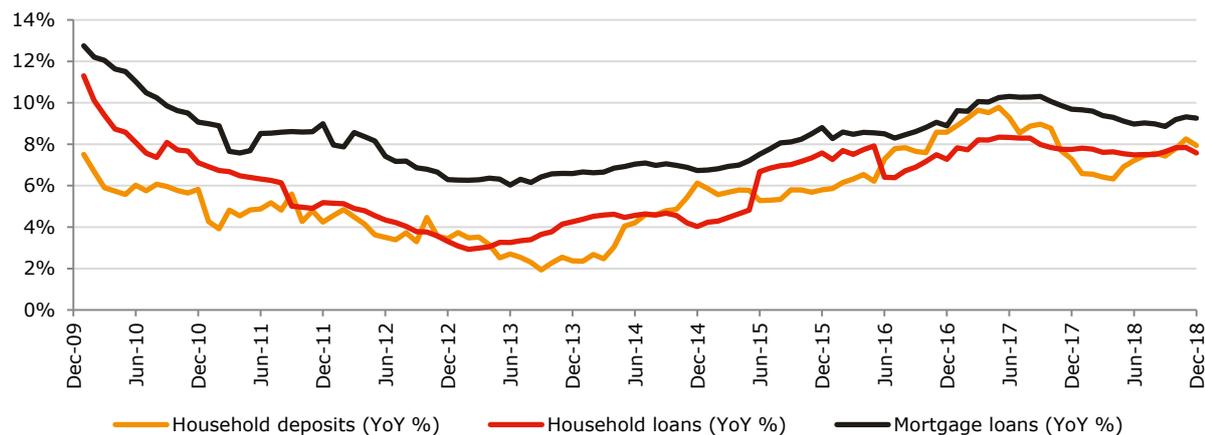
Economic growth in the Czech Republic is expected to have slowed down from 4.3% in 2017 to 3.0% in 2018, the main reason being a negative net contribution of exports driven by a sudden weakening of external demand, mainly from Western Europe. Due to the strong commercial links to the euro zone and its export-oriented nature, the Czech economy is affected whenever the global economy grows faster (like in 2017) or slows down. A tightening labour market (the Czech Republic has the lowest unemployment rate in the whole EU) and considerable growth in salaries bode well for private consumption. The inflow of EU funding fuels both public and private investment. The Czech GDP is expected to grow by an average of 2.7% annually in 2018-2019, which will still be above the potential GDP growth rate.

A dynamic increase in salaries and relatively fast economic growth (compared with the potential GDP growth rate) keep inflation high. The average annual inflation rate stood at 2.1% in 2018 with even higher core inflation measures. In view of the mounting risk of the inflation target being exceeded permanently in the medium term, the Czech National Bank (CNB) continued its monetary policy normalisation in 2018. At present, the CNB's reference rate stands at 1.75% and is among the region's highest (the rate is higher in Romania only). As the external environment of the Czech economy was in equilibrium, the start of monetary policy normalisation did not cause rapid appreciation of the koruna. The CNB is expected to abide by its current policy in the quarters to come. It will only reduce pace.

Banking sector

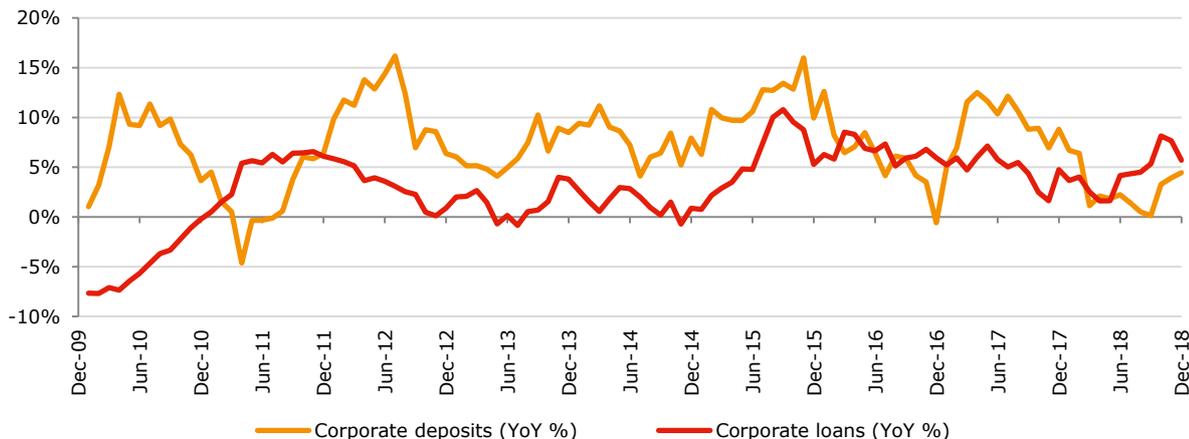
The favourable developments recorded in the Czech financial sector in past years continued into 2018. Good economic conditions were reflected in growth of the assets of the banking sector, which managed to maintain high profitability. Czech banks benefited mainly from rising monetary policy rates, which allowed for a rebound of net margin interest after many years of decline. In parallel, despite persisting competitive pressure, a six-year downtrend of net fee and commission income was halted. Also, exceptionally low risk costs were recorded thanks to minor default rate and good recovery performance. Asset quality remained very resilient as demonstrated by a further decrease of NPL ratio to 3.2% at the end of 2018 from 4.0% observed a year earlier. Better risk indicators in the Czech Republic compared to other countries in the CEE region reflect the country's relatively strong industrial base and limited foreign-currency lending (predominantly to corporate customers and almost non-existent in retail segment). The situation was also supported by the sales of impaired receivables concluded by some banks. Funding and liquidity profiles continued to be solid with the sector's loan-to-deposit ratio of 74.4%. Czech banks have been very well-capitalized. However, responding to the risk associated with the phase of the business cycle, the central bank (ČNB) has been gradually rising the countercyclical capital buffer rate (it amounted to 1.0% at the end of 2018 and will progressively increase to 1.75% starting from January 2020).

The Czech Republic: Household Loans and Deposits



The growth in total retail lending was predominantly driven by mortgage loans, which expanded by 9.3% in 2018, while the volume of consumer and other loans showed a slower increase of 4.1% during the same period. The share of non-performing loans in the total volume of loans to households was 2.1% in December 2018, declining from 2.5% at the end of 2017. The annual growth pace of household deposits decelerated slightly in H2 2017, what prolonged into Q1 2018, and then it regained to 7.9% in December 2018. The maturity structure of deposit base was evolving significantly over the last five years, with demand deposits rising at double-digit rate and term deposits falling on average by 5% annually, but the last two months of 2018 could harbingers a slight reversal of this long-lasting trend.

The Czech Republic: Corporate Loans and Deposits



Development of corporate loan volume accelerated visibly during 2015, while the year-on-year dynamics stabilized at a moderate pace of around 6% in 2016. Expansion of the outstanding portfolio slowed down slightly in H2 2017, showing a subdued growth until mid-2018, and then restored again to above 5%. The share of non-performing loans in the total volume of loans to non-financial corporations has been constantly declining since 2011 and amounted to 3.6% at the end of 2018, compared to 4.2% a year earlier. During 2018, corporate deposits decelerated visibly, reaching near zero growth pace in September, while the dynamics rebounded to almost mid-single digit levels at the end of the year.

Economy and the banking sector in Slovakia

Key macroeconomic parameters	2018	Banking sector indicators	2018
Real GDP growth rate (forecast)	4.0%	Base interest rate	0.00%
Nominal GDP per capita (EUR)	15,600 ¹	Loan to Deposit ratio	103.3%
GDP per capita in PPS (EU-28=100)	76% ¹	NPL ratio	2.7%
Average annual inflation rate	2.6%	Total Capital Ratio (TCR)	18.3% ¹
Average annual unemployment rate	6.9%	Return on Assets (ROA)	0.7% ¹
Population	5.4 million	Return on Equity (ROE)	7.5% ¹

Source: Eurostat, Národná banka Slovenska (NBS).

¹ Cumulative data for 9 months (as at September 30, 2018) or the latest data available

GDP, inflation and interest rates

The Slovak economy continues to grow steadily. After a 3.2% increase in GDP in 2017, the country's economy is estimated to have grown by another 4.0% in 2018 thanks to stronger demand from households and an acceleration in public and private investment spurred by heavy investment spending in the automotive industry and an increase in expenditure on large infrastructure projects (financed with EU funds). Growth in private consumption has slowed down compared to the record high levels reported in 2017, but still remains strong. It benefits from the continuous improvement in the labour market, subdued inflation and the resulting growth in real disposable incomes.

As a euro zone member, the country has its reference rate set by the European Central Bank (ECB). It did not change the rate in 2018.

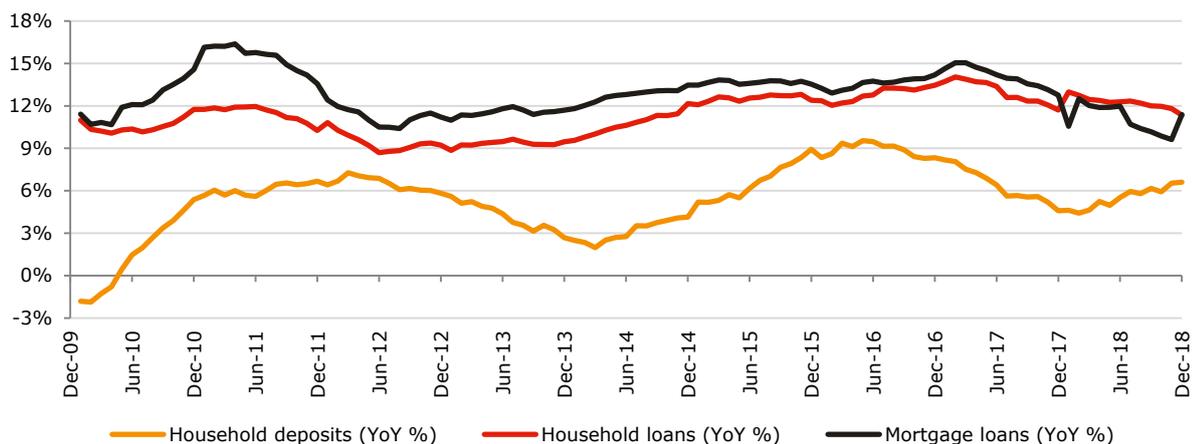
The inflation rate stood at 2.6% in 2018, up from 1.4% a year before. The reading was inflated by some components of the core part of the inflation basket. Inflation in Slovakia is thus higher than the euro zone average.

The unemployment rate has been falling gradually since 2014 thanks to growing economic activity and creation of new jobs. The seasonally adjusted unemployment rate stood at 6.9% in December 2018 and decreased by 1.2 percentage points year on year.

Banking sector

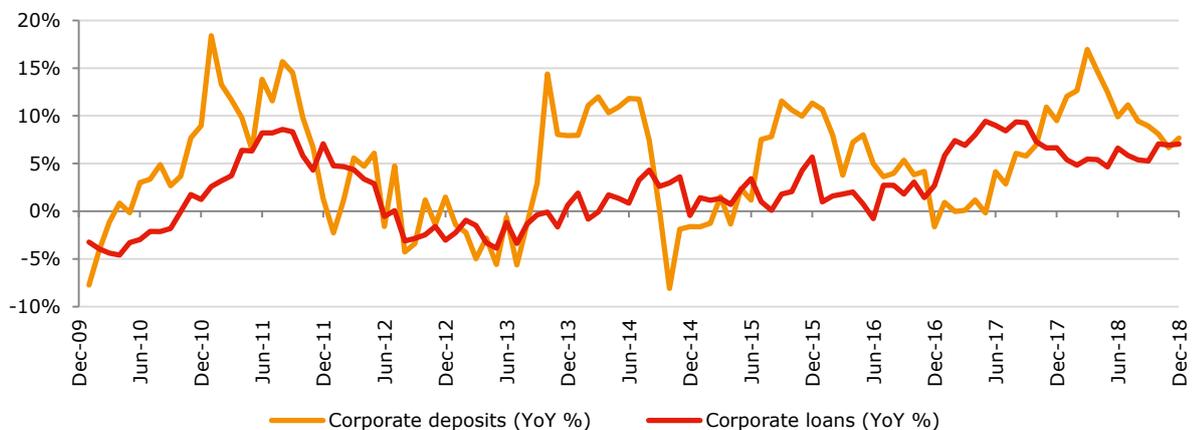
Although Slovak banks have operated in a relatively supportive economic environment in recent years, their profitability has remained broadly stable. In 2018, net interest income was under continued pressure from falling margin on the retail loan portfolio, and it has become increasingly difficult for banks to compensate for that compression by further expanding their lending activity. A key counterbalancing factor has been development of loan impairment provisions. The sector's credit risk cost ratio has fallen significantly over the past three years and is now at a historically low level. The improvement of asset quality was mainly the result of both dynamic expansion in household loans and a decline in the stock of non-performing loans. The NPL ratio for Slovakia is the lowest in the CEE region, reaching 2.7% at the end of December 2018 and dropping from 3.1% a year earlier. With strong lending growth, the overall loan-to-deposit ratio continued to be above 100% in 2018, but did not materially change compared to the end of 2017. The Slovak banking sector's capital adequacy remained among the highest in the CEE region, along with the Czech Republic and Poland.

Slovakia: Household Loans and Deposits



Credit growth in Slovakia has been underpinned by a favourable macroeconomic situation, in particular further rise in employment and wages, accompanied by low interest rates. Retail lending has continued to expand rapidly over the recent years, mainly driven by housing loans, with the year-on-year dynamics exceeding 10% in 2018, despite the tightening of regulations by the central bank. Also, non-mortgage portfolio recorded a high growth. The share of non-performing loans in the total volume of loans to households declined to 2.9% in December 2018 from 3.2% at the end of 2017. Development of retail deposits showed a constant downward trend from mid-2016 and bottomed out in Q1 2018. Then, client inflows accelerated, what translated into faster annual dynamics of 6% in the final quarter of the year. Since the mid-2013 the structure of household deposit base has been changing. The volume of term deposits has been mostly decreasing over the past years, what is more than compensated by strong inflows of retail demand deposits, which continued to expand by more than 10% in 2018.

Slovakia: Corporate Loans and Deposits



In 2017, the corporate credit market was in the expansionary phase of its cycle, with the average annual growth rate oscillating at around 7-8%. For most of 2018, the volume increase remained slightly decelerated to mid-single digit, while the pace advanced to 7.0% in December. The share of non-performing loans in the total volume of loans to non-financial corporations decreased to 3.7% at the end of 2018 from 5.0% in 2017. After acceleration of corporate deposits at the end of 2015, the year-on-year dynamics visibly slowed down in 2016 and finally were negative in the last month of the year. In H2 2017, the annual growth rebounded noticeably and reached a local peak at the end of Q1 2018. Finally, corporate deposits ended a year rising by 7.7%.

2.2. Market and regulatory environment – key challenges and actions taken



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 Group employees 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 2018 or expected in the nearest future. Capital requirements and regulations on accounting and reporting standards have been addressed in dedicated sections of the report.

Strengthening sector stability with active participation of banks



The banking sector has been greatly affected by the Act of June 10, 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution ("BFG Act"), which transposes the Directive establishing a framework for the recovery and resolution of credit institutions ("BRR Directive") and the Directive on deposit guarantee schemes ("DGS Directive"). In 2018, banks contributed PLN 1,240 million to the deposit guarantee scheme and PLN 960 million to the resolution fund designated to support the resolution process. Although banks may choose to make a part of their contribution in the form of payment commitments, the total amount provided to both funds constitutes a major cost item that is not tax deductible. Taking into account high market shares of mBank in terms of deposits market and total balance sheet volumes, by contributing to both funds **mBank** is one of major participants in the system designed to secure depositors.

In accordance with the BFG Act, in 2018 banks worked on updating their recovery plans, annually approved by the PFSA. They also provided information underlying their resolution plans drafted by the BFG, taking account of the minimum requirements for own funds and eligible liabilities (MREL) calculated in line with the methodology published by the BFG. Banks are expected to comply with MREL by January 1, 2023. The requirement and the instruments allowing banks to satisfy it are subject to modifications as the work on transposing BRRD 2 is still underway, primarily due to the amendments to the bankruptcy law and introduction of a new category of instruments, the so-called non-preferred senior debt. **mBank** has been closely monitoring the legislative changes in the context of existing and planned issues. Its long-standing experience as an issuer of debt securities on the domestic and international market gives mBank a clear competitive advantage over the remaining banking sector players as far as prospect compliance with MREL is concerned.

At the end of 2018, the financial market supervision underwent a transformation. On January 1, 2019, the Office of the Polish Financial Supervision Authority became a legal person under the Act of November 9, 2018 changing selected Acts with regard to strengthening the supervision over financial market and protection of investors. The Chairperson and the Authority are acting as its bodies. On December 15, 2018, the number of PFSA members was raised to 12. As before, the Office's operation is financed by the supervised entities, while the fines imposed by the PFSA from the beginning of 2019 onwards will support the Financial Education Fund.

Client data and information for market participants



The EU's General Data Protection Regulation (GDPR) that entered into force on May 25, 2018, is the source of data protection principles applicable by mBank. In accordance with GDPR mBank gives clients control over their data and ensures confidentiality and transparency of the purposes for which the data is processed. Understanding the importance of privacy and security, mBank enables clients to contact the Personal Data Inspector in mBank, mLine consultants and branch employees with this respect. For more information on how **mBank** protects the data of its clients, go to www.mbank.pl/rodo/.

mBank offers investment services in accordance with MIFID II, that is Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments. We provide our clients with services that suit their needs, acting honestly, fairly and professionally and always having the client's best interest in mind. Another priority is to provide complete, fair, clear and not misleading information. As prescribed in the law, mBank classifies all its clients into three categories: retail clients, professional

clients and eligible counterparties, thereby ensuring an adequate level of protection. We also inform clients them about all costs and charges connected with its services.

Supporting clients' legal compliance



mBank adjusts its product offer to provide clients with top quality service and facilitate their compliance with new regulations. A good example of a pro-client service enhancement is the large-scale educational campaign designed to improve clients' knowledge concerning the split payment mechanism implemented under the Act on Amendments to the Goods and Services Tax Act and Certain Other Acts. By June 1, 2018, **mBank** opened VAT accounts for its corporate clients linked to all their settlement accounts in PLN, free of charge and without the need to change the existing agreements. What is more, in anticipation of potential liquidity gaps that could have occurred once the split payment mechanism was applied (as of July 1, 2018), mBank offered attractive funding solutions designed to ensure financial and operational security.

With regard to retail clients, starting from August 8, 2018, **mBank** has been offering the basic payment account available to all adults residing in Poland and holding no other bank account. This account allows clients to perform basic banking operations, for example to deposit or withdraw cash and make payments, which in their primary scope are free of charge. The basic payment account was introduced under the Act on Amendments to the Payment Services Act and Certain Other Acts, which implements the EU's Payment Accounts Directive (PAD).

Payments and transactions - fast and secure



In 2018, significant amendments were made to the Payment Services Act and certain other acts. The first amendment made under the Act of March 22, 2018, governs the handling of the so-called erroneous transfers by allowing payment service providers to disclose to clients the personal data of the incorrect beneficiaries refusing to willingly return misdirected funds. **mBank** employees in branches and mLine consultants are ready to assist clients in recovering wrongly transferred funds.

The second amendment, introduced by the Act dated May 10, 2018, adjusted the Polish regulations to Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market ("PSD2"). The aim of the act is to shorten the execution times of cashless payments and foster the development of cashless economy, and at the same time, to protect clients against financial fraud in cashless transactions. The act has established a legal framework for the activity of new payment service providers - Third Party Providers (TTP) - delivering payment initiation and account information services. Greater competition on the financial market encouraged by PSD2, extending its understanding over the scope of traditional banking, poses a major challenge to mBank, but at the same time, opens up a new chance to draw on its experience in providing payment services and helping clients to manage their funds. In accordance with PSD2 mBank has been working to adjust its internal regulations, in particular, to be able to block funds on the payer's payment account only with client's consent concerning the exact amount of the funds, e.g. when booking a hotel or renting a car. Another change concerns gradual phasing out lists of single-use codes for transaction authentication or shortening the time for resolving complaints about payment transactions from 30 to 15 calendar days. The corporate banking clients of mBank have already been using special interfaces (API) enabling them to combine banking services with financial and accounting systems. However, PSD2 will result in an even greater openness and standardisation of these solutions and will promote the concept of managing payments and accounts held in various banks from a single access point. The API PSD2 platform used by **mBank** and powered by mElements allows us to incorporate mBank's credit processes into e-commerce sales platforms for both retail clients and SMEs.

Safe innovations



Banks and other financial and non-financial sector entities have been racing to provide clients with new solutions and make banking and other services easier than ever. For more information about selected actions taken by mBank, read sections "Key projects and innovations in mBank Group in 2018" and "Strategy of mBank Group". Modern technological solutions and demographic processes change the way clients behave, making them more willing to bank outside traditional branches and choose to contact banks via remote channels. In response to this trend **mBank** is working to expand a variety of

access channels. For instance it enabled clients to open accounts via their smartphones without the need to wait for a courier to deliver the paper documentation or to visit a branch.

Banks which are active online face risks connected with storing personal data and threats to the security of their clients in the Internet, called cyber risk. mBank goes beyond the standard framework of cyber risk management, among others, by organising educational campaigns raising clients' awareness of cyber risk, in particular the "Be cautious online" ("Uważni w sieci") campaign. Under cooperation with the subsidiary from mAccelerator portfolio – Centrum Bezpieczeństwa Cyfrowego (Cyber Security Centre) – mBank provides help in case of e.g. hacker attack, viruses and other problems connected to security in the internet, not only with respect to banking services. mBank clients can benefit from this service free of charge. In addition, mBank's website is a vast source of extensive, but at the same time clear and simple advice, which can considerably increase the security of clients. When in doubt, clients can always consult with mBank's experts via mLine, online chat, Messenger or in a branch.

New tax regulations, benchmarks and Brexit



As a result of passing the Act of October 23, 2018 on Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance Act and Certain Other Acts, the taxation rules applicable to securities acquired by non-residents have changed. Tax release concerning interest and discount earned by non-residents from certain bonds issued after January 1, 2019, is of importance to **mBank** and mBank Hipoteczny, both acting as issuers on foreign markets.

mBank, participating in the fixing of WIBID and WIBOR reference rates, has been closely observing developments in the area of indices used as benchmarks in financial instruments and financial agreements, arising from the requirements laid down in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 (Benchmark Market Regulation, BMR). In force since February 2018, the regulation orders that benchmarks be calculated based on actual market transactions. In Poland, the responsibility for adjusting indices by the end of the transitional period, i.e. by the end of 2019, rests with GPW Benchmark S.A., a company in charge of building and developing a portfolio of Polish financial market benchmarks. mBank, being a party to international transactions, has been also watching the evolution of benchmarks on other markets in order to ensure business continuity.

mBank has been continuously watching the developments connected with the Brexit process and its rules, bearing in mind potential adjustments depending on the ultimate scenario of Britain's exit from the European Union. For many months, mBank's efforts to rise to the challenge arising from Brexit, that is to maintain business continuity on the international market and support clients in the process, has been absorbing various units of the bank.

Results under pressure - banking tax and low interest rate environment



Interest rates in Poland have never been lower: the NBP reference rate stands at 1.5% and 3M WIBOR reached 1.72% at the end of December 2018. Despite the pressure put on net interest income by low interest rates, **mBank** managed to improve its performance by introducing a favourable product structure and optimising its funding costs.

Another factor adversely affecting banks' performance is the tax on certain financial institutions ("bank tax") charged at 0.44% of assets annually. 2018 was the second full year when the tax was collected from banks. In 2018 mBank Group paid a total of PLN 401.8 million on account of the banking tax.

Impact of the appreciation of the Swiss franc on the position of borrowers, the banking sector, and mBank

Proposal of the Polish Bank Association

Several days after the Swiss franc's abrupt surge in mid-January 2015 the Polish Banks Association (ZBP) proposed solutions to help CHF borrowers repay inflated credit instalments.

The package of solutions, the so-called "Six-pack", is still valid at mBank and includes:

- taking into account the negative CHF LIBOR;
- narrowing the currency spread;

- extending the repayment period at the client's request;
- resignation of new collateral or loan insurance from the borrowers who repay their instalments on time;
- option to convert the loan using the fixing rate of the National Bank of Poland (NBP), and
- introducing more flexible rules for restructuring mortgage loans applicable to clients.

Moreover, we facilitate our clients to buy a new flat without the need to repay the remaining FX loan (so called „release of the mortgage”). The loan is repaid according to the existing rules, including the same margin. More information on mBank's webpage <https://www.mbank.pl/indywidualny/kredyty/kredyty-hipoteczne/informacje-na-temat-wsparcia/>.

Since February 19, 2016 the Mortgage Loan Restructuring Support Fund has been in operation. It aims at helping mortgage borrowers, regardless of the loan currency, who found themselves in financial straits due to an adverse event such as unemployment or illness. The support would account for up to 100% of the principal and interest instalment over 12 months, but would not be higher than PLN 1,500 monthly. Except for special cases, the support would be reimbursable. The fund is financed by banks (initial value of PLN 600 million) proportionally to the volumes of their portfolios of mortgage loans to households, for which the delay in repayment exceeds 90 days. mBank's contribution to the Fund in 2015 amounted to PLN 52.1 million.

Currently, parliamentary commission is working on several draft bills related to foreign currency loans.

mBank is a party to lawsuits over foreign currency loans brought against it by clients who took out such loans. It should be stressed that courts have not been unanimous when settling FX loan cases, yet the vast majority of final and binding rulings issued so far have been in favour of the bank. All final and binding rulings are followed by the bank. The Office of Competition and Consumer Protection (UOKiK) has been pursuing a number of preliminary investigations into mBank, in particular with regard to the so-called durable medium, low down payment insurance and foreign exchange risk notification for clients. Some of these investigations are carried out with regard to several banks simultaneously. mBank has been cooperating with UOKiK and other authorities as well, providing them with all necessary information.

Detailed information concerning proceedings before a court, arbitration body or public administration authority are described in the Note 33 of the mBank S.A. Group IFRS Consolidated Financial Statements 2018.

2.3. mBank Group's market position of segments

Our objective is to provide an attractive offer to a wide range of clients while achieving business and financial goals. This is reflected in the development dynamics in particular areas: the non-mortgage loan portfolio for retail clients in 2018 increased by 15.4% at mBank compared to 7.2% for the sector (based on NBP comparable data). Market share in the mortgage loans segment remained at 6.9% throughout the year despite a significant acceleration of the acquisition in the bank and favourable market conditions. This resulted primarily from significant decline of FX mortgage loans portfolio.

Performance indicators¹: mBank vs sector

Net interest margin **2.51%** vs **2.44%**

Cost-to-income ratio **50.7%** vs **56.1%**

(including banking tax):

Return on Assets **0.94%** vs **0.80%**

Return on Equity **9.5%** vs **7.2%**

Loans to deposits **92.9%** vs **92.4%**

The market position and shares of mBank and selected subsidiaries at the end of periods are illustrated in the following table:

Business category (# - market position)	Market share			
	2015	2016	2017	2018
Corporate Banking				
Corporate loans	6,3%	6,1%	6,4%	6,6%
Corporate deposits	9,8%	10,1%	9,6%	9,0%
Leasing (#4 on the market)	7,6%	6,9%	7,4%	7,4%
Factoring (#6 on the market)	7,8%	7,3%	7,2% ²	7,9%
Retail Banking in Poland				
Total loans	6,5%	6,5%	6,3%	6,5%
of which mortgage loans	7,7%	7,5%	6,9%	6,9%
Non-mortgage loans	4,7%	5,0%	5,4%	5,8%
Deposits	5,7%	6,1%	5,9%	6,4%
Retail Banking in the Czech Republic				
Total loans	1,4%	1,4%	1,4%	1,4%
of which mortgage loans	1,8%	1,8%	1,7%	1,6%
Non-mortgage loans	0,6%	0,7%	0,8%	0,9%
Deposits	1,4%	1,6%	1,6%	1,7%
Retail Banking in Slovakia				
Total loans	0,8%	0,7%	0,6%	0,6%
of which mortgage loans	1,0%	0,8%	0,6%	0,6%
Non-mortgage loans	0,4%	0,4%	0,6%	0,7%
Deposits	1,4%	1,6%	1,7%	1,8%
Investment Banking				
Financial markets				
Treasury bills and bonds	12,8%	16,2%	14,8%	14.3%
IRS/FRA	15,4%	11,5%	12,5%	10.7%
Non-Treasury securities (the value of debt)				
Short-term debt securities (#3 on the market)	6,8%	9,8%	7,4%	11.6%
Corporate bonds (#3 on the market)	12,4%	11,5%	12,9%	12.0%
Bank debt securities ³ (#1 on the market)	36,4%	34,6%	31,2%	23.4%
Brokerage				
Equities trading (#11 on the market)	5,0%	4,4%	5,3%	4,1%
Futures (#2 on the market)	16,1%	12,3%	11,9%	15,6%
Options (#4 on the market)	12,8%	9,7%	12,8%	12,0%

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.

mBank S.A. Group

Management Board Report on Performance of mBank S.A. Group in 2018

¹ mBank Group ratios calculated as defined in chapter 6. Financial position of mBank Group and mBank in 2018, except for Net Interest Margin which was adjusted to sector calculation (net interest income divided by average total assets). Sector data as at December 31, 2018. 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.

²2017 market share updated compared to value presented in the Management Board Report on Performance of mBank S.A. Group in 2017 due to update of data by the Polish Factors Association.

³Excluding "road bonds" issued by Bank Gospodarstwa Krajowego (BGK).

2.4. Outlook for the banking sector and mBank for 2019

What will 2019 be like for the Polish economy?

Key macroeconomic parameters	2017	2018	2019F
GDP growth (YoY)	4.8%	5.1%	3.7%
Domestic demand (YoY)	4.9%	5.6%	4.1%
Private consumption (YoY)	4.9%	4.6%	3.5%
Investment (YoY)	3.9%	8.0%	4.5%
Inflation (EOP)	2.1%	1.1%	2.5%
NBP reference rate (EOP)	1.5%	1.5%	1.5%
CHF/PLN (EOP)	3.57	3.81	3.76
EUR/PLN (EOP)	4.18	4.29	4.25

Source: mBank's estimates as at January 23, 2019. YoY – year on year, EOP – end of period.

According to our estimates, the Polish economy will grow by approx. 3.7% in 2019, down from 5.1% in 2018. To a large extent, the slowdown will be a correction and a return to normality after the 2017-2018 peak performance. The economy will approach the average growth rates reported from 2009 to 2016. On the other hand, the slowdown will also be driven by a range of economic processes.

Firstly, the relative insensitivity of the Polish economy to the German and global economic cooldown will end, resulting in worse export figures.

Secondly, a recovery in the household savings ratio, a lower real increase in incomes and worse sentiment (accompanied by the end of labour market tightening) will push growth in consumer spending down to approx. 3.5% year on year. At the same time, salary increases in the public sector will compensate for a lower pay pressure in the private sector.

Thirdly, public investment will continue to grow in 2019 after an excellent 2018. However, the timeline of EU funding utilization and contracts executed so far suggest that growth in public investment may decrease. The growth rate will be positive with the entire investment cycle being more evenly spread. Although 2018 was as good as 2011 as far as public investment is concerned, 2019 is unlikely to be as bad as 2012. With a low positive growth rate, no breakthrough is expected to take place in private investment in 2019. Total investment will go up by approx. 5% year on year in 2019.

The year will be marked by a rising inflation rate. It will be driven by, among other factors, an increase in regulated prices (of heating and waste disposal), the secondary effects of growing energy prices and higher salaries, as well as base effects related to the prices of energy carriers and food. As a consequence, inflation will go up from approx. 1% in early 2019 to 2.5% year on year at the end of the year. It is worth stressing that 2019 will be characterised by a very strong impact of non-economic (administrative and regulatory) factors on inflation. The projected inflation trajectory will be revised as new data will be released.

The economic slowdown accompanied by rising inflation is unlikely to become a tough nut to crack for the Monetary Policy Council. In our opinion, the MPC will keep low interest rates unchanged throughout the year. The MPC will probably consider the increase in inflation to be only temporary and posing no risk to the achievement of the inflation target as long as it will remain within the target band. We expect the MPC to further signal no rate changes until the end of its current term of office.

PLN

We do not expect any significant changes in the PLN exchange rates. The zloty is very likely to weaken temporarily in the first half of the year amid worse sentiment and USD appreciation. The Polish currency will close the year at around PLN 4.30 for EUR 1, the level observed at the beginning of 2019. Since the internal and external environments of the Polish economy are in equilibrium, the exchange rate will be less affected by external factors, while its role as a mitigant of macroeconomic shocks will be limited.

Banking sector and monetary aggregates

Banking sector - monetary aggregates	2017	2018	2019F
Corporate loans	5.9%	7.5%	7.1%
Mortgage loans	-0.1%	7.0%	5.0%
Non-mortgage loans	5.3%	6.8%	5.5%
Corporate deposits	2.4%	4.3%	6.6%
Household deposits	4.2%	10.1%	7.8%

Source: mBank's estimates as at January 23, 2019.

The loan to deposit ratio for the banking sector will decrease in 2019 as a result of strong growth in deposits, in particular household deposits, and a weaker increase in lending. Growth in deposits will be driven by households' shift from investment funds and financial assets to bank deposits and a relatively high nominal increase in incomes. At the same time, growth in corporate deposits will not contract considerably in 2019. The latter factor will be a direct effect of the economic slowdown. Demand for mortgage loans will slip into contraction amid slowing housing market and deteriorating consumer confidence. Demand for consumer loans will fall due to lower private consumption growth dynamics. Last but not least, growth in corporate loans is expected to shrink. Consistently overdraft and working capital facilities should still account for the majority of corporate loans.

Outlook for mBank

Net interest income & NIM

(slightly positive)



- Continued gradual increase of margin driven by changing structure of loan portfolio (more higher-yielding products).
- No room for further reduction of funding costs.

Net Fee & Commission income

(neutral)



- Constantly rising client transactionality and strong acquisition in both retail and corporate segment.
- Adjustment of fees difficult due to fierce competition in the sector and regulatory limitations.

Total costs

(slightly negative)



- Expenses dependent from the bank's management to be kept under control.
- Rising depreciation due to ongoing investments in IT.

Loan Loss Provisions

(slightly negative)



- Small downside risk due to changing loan book mix.
- Potential increase in provisioning due to IFRS 9.
- Resilient asset quality supported by good macroeconomic situation and low unemployment.

3. Strategy of mBank Group

3.1. mBank Group Strategy for 2016-2020

Since mid-2016, mBank has been guided by its “mobile Bank” strategy, based on three pillars:



Framework for business initiatives and operational activities are undertaken based on include client-centricity (empathy), developing the bank’s competitive advantage in the area of mobility (mobility) and continued improvement of efficiency (efficiency). In addition, the “mobile Bank” strategy defines the foundations for its implementation, which include engagement of mBank employees and principles of the organization development. It also places great emphasis on the bank’s technological agility, which is of critical importance nowadays.

By developing business in terms of the aforementioned strategic priorities, mBank is becoming more:

1. Empathic to clients:

We want our clients to stay with mBank “forever” and recommend it to their friends and family, being satisfied with its services. In order to systematize and shape initiatives supporting the bank’s focus on its clients, the Management Board has appointed a Management Board Plenipotentiary for Client-Centricity Culture and Client Relations. The Plenipotentiary coordinates mBank Group’s strategic actions aimed at ensuring that the client-centric perspective is firmly rooted in the bank’s business, and represents clients and their interests before the bank and the Group.

2. Mobile and modern – „icon of mobility“:

mBank relies on multi-channel distribution focused on mobile banking. Our **mobile first** model is:

- “light” when it comes to operational effectiveness thanks to optimal use of our distinguishing feature, that is remote channels (online and mobile banking) supported by network of mBank branches and the Contact Centre, as well as
- “tailored” to the age of digital revolution, i.e. adjusted to changing customer preferences (contact with banking institutions is largely transferring to remote channels). mBank employs digital channels for sale and client acquisition to a greater extent than competing banks in Poland, which have historically maintained a more traditional and outlet-based distribution model. Two years ago, we launched “mLine in a click”, which allows clients to connect with a consultant without any additional identity verification, straight from the mobile application. In 2017, a third of calls to mLine came from that mobile application. Today clients using the application can also connect with the bank by video and chat, i.e. contact an online expert whenever they need to and wherever they want to.

Our **mobile first** vision assumes that regardless of the channel of first contact - local branch, contact centre or digital channels - any other distribution channel should be available within a maximum of “one click” in the mobile application.

3. Effective:

mBank relies on efficient and light digital processes (developed in parallel and built from scratch alongside the online banking model). We design new processes as fully mobile (automatic and using mobile devices) and not requiring printing of any paper documentation (including at our outlets; since Q4 2017, clients have been able to deposit and withdraw funds at a branch without any paper documents by using the mobile authorization).

We are also developing mBank’s digital back-office in the operations area. The bank analyses top-notch market solutions in the field of effective process management and the possibilities of expanding the platform for digital documentation management. The team members continue to work on a series of minor optimisation changes, which will make it possible to save time and costs, reduce the number of printouts and minimise the risk of errors.

The bank's business is developed responsibly and reasonably with the long-term growth based on business efficiency indicators (especially ratio of costs to income, C/I, which places us in the lead of Polish banking sector). In addition, mBank is now one of the most efficient Polish banks in terms of income and profit per employee or per outlet.

3.2. The pillars of the "mobile Bank" strategy in mBank's activities

The pillars of mBank Group's strategy for 2016-2020 have been developed in response to the most important challenges faced by banks in terms of running business activities. According to mBank, these pillars include the client era, the mobility era and the efficiency era. At present, mBank focuses on these three pillars which are also to set the directions for the bank's future operations. Below you can find our activities within the three most important trends in banking which, at the same time, constitute the pillars of our strategy.

Empathy

It has been two years since we adopted the "mobile Bank" strategy with empathy as its first pillar. It is not a quality usually associated with the financial sector. We use various tools in order to instill empathy in our organisational culture, in our employees' mindsets and in our processes and products. When designing our client-centric activities, we are focused on changes taking place in the banking sector in Poland and worldwide, not forgetting to draw inspiration from outside the financial sector.

As a bank, we operate in a complex and strictly regulated world. Legal regulations do not, however, address every challenge and dilemma faced by our employees. The bank's market position, thousands of employees on board and millions of customers served pose a major challenge in terms of empathy-based approach. However, at the same time, they simultaneously allow us to promote the concept on a large scale.

We live in an era where the customer reigns supreme, being the focus of attention of most businesses. We concentrate our efforts on fulfilling our customers' needs and solving their problems. In order to do so, we have defined four core requirements, which we apply to every customer-bank interaction:

- customer needs come first – we fulfil customers' real needs, and solve their real problems;
- simplicity is the key – we work in a clear and customer-friendly manner, being almost inconspicuous;
- customer experience follows mBank's brand – we create positive emotions in line with the brand positioning. We are the icon of mobility. We support our customers anytime, anywhere;
- trust – we make every effort to maintain a high level of trust and earn it with every decision we make.

By promoting empathy, mBank takes up, among others, the following activities:

- In order to measure our customers' loyalty and satisfaction, we carry out surveys defining the **NPS** (Net Promoter Score) indicator. On this basis, we identify key reasons why customers decide to recommend our brand to their friends and family.
- We can also collect suggestions and assessments directly from customers, thanks to digital solutions. We introduced a new way to collect customer feedback: the option "**Share your opinion**" in the retail transactional service allows tens of thousands of customers to share their opinions about the bank. Thanks to the option, in 2018, we received a total of 208,703 customer reviews, including 72,114 marked with comments;
- We also introduced the "**design thinking**" methodology to design processes and services for customers and employees. The methodology improves, among others, processes which are pose major difficulties to our customers: seizure of assets, death of a relative who was our customer, divorce, illness and disability, or theft of funds. According to the "design thinking" methodology, customers become a part of the process by helping us to develop solutions and test prototypes. We encourage them take an active part in it and to visit mLab, a dedicated space in our office in Łódź;
- In addition to the aforementioned NPS survey, we use various methods to analyse customers' needs and expectations, ranging from traditional (e.g. "mystery shopper") to less conventional ones (e.g. "eye tracking" used to analyse how customers read agreements, or ethnography). The survey results give the

opportunity to improve developmental programmes for our advisors and consultants on an ongoing basis;

- We make it easier for **customers with disabilities** to take advantage of our offer, by providing them with professional assistance:
 - Our consultants serve customers in Polish Sign Language (PSL) via the video channel available in the online platform. We also provide on-site PSL interpreting services;
 - Together with the Integracja Foundation, we carried out a round of training sessions for a group of specialist consultants;
 - We interviewed a group of disabled persons and collected over 200 suggestions which concerned services for the disabled coping with difficult circumstances in their lives: complaints, asset seizures, death, and disability/illness;
 - Creating new versions of the transactional service, we rely on knowledge and experience of our employees with disabilities;
- In 2018, we continued our work on a clear and empathetic communication embodied in the **mCanon** principles. We started with changing the contact centre communication and the way complaints are addressed. Also, we changed over 2,000 forms, complaint templates and sales messages. A total of 81% customers confirmed that the language became much clearer. We also worked on communication with corporate customers.

People are at the core of our vision and strategy. Hence, we equip our employees with the skills to undertake this strategy and point them in the direction of our company's development:

- We encourage our employees to visit other places in the company for quick "work experience". Work experience is organised in places where the bank meets customers: in retail and corporate branches, and the contact centre;
- We encourage employees to use our products and become ambassadors of our brand. We are especially proud of the fact that a number of our employees actively use the mobile application;
- In order to help our employees better understand the bank's strategy, we have created the Snapshot. It is a set of open-ended questions together with answers, dealing with customers' legitimate expectations from the bank and the desired shape of cooperation within the organisation;
- The organisation culture is also developed with the help of agents of change, who include approximately 80 ambassadors from the head office, 30 ambassadors from the corporate branches and 40 ambassadors from the retail branches;
- The position of **Chief Ethics Officer** was appointed by the Management Board. The bank's Chief Ethics Officer (who also acts as the Plenipotentiary of the Management Board for Client-Centricity Culture and Client Relations):
 - develops ethical standards for the bank and is responsible for their coordination;
 - verifies whether the bank abides by common ethical standards;
 - is responsible for promoting ethical conduct among employees;
 - creates guidelines, issues opinions and helps employees solve ethical dilemmas;
- In mBank, empathy also means supporting our employees. In order to meet their various needs, we offered our employees remote working privileges, so called "home office". Annual engagement surveys (which covers the vast majority of employees) highlight directions for further desired changes. Every three months, the Management Board holds open staff meetings, which are broadcast and thus available to everyone interested. Their objective is to comment on results, discuss strategic projects and answer potential questions. In the previous year, we invited more than 200 bank managers to take part in empathy-dedicated workshops. Diversified groups enabled them to talk about emotions and active listening. We also carried out a round of countrywide training sessions on fighting discrimination and workplace harassment.

Mobility

mBank's mobile application, launched in 2014, has won a large group of new users over the last four years and has been enriched with a number of new features that cater for the needs of clients. More than 1.3 million clients are systematically banking via mBank's mobile app. Also, a total of 1.6 million are using mobile solutions via the application, light version of the transaction service or log into the standard version of online banking on their smartphones. New app features were introduced to users in 2017, including: the quick cash loan with a credit decision available in one minute from filing an application and the online expert service, which allows users to connect with mBank via text or video chat. Encouraged by users' positive responses, mBank decided to continue development of its mobile app. In 2018, the app was given a new look and feel, with easier navigation and a range of new features. In particular, card and limit management underwent a major overhaul, involving: simpler card transaction limits, an option to set a higher one-off limit for a given type of transaction valid until the end of the day, temporary card block, block on foreign and contactless transactions and information on rejected card transactions.

Furthermore, we introduced a number of new features and improvements, including:

- **Video-function allowing mobile app users to open an account on their smartphones** during one conversation with a consultant. All that is required from a client is a smartphone with iOS or Android operating system and a valid ID card;
- **Google Pay** - the fast and simple way to make contactless payments, and **Apple Pay** - available to iPhone, Apple Watch and iPad users - allowing Mastercard and Visa card holders to complete secure payments;
- Paying with Apple Pay in online stores and in applications supporting the service is just as easy. Such transactions are authorised using TouchID or the Face ID feature;
- An option to use a **smartphone to scan transfer details** - the new version of the app makes it possible to scan data directly from a computer screen or a paper invoice, i.e. regardless of the form in which the bill was issued. This feature is especially useful to people who often make payments to new beneficiaries;
- **eCard** - our mobile app allows clients having virtual cards to top up any amount just before making a transaction. eCard can be used to pay online before receiving the proper payment card. The card users making foreign transactions may choose their settlement currency;
- Secure mobile authorisation - mBank was the first bank in Poland to launch **mobile authorisation for corporate clients**. Mobile authorisation has become an increasingly popular way to confirm operations. Authorisation messages are confidential and unavailable to other apps installed on the user's smartphone or tablet;
- Mobile authorisation for **3-D Secure payments** made by debit or credit card - a card payment security measure requiring an additional confirmation of selected transactions with an SMS password or a mobile app notification. The 3-D Secure standard was designed to improve the security of online card payments;
- **Split Payment** - entrepreneurs holding their company bank accounts with mBank can use a new type of transfer in mBank's mobile app. Split Payment mechanism is a type of transfer in which the purchaser specifies not only the gross amount, but also the amount of VAT indicated in the invoice. The net amount is transferred to the counterparty's current account and the VAT amount to a dedicated VAT account of the seller.

The number of mobile-only users has already reached 480,000 out of 1,484 million mBank's mobile app users. Interestingly, our clients log into the mobile app 27 times a month on average. Compared with other banks, mBank has the largest share of mobile users in its clients base, accounting for 38% of all its clients banking in the mobile app.

Also, clients have become increasingly willing to buy banking products in the mobile app. Half of all applications for non-mortgage loans submitted in digital channels are filed in the mobile app. In addition, 36% of travel insurance products and 10% of cash loans bought from mBank are purchased in the mobile app.

In 2018, Forrester, a global consultancy, in its report "The Forrester Banking Wave™: European Mobile Apps, Q2 2018" named mBank's mobile app the third best app in Europe in recognition of its functionality and usefulness. For more information on awards and distinctions, read chapter 1.7. Awards and distinctions.

Operations/Efficiency

mBank is constantly aiming to achieve best efficiency both, in the area of customer service and within operations not accessible for external recipients, yet being critical to run the bank appropriately, fast and safely. As a principle, the efficiency improvement results from optimising the processes coordinated by the bank's Operations and IT Area, in close cooperation with other areas such as business and finance. Taking into account our experience as a leading mobile bank among the peers and dynamic changes occurring in the sector, in 2018 we continued to further simplify the processes and procedures powered by modern technological solutions.

In 2018, we started cooperation with **Digital Teammates** in the area of robotising back-office processes. Robots have been working in the operations since the beginning of 2018 – with particular focus on the tasks of the following teams: Payments, Monitoring and Instructions, where they perform tasks such as recording costs, fees and commissions, registering motions in the application, and filling in customer data in the process of handling insurance policies.

In the previous year, Operations and IT Area focused on implementing the **DigitAll** programme. Our main aim was to extend the digitalised back-office in mBank. We learned how to enhance the platform used to manage digital documentation (ECM) and we are preparing a list of first candidates who could use the system. We also verified the best market solutions within efficient process management. A new process platform (BPMS) is in the final stage of implementation. Moreover, we worked on a catalogue of minor optimisations and automations, which saved time and money as well as reduced the number of print-outs and limited the risk of error. For example, we replaced paper applications submitted by brokers in the process of handling mortgage loans with electronic ones. We introduced a more advanced reporting process in the operations in order to, knowing the costs of particular processes, identify priorities and achieve better results from their transformations.

For corporate clients, we have been implementing a project that enables us to **digitalise the customer-bank relationship**. The aim is to speed up the service and reduce the bank's workload. The project focuses on integrating critical processes of servicing customers in central units and on digitalising and improving activities, whilst maintaining the quality of customer service in the branches and actively involving client advisors in promoting new functionalities of the mCompany Net transactional system. In 2018 we centralised processes from 10 branches. At the beginning of 2019, we are planning to transfer processes from another 19 branches to the operations area.

We are also working on improving the standard of services rendered to individual customers subject to enforcement proceedings. Apart from fulfilling our duties as a bank, we are focused on enhancing the quality of information we provide to our customers. We are increasing the level of execution-related expertise among our Contact Centre employees. We have simplified the language we use in communication with customers when handling their instructions and complaints in this area. In addition, we are working on streamlining the process of granting mortgage loans.

At mBank, we take every effort to make our solutions intuitive for their final users and easy to maintain and develop for IT specialists. We are also trying to streamline interbank processes with the solutions introduced in 2018 under our offer's advancement, for example, **Payment Assistant** (a service allowing its users to settle monthly bills with a ready transfer order, which only needs to be approved by the customer). Enhancements made in the bank's anti-fraud processes to ensure compliance with regulatory requirements and security standards release employees monitoring transactions from operational tasks and support them in their work towards increasing security in the sector.

Our customer advisors benefit from the credit-worthiness analysis model for merchants without prior credit history and the model using purchase sequences to predict credit events for retail customers. Another example of an application facilitating data analysis is the "Client360" tool ("**Klient360**"), which makes it possible to analyse the relationship between customers and to find the geographical location of a

transaction. The applications reduce the workload of our employees, thanks to which they can be more efficient and dedicate themselves stronger to building better relationships with customers.

mBank's achievements related to increasing effectiveness are appreciated not only by its customers and employees, but also by market experts. This was reflected in the award mBank won in October 2018 for **"the first implementation of the Informatica Big Data technology in the Polish banking"**, granted at the Informatica Summit conference. Big Data is used to create a system for management reporting, which allows thorough customer analysis and development of business models. It is also applied in analyses and simulations at the level of individual contracts and customers. The said implementation made it possible to reduce the costs of infrastructure for data analysis.

3.3. Financial objectives achieved in 2018

While determining the financial targets for the years 2016-2020, mBank took an ambitious approach regarding cost effectiveness as well as returns on equity and assets. Moreover, mBank's intention is to pay dividend of at least 50% of profits every year, subject to the expectations of the Polish Financial Supervision Authority in this respect, as well as to strengthen its funding base. mBank Group financial aspirations and their achievement in periods allowing for comparison to the sector are presented in the table below. The reference base is understood as the peer banks listed on the WSE.

Financial measure	Target point	Performance of mBank Group ¹	Comment on achievement
Cost efficiency, Cost/Income ratio (C/I)	Top 3 in Poland, each year i.e. to be one of the three most cost-efficient banks listed in Poland	C/I 2018: 42.8% #1 among peer banks (9M 2018)	According to Polish Financial Supervision Authority's (PFSA) data, average ratio for the banking sector in Poland reached 51.0% as at September 30, 2018 (excluding the banking tax).
Return on Equity, Net ROE	Top 3 in Poland, each year i.e. to be among the three most profitable listed banks in Poland from the standpoint of ROE adjusted for dividend distribution	ROE netto 2018: 9.5% #8 among peer banks (9M 2018)	Net ROE of mBank Group at the end of 2018 amounted to 9.5%, whereas mBank paid out dividend of 20% of net profit from 2017. The average ratio for the banking sector in Poland according to PFSA's data was 7.2% as at the end of 2018.
Return on Assets, Net ROA	Top 3 in Poland, in 2020 i.e. to be one of the three listed banks in Poland with the highest return on assets	ROA netto 2018: 0.94% #8 among peer banks (9M 2018)	The average ratio for the banking sector in Poland according to PFSA's data amounted to 0.80% as at the end of 2018.
Capital position, capital adequacy in terms of core capital CET1	Maintain the ability to pay out dividend in terms of CET1 ratio, each year - maintain the CET1 ratio at least 1.5 pp. above the capital requirement for mBank	CET1 2018: 17.47%	According to the data as at September 30, 2018, mBank had the second best capital position among the peer banks listed on the WSE; as at the end of 2018, the CET1 ratio (17.47%) exceeded the minimum capital requirement for mBank Group by 4.2 pp. CET 1 ratio for banking sector in Poland reached 17.2% as at the end of 2018, according to PFSA's data.
Financial stability, Loans/Deposits ratio (L/D)	Maintain an L/D ratio of no more than slightly above 100%, every year	L/D 2018: 92.9%	The ratio for the banking sector in Poland reached 92.4% according to PFSA's data as at the end of 2018.

¹ Comparison to peer group was prepared based on the information as of September 30, 2018 owing to lack of actual data.

4. Risk management

4.1. Risk management foundations and key changes in 2018

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 organizational 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 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 lines), 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 **risk management area, IT, Security and Compliance function**, is responsible for determining framework and guidelines concerning managing individual risks, supporting Business in their implementation as well as supervising the control functions and risk exposure. The second line of defence acts independently of the Business;
- The third line of defence is **Internal Audit**, making independent assessment of activities connected with risk management performed by the first and the second line of defence.

In the communication between organizational 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 the given business line, by making decisions and issuing recommendations concerning in particular: risk policies, processes and tools for risk assessment, risk limitation 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 Vice-President of the Management Board, Chief Risk Officer.

Vision of the risk management area

We take advantage of the opportunities in a dynamically changing environment, using innovative methods of risk management.

Bearing in mind the bank's efficiency and safety, we create value for the customer in a partner dialogue with the business.

The **Mission** of the risk management area is to be actively involved in the initiatives and actions undertaken while realization of the strategy of the mBank Group. This support is organized around five challenges:

- **Empathy** understood as active adaptation of risk management to the changing needs of different groups of customers;
- Promoting the experience of **mobility**;
- **Efficiency** understood as: measuring, improving and automating risk processes in the culture of Lean; shaping (through a partner dialogue) risk appetite ensuring safe and profitable balance sheet of the bank;

- **Engaged employees.** This challenge is realized through building a work environment which fosters innovation, attracts, maintains and develops employees with knowledge of business and risk, curious to find solutions and openly communicating;
- **Technological advantage**, which means the implementation of risk management based on a common integrated data platform (CDL, Common Data Layer) and the search for technological solutions enabling innovative risk management.

Key activities and changes in the risk management area in 2018:

- Risk appetite was defined for the subsequent planning horizon. Conclusions from analyses and discussions on potential impact on the Group of several issues identified during the managerial dialogue with particular emphasis on the package of non-financial risks, were taken into account while formulating risk appetite;
- The Risk Management Strategy of the mBank Group, the strategies for managing particular risks (concentration risk, credit risk in the corporate and the retail areas, market risk, liquidity risk, operational risk and reputational risk), as well as the Limit Book and the Stress Test Book were updated. Periodic risk inventory process was carried out resulting in the update of the Risk Catalogue of mBank Group. The internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) were reviewed. The results of the reviews were presented to the Management Board and the Supervisory Board of mBank;
- The process related to the application of the strategy for stabilizing net interest income from instruments financed by stable parts of capital and current accounts as well as the method of measuring the interest rate risk of the banking book were changed to facilitate the control of the impact of the adopted strategy on the market risk level. Measurement and analysis take place in two perspectives (including and without taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates). The change was approved by the Management Board;
- Programme of continuous increase of work efficiency based on the Lean Management rules was continued. The purpose of the programme is to allow the growing number of tasks accompanying business growth and increasing number of regulatory requirements without the need to significantly increase resources and to reallocate resources from the streamlined operating areas to the areas where resources need to be increased due to the realized projects or growing scope of tasks.

4.2. Main risks in the mBank Group's business

The Management Board of mBank takes measures necessary 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, 2018: credit risk, operational risk, market risk, business risk (including strategic risk), liquidity risk, reputation risk, model risk, capital risk (including risk of excessive leverage) and regulatory risk.

The following sections present the rules of monitoring credit, market, liquidity and operational risk in mBank Group. The detailed information on managing the abovementioned risks as well as information concerning the management of other risks (business risk, reputational risk, model risk, capital risk and regulatory risk) are presented in Note 3 of the mBank S.A. Group IFRS Consolidated Financial Statements 2018.

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) 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 the 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 RORAC ratio (Return on Risk Adjusted Capital) is applied in the decision-making process and the assessment of profitability of a client in the CRM system.

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);
- 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;
- RC LLP (Risk Cost LLP) - cost of risk for a loan portfolio (segment), i.e. ratio of increment in loan loss provisions to the performing loan portfolio balance;
- 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 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. In its current credit risk management and determination of concentration risk, the bank performs quarterly portfolio analyses using a Steering Matrix which incorporates PD rating and LAD.

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.

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.

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 Group strives to unlock synergies with Commerzbank more broadly in syndicated finance of selected Group clients. For international companies, non-banking financial institutions and biggest corporate clients, mBank Group promotes innovative products with low capital consumption, in particular products of investment banking (ECM, DCM, M&A), transactional banking and financial markets instruments.

mBank promotes financing alternative to banking loans by arranging public and private programmes and club deals for bonds issued by clients with a stable financial position.

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 (more than 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 the 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 while systematically growing the acquisition of external clients. To achieve this growth bank provides financing to clients doing shopping online. To reduce risks of accepting new clients, the bank develops its credit policy using, among others, credit testing and is actively developing its fraud prevention system.

The new acquisition 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, inter alia, current, historically lowest, levels of interest rates, the Group attaches special attention to the application of long-term estimates of interest rate while assessing creditworthiness.

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 properties within large urban areas.

Quality of the mBank Group loan portfolio

As a result of implementation of IFRS 9 on January 1, 2018, new model of impairment of financial assets has been introduced. It is based on the concept of expected credit loss (ECL) which includes information about future events. The change has influence on classification of exposures, modelling of risk parameters and level of credit risk provisions, which incorporate forecasts of economic environment in respect to credit risk measurement.

Part of the portfolio measured in IAS 39 at amortised cost, after the implementation of IFRS 9 is measured at fair value through profit and loss. For this part of the portfolio, specific credit risk adjustment is being reported as credit risk costs.

As of December 31, 2018, the share of impaired exposures in the total (gross) amount of loans and advances granted to clients (NPL) decreased to 4.8% from 5.2% at the end of 2017.

Credit risk costs for loans and advances to customers increased from PLN 2,911.9 million at the end of December 2017 to PLN 3,453.0 million at the end of December 2018. This change takes into account the effect of the transition from IAS 39 to IFRS 9 (the so-called opening balance).

The ratio of credit risk costs to impaired exposures increased from 59% at December 2017 to 63% at December 2018.

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 2017 and as at the end of December 2018. The summary for December 2018 is presented in accordance with the reporting requirements of IFRS 9 (portfolio measured at amortised cost).

Quality of the mBank Group loan portfolio	31.12.2017 (in thousand PLN)
Loans and advances to individuals:	48,142,786
- current accounts	7,324,329
- term loans, including:	40,818,457
- housing and mortgage loans	32,593,180
- other	-
Loans and advances to corporate entities:	37,941,722
- current accounts	5,187,588
- term loans:	30,599,981
- large enterprises	5,030,702
- medium & small enterprises	25,569,279
- reverse repo/buy sell back	57,119
- other	2,097,034
Loans & advances to public sector	995,570
Other receivables	307,627
Total (gross) loans and advances to customers	87,387,705
Provision for loans and advances to customers (negative amount)	-2,911,861
Total (net) loans and advances to customers	84,475,844
Short-term (up to 1 year)	29,191,490
Long-term (over 1 year)	55,284,354
Incurred but not identified (IBNI) losses	
Gross balance sheet exposure	82,883,395
IBNI loss provision for portfolio exposures	-243,810
Net balance sheet exposure	82,639,585
Impaired exposures	
Gross balance sheet exposure	4,504,310
Provisions for impaired exposures	-2,668,051
Net balance sheet exposure	1,836,259

Loans and advances to customers 31.12.2018	Gross carrying amount	Gross carrying amount		
		Individual customers	Corporate customers	Public sector customers
Current accounts	12,073,809	6,474,555	5,598,673	581
Term loans, including:	68,498,140	43,720,475	24,141,323	636,342
- housing and mortgage loans to individual customers	34,696,807	34,696,807	-	-
Reverse repo/buy-sell-back	1,146,263	-	1,146,263	-
Finance leases	10,555,560	-	10,555,560	-
Other loans and advances	2,411,802	-	2,411,802	-
Other receivables	374,405	359,473	14,932	-
Total gross carrying amount	95,059,979	50,554,503	43,868,553	636,923

Loans and advances to customers 31.12.2018	Accumulated impairment	Accumulated impairment		
		Individual customers	Corporate customers	Public sector customers
Current accounts	-931,926	-664,656	-267,270	-
Term loans, including:	-1,837,896	-965,515	-871,741	-640
- housing and mortgage loans to individual customers	-453,300	-453,300	-	-
Finance leases	-243,170	-	-243,170	-
Other loans and advances	-29,555	-	-29,555	-
Other receivables	-	-	-	-
Total accumulated impairment	-3,042,547	-1,630,171	-1,411,736	-640
Total gross carrying amount	95,059,979	50,554,503	43, 868,553	636,923
Total accumulated impairment	-3,042,547	-1,630,171	-1,411,736	-640
Total nett carrying amount	92,017,432	48,924,332	42,465,817	636,283

In addition, the accumulated credit risk costs related to the portfolio of loans and advances to customers, which from January 1, 2018 are obligatorily measured at fair value through profit and loss, amounted to PLN 410,4 million as at December 31, 2018.

Market risk

mBank organises market risk management processes in line with the requirements resulting from the law and supervisory recommendations, in particular the PFSA Recommendations (among others A, C, G and I) and EBA guidelines, concerning market risk management.

Tools and measures

Market risk is defined as the risk of unfavourable changes in the present value of financial instruments in the bank's portfolios due to changes in market risk factors: interest rates, FX rates, stock prices and index value, the implied volatility of options, and credit spreads. In terms of the banking book mBank identifies interest rate risk, which is defined as a risk of adverse change in both valuation of banking book positions and net interest income arising from adverse movements in interest rates.

Market risk exposure is quantified by measurement of Value at Risk (VaR), Stressed Value at Risk (Stressed VaR), expected loss under condition that this loss exceeds Value at Risk (ES – Expected Shortfall) and by use of stress tests. For selected portfolios, mBank uses BPV and CS BPV measures (+1 basis point). Interest rate risk of the banking book, is also quantified by measurement of Earnings at Risk (EaR) of the banking book.

Measurement and analysis of market risk takes place in two perspectives (including and without taking into account the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates), which allows controlling the impact on the market risk level of the applied strategy for stabilizing net interest income.

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 market risk profile is derived from the strategic goals of business units, the decisions of dedicated committees and the limits on market risk exposure established at the level of the bank's units, the Group and the subsidiaries. The system of limits reflects in a quantitative manner the defined risk appetite.

The bank is focused on meeting customers' business needs, while reducing trade in derivatives in terms of currency, currency pairs, nominal values and tenors of transactions, as well as applying the principle of lack of commodity open positions. mBank has limited appetite for currency risk, which is expressed through

market risk limits. The bank conducts trading activity on well-known markets using financial instruments the bank has adequate expertise in and that have been approved for trading.

Bank stabilizes interest income using long-term fixed-rate assets and derivatives and assuming - for stable parts of equity and current accounts - the maximum modelled maturity profile of 5 years. The management of interest rate risk of the banking book takes into account the economic and accounting perspectives, and the financial instruments used for hedging are adequate to the bank's expertise and have been approved for trading.

Market risk management is organized under so-called three lines of defence. The main principle stipulates separation between the market risk monitoring and control function and the functions related to opening and maintaining open market risk positions. In addition, the bank applies the rule of organizational separation between managing banking book and trading book operations.

Measuring mBank's market risk

Value at risk

In 2018, the bank's market risk exposure, measured by Value at Risk (VaR, for one day holding period, at 97.5% confidence level), was moderate in relation to the VaR limits. The VaR figures were driven mainly by portfolios of instruments sensitive to interest rates and to selected credit spread – T-bonds portfolios in the banking and trading book and interest rate swap positions.

The table presents VaR statistics of mBank's portfolio for 2018 (excluding the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates) in comparison to statistics for 2017 (without capital modelling):

PLN thousand	2018				2017			
	31.12.18	average	max	min	31.12.17	average	max	min
VaR IR	24,788	25,516	28,412	22,679	9,423	9,970	15,641	5,281
VaR FX	341	421	832	132	545	360	870	138
VaR EQ	0	51	979	0	53	140	1,151	15
VaR CS	17,839	13,255	19,184	10,659	11,441	13,980	23,320	10,431
VaR	27,209	26,976	32,177	20,129	14,038	18,685	34,560	13,429

VaR IR – interest rate risk

VaR FX – FX risk

VaR EQ – stock price risk

VaR CS – credit spread risk.

In 2018, VaR increased mainly due to change in approach to stable parts of current accounts insensitive to changes in interest rates and changes of observations in the 12-month window taken to calculation.

Stress testing

The results of stress tests for mBank (excluding the modelling of stable parts of capital and current accounts, insensitive to changes in interest rates) in 2018 in comparison to statistics for 2017 (without capital modelling) is presented in the table below:

PLN M	2018				2017			
	31.12.18	average	max	min	31.12.17	average	max	min
Base stress test	802	612	839	393	141	85	147	9
CS stress test	689	714	768	657	694	688	767	624
Total stress test	1,491	1,326	1,601	1,104	835	774	882	638

Base stress test – standard stress test

CS stress test – stress test with scenarios including credit spread changes

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

In 2018, the average utilisation of the stress test limit for mBank was:

- 67% (PLN 1,326.1 million) – for portfolio without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates,
- 60% (PLN 866.8 million) - for portfolio with modelling of stable parts of capital and current accounts, insensitive to changes in interest rates

The main part of the presented stress test results is the value of stress tests for change of the credit spread of T-bond portfolios because the stress test scenarios assume on average a 100 bps increase of credit spreads.

Interest rate risk of the banking book

In 2018 the interest rate risk of the banking book as measured by EaR, i.e. potential decrease of interest income within 12 months assuming an unfavourable 100 bps change of market interest rates (parallel shift of the curve by 100 basis points) and based on a stable portfolio over the period, was as presented in the table below:

PLN M	2018				2017			
	31.12.18	average	max	min	31.12.17	average	max	min
PLN	185.4	144.1	202.8	96.9	186.0	137.4	254.3	86.8
USD	13.3	13.5	16.3	8.9	14.9	13.6	17.9	8.6
EUR	101.3	104.6	117.6	88.1	84.9	94.1	113.1	67.3
CHF	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
CZK	13.2	23.4	38.4	9.2	12.0	4.8	12.0	2.2

Measuring mBank Group's market risk

The main sources of market risk of the Group are mBank's positions.

The table below shows VaR statistics (without modelling of stable parts of capital and current accounts, insensitive to changes in interest rates; at a 97.5% confidence level for a one-day holding period) for mBank Group in 2018 for individual members of the Group in which market risk positions were identified and their decomposition to the VaR corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), stock prices/index value risk (VaR EQ), and credit spread risk (VaR CS).

PLN thousand	mBank Group	mBank	mBH	mLeasing	Future Tech FIZ
VaR IR average	25,703	25,516	152	58	4
VaR FX average	427	421	22	12	0
VaR EQ average	51	51	0	0	0
VaR CS average	13,674	13,255	426	0	26
VaR average	27,290	26,976	423	60	26
VaR max	32,580	32,177	498	104	32
VaR min	20,228	20,129	353	25	18
VaR 31.12.2017	27,459	27,209	393	70	21

For comparison, at the end of 2017, VaR for mBank Group (without capital modelling) was PLN 14,472 thousand, including VaR of mBank at PLN 14,038 thousand, mBank Hipoteczny – PLN 408 thousand and mLeasing – PLN 29 thousand.

Stress testing

The result of stress tests for mBank Group (without modelling stable parts of capital and current accounts, insensitive to changes in interest rates) in 2018 in comparison to statistics for 2017 (without capital modelling) is presented in the table below:

PLN M	2018				2017			
	31.12.18	average	max	min	31.12.17	average	max	min
Base stress test	808	620	845	399	146	89	155	11
CS stress test	706	734	791	678	713	703	782	635
Total stress test	1,514	1,354	1,624	1,131	859	792	903	655

Base stress test – standard stress test

CS stress test – stress test with scenarios including credit spread changes

Total stress test – total stress test (sum of the standard stress test and the stress test with scenarios including credit spread changes).

In 2018, the average utilisation of the stress test limit for mBank Group was:

- 65% (PLN 1,353.7 million) – for portfolio without modelling stable parts of capital and current accounts, insensitive to changes in interest rates,
- 59% (PLN 884.7 million) – for portfolio with modelling stable parts of capital and current accounts, insensitive to changes in interest rates.

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.

Tools and measures

In its operations, mBank is exposed to liquidity risk, i.e. the risk of being unable 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.

In terms of its sources, liquidity risk may result from internal factors (reputation risk resulting for instance in excessive withdrawal of cash by bank clients, materialisation of credit risk) and external factors (turbulences and crises in the financial markets, country risk, turbulences in the operation of clearing systems).

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 Integrated Risk Management Department. The main measures used in liquidity risk management of the bank include measures based on liquidity gap calculation in LAB methodology, the regulatory measures (M3, M4, LCR) and also NSFR (Net Stable Funding Ratio) for analysis only. LAB measures 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, of which the following are limited:

- LAB Bank Stress (short-term) – short-term scenario (up to 2 weeks) of the idiosyncratic stress;
- LAB Market Stress (long-term) – long-term scenario (up to 2 months) of the market crisis;
- LAB Combined Stress I – combined stress scenario that presents the effects of the simultaneous occurrence of short-term idiosyncratic stress and long-term market related stress.

Cash flow projections used in LAB measures are based on crisis scenarios, which include among others excessive withdrawal of cash by the bank's clients and being unable to liquidate some assets due to an external crisis occurring to various extent dependent on assumed scenario.

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 warnings indicators (EWI) and recovery indicators. It is composed of indicators monitoring the level of regulatory and internal limits and additionally, indicators monitoring significant changes of market factors, as well as changes in the bank's balance sheet. Exceedance 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, which has been in force since October 2015. With the respect of NSFR, the bank reports to the NBP according to the standards established by EBA in 2014, and reports to the PSFA in the form of a dedicated questionnaire.

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 (M3, M4, LCR) 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 (for all currencies in aggregate converted to PLN and for individual foreign currencies). Internal limits also applied to M1 and M2, which ceased to be regulatory measures since the beginning of 2018.

The bank has a centralised approach to the Group's funding management in order to increase the efficiency of liquidity resources used. Financing of subsidiaries is done from mBank via 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 bank has the Contingency Plan in case of a threat of losing financial liquidity, which sets the strategy and procedures to be implemented in the event of a situation connected with the risk of losing liquidity by the mBank Group and aimed at neutralising this threat. The document defines the division of responsibility for monitoring and identifying threats, and actions during the emergency situation. The Contingency Plan is tested at least annually.

Bank limits the volume and term concentration of foreign currency funding of mBank with FX swaps and CIRS. In addition, the limit is decomposed into individual limits for CIRS and FX swaps as well as limits for funding in EUR and CHF. The structure of these limits reflects the bank's preferences for funding structure in those currencies.

Measuring mBank's liquidity risk

The liquidity of mBank remained at a safe level in 2018, as reflected in the high surplus of liquid assets over short-term liabilities in LAB measures and in the levels of regulatory measures.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the regulatory measures M3, M4, LCR in 2018:

Measure ¹	2018			
	31.12.2018	average	maximum	minimum
LAB Base Case 1M	16,371	17,510	24,677	12,420
LAB Base Case 1Y	14,252	10,130	14,828	4,634

LAB Bank Stress 1M	12,669	11,676	17,571	6,650
LAB Market Stress 1M	14,562	14,454	19,008	10,051
LAB Combined Stress 1M	9,177	9,806	14,012	5,410
M3	4.95	4.66	5.06	4.09
M4	1.38	1.39	1.41	1.35
LCR	190%	178%	240%	137%

¹ LAB measures are shown in PLN million; M3, M4 and LCR are relative measures presented as a decimal.

Measuring the Group's liquidity risk

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).

The Group's liquidity was at a safe level in 2018, as reflected in the high surplus of liquid assets over short-term liabilities in the LAB measures and the LCR calculated at the Group level.

The table below presents the LAB gaps for tenors up to 1M and 1Y and the LCR at the mBank Group level:

Measure ¹	2018			
	31.12.2018	average	maximum	minimum
LAB Base Case 1M	17,087	19,718	26,746	14,952
LAB Base Case 1Y	18,313	14,823	20,317	9,961
LAB Bank Stress 1M	13,384	13,876	19,883	9,123
LAB Market Stress 1M	15,231	16,652	21,331	12,349
LAB Combined Stress 1M	9,846	12,005	16,335	7,883
LCR Group	231%	216%	301%	165%

¹ LAB measures are shown in PLN million, LCR is relative measure 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, remuneration policy and detailed method of estimating internal capital in banks), which constitute a starting point for the framework of the operational risk control and management system in mBank Group.

Tools and measures

In order to effectively manage operational risk, the bank applies quantitative and qualitative methods and tools, which intend to cause-oriented operational risk management.

The basic qualitative tool is the Internal Control System Self-Assessment carried out by the bank's organizational units and the Group subsidiaries. The Self-Assessment process aims to provide communication about the need to change and improve control processes, and thus a more pro-active approach to operational risk management and increasing operational risk awareness in the mBank Group. In the Self-Assessment process, the bank identified significant processes and connected them with the general and specific objectives of the internal control system. The end result of the Self-Assessment is the evaluation of risks and control mechanisms as well as the creation of corrective action plans aimed at changing the structure or the optimization of the control mechanisms in order to improve the adequacy and effectiveness of the internal control system.

The bank prepares also scenario analyses describing risks associated with rare operational risk events with potentially very serious consequences.

In accordance with the requirements of Recommendation M, the bank has a process for identifying threats associated with operational risk in all relevant areas of the bank's operations and for creating new

and modifying existing products, processes and systems, as well as for changes in the organizational structure.

Quantitative tools include mainly collection of data on operational events and effects. With the use of the database available at the mBank Group, data on operational risk losses are recorded with an emphasis on the cause. Recorded data are analysed by the Integrated Risk Management Department and at organizational units. This approach allows organizational units to carry out ongoing monitoring of their current risk profile. mBank has an access to external operational loss databases and applies them to analyse operational risk and potential threats, that institutions operating in the financial sector are exposed to.

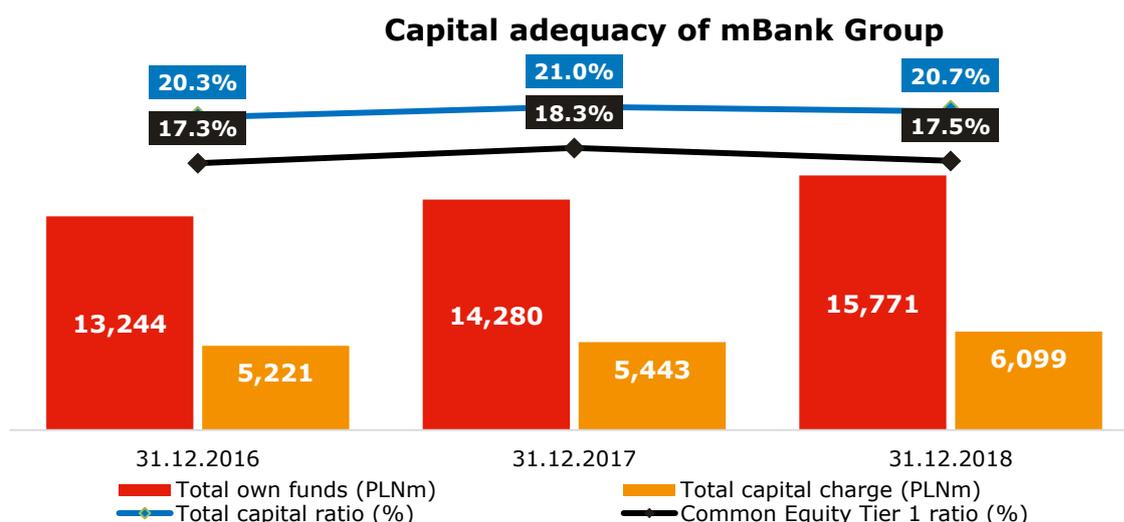
The key risk indicators (KRI) are another tool. Ongoing monitoring of risk factors recognized as key at the given moment allows for prediction of an increased level of operational risk and adequate response by the organizational units in order to avoid the occurrence of operational events and losses.

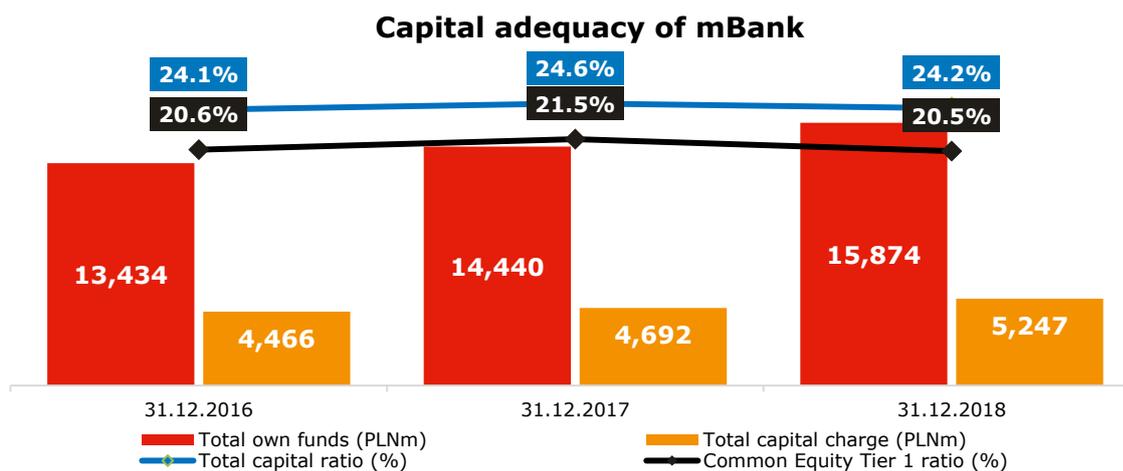
Strategy

The organization 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 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. The operational risk control and management process at the bank is developed and coordinated by the central operational risk control function while operational risk management takes place in every organisational unit of the bank and in every subsidiary of mBank Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, mitigate or transfer operational risk. The operational risk control process is supervised by the Supervisory Board of the bank through its Risk Committee.

4.3. 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.





The capital ratios of mBank Group in 2018 were driven by the following factors:

- Inclusion, in Common Equity Tier 1 capital, of the remaining part (not included earlier) of the net profit of mBank Group for the year 2017 as approved by the General Meeting of Shareholders;
- inclusion, in Common Equity Tier 1 capital, of the additional remaining part of the verified net profit of the mBank Group for Q1, Q2 and Q3 2018, net of expected charges and dividends, on the basis of the PFSA decisions of September 7, 2018 and November 30, 2018;
- classification of capital instruments issued within incentive programs in the period from September 1, 2017 till September 30, 2018 as instruments in Common Equity Tier 1 capital, pursuant to PFSA decision of December 19, 2018;
- classification of CHF 250m as instruments in Tier 2 capital, in accordance with the terms of the loan agreement concluded between mBank S.A. and Commerzbank AG, pursuant to the PFSA decision of March 29, 2018;
- classification of two tranches of subordinated bonds:
 - with a nominal value of PLN 200 million, issued by the bank on October 9, 2018 with maturity date of October 10, 2030, as well as
 - with a nominal value of PLN 550 million, issued by the bank on October 9, 2018 with maturity date of October 10, 2028,
 as instruments in Tier 2 capital, pursuant to the PFSA decision of November 28, 2018;
- discontinuation of including subordinated bonds with a nominal value of PLN 500 million in calculation of the own funds, pursuant to the PFSA decision of November 28, 2018;
- change of the limit for unrealized gains measured at the fair value included in the own funds calculation from 80% in 2017 to 100% in 2018;
- discontinued application of the transitional provisions for own funds in terms of grandfathering with regard to subordinated instruments included in the own funds;
- expansion of the mBank Group business activity;
- depreciation of the Polish zloty against the foreign currencies;
- implementation from January 1, 2018 of the International Financial Reporting Standard 9, which had no significant impact on Group's capital ratios.

The level of the required capital ratios at the end of 2018 was among others affected by the following administrative decisions and applicable regulations:

- starting from January 1, 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 fact that not all exposures are located in Poland, due to mBank two foreign branches in Czech Republic and in Slovakia, the systemic risk buffer rate applicable to mBank Group amounted to 2.82% in June 2018;
- according to the PFSA decision, in 2016 mBank had been identified as other systemically important institution (O-SII) subject to a capital buffer; according to the PFSA decision of June 31, 2018, the capital buffer amounted to 0.5% of the total risk exposure amount, calculated in accordance with the provisions of the CRR Regulation, to be maintained both on individual and consolidated levels. The required capital buffer was applicable as of December 31, 2018;
- according to the PFSA decision of October 15, 2018, and the subsequent communication of November 29, 2018 mBank should maintain additional own funds on individual basis with regard to the risks related to the portfolio of FX retail mortgage loans of 4.18% at the level of total capital ratio and 3.14% at the level of Tier 1 capital (on consolidated basis: 3.64% and 2.73% accordingly).

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 – 3.64% at the level of total capital ratio and 2.73% at the level of Tier 1 capital on consolidated basis (and on individual basis 4.18% and 3.14% accordingly);
- the combined buffer requirement of additional 5.24% (on consolidated basis), which consists of: the capital conservation buffer (1.88%), the other systemically important institution's buffer (0.5%), systemic risk buffer (2.82%) and countercyclical capital buffer (0.04%). On individual basis the value of the combined buffer requirement is 5.22% mainly due to a lower, than at the Group level, value of the systemic risk buffer (2.79%).

Capital ratios, both on consolidated and individual basis, were above the values required throughout the 2018. With a considerable surplus of own funds mBank Group comfortably meets the additional own funds requirement and the combined buffer requirement. Required capital ratios and their levels as of December 31, 2018 on the stand-alone and consolidated level are presented in the table below.

Capital ratio	mBank Group		mBank	
	Required level	31.12.2018	Required level	31.12.2018
Total capital ratio (TCR)	16.88%	20.69%	17.40%	24.20%
Tier 1 ratio	13.97%	17.47%	14.36%	20.46%

The consolidated leverage ratio calculated in accordance with the provisions of the CRR Regulation and 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, including provisions regarding transitional period, amounted to 8.61%. The stand-alone leverage ratio amounted to 8.72%. More details on capital adequacy of mBank Group at the end of 2018 could be found in the Disclosures regarding capital adequacy.

The bank decided that for the purposes of the capital adequacy account, including calculation of own funds, pursuant to Article 1 paragraph 9 of Regulation (EU) 2017/2395 of the European Parliament and the Council of December 12, 2017 (Ordinance) amending the CRR Regulation, it will not apply transition period, which allows to mitigate the impact on capital related to the introduction of IFRS 9.

Hence, the capital ratios, the amount of Tier 1 capital and the leverage ratio reported in this document fully reflect the impact of IFRS 9.

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 (20.5% at the stand-alone level and 17.5% at the consolidated level at the end of 2018) and the Total Capital Ratio (24.2% at the stand-alone level and 20.7% at the consolidated level at the end of 2018), which are above the levels recommended by the Polish Financial Supervision Authority (PFSA). The factors which influenced the capital ratios of mBank Group in 2018 are described in details in chapter 4.3. Capital adequacy. Capital requirements for mBank Group increased starting from January 1, 2019, along with conservation buffer binding in its full amount (change from 1.875% up to 2.5%).

Regulatory capital requirements for mBank Group as of January 1, 2019, 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 01.01.2018; it replaced the previous PFSA add-on; for mBank it applies only to domestic exposures.

■ **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; the implementation was gradual and it was raised from 1.25% to 1.875% from 01.01.2018 and to 2.5% from 01.01.2019.

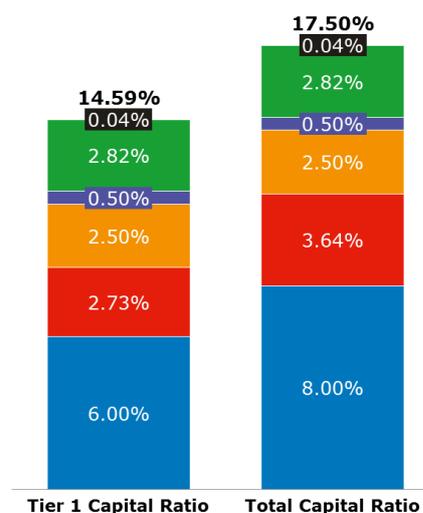
■ **Individual additional Pillar 2 capital requirement for risk related to FX retail mortgage loans** imposed as a result of risk assessment carried out by the PFSA within the supervisory review and evaluation process ("SREP"); its level is reviewed annually.

■ **CRR Regulation minimum level** based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Own funds at the consolidated level stood at PLN 15.8 billion at the end of 2018, out of which PLN 13.3 billion (84%) was Tier 1 capital. The main components of **Tier 1** include: share capital, share premium, other reserve capital, undistributed profit from previous years, funds for general banking risk, recognized current profits and accumulated other comprehensive income. Tier 1 is strengthened mainly through retained earnings.

Tier 2 capital stood at PLN 2.5 billion at the end of 2018, which represents an increase of PLN 628.4 million year on year. The rise of Tier 2 capital was driven by an issue of two series of subordinated bonds in PLN from October 2018 in nominal value of PLN 550 million and PLN 200 million accordingly. In November 2018 PFSA approved an inclusion of the funds raised in the issue in the Tier 2 capital. An impact of new issuances was partly counterbalanced by an early redemption of subordinated bonds of nominal value of PLN 500 million. Additionally, subordinated bonds in Swiss franc (of zero capital value since January 2018), in nominal values of CHF 80 million and CHF 170 million respectively, were replaced during the year with a subordinated loan of nominal value CHF 250 million. According to PFSA's decision from March 2018, the proceeds from the loan are included in total in Tier 2 capital.

The table below presents the balances of mBank Group's subordinated debt as at December 31, 2018.



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
Bond	550 M	PLN	10.10.2028	Yes
Bond	200 M	PLN	10.10.2030	Yes

Subordinated debt with a fixed maturity included in own funds is amortised on a daily basis for five years prior to final maturity. The current structure of the bank's capital base derives from 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 2012 dividend made up 35% of mBank's net profit followed by a 67% dividend payment in 2013. The profit for 2014, 2015 and 2016 was included in whole in the bank's own funds. In April 2018 General Meeting of Shareholders decided on dividend payout of PLN 217.9 million, i.e. 20% of net profit generated in 2017. The undistributed profit from previous years in value of PLN 1.2 billion was transferred to the supplementary capital of the bank. More information on capital adequacy are presented in Note 47 of the mBank S.A. Group IFRS Consolidated Financial Statements 2018. Detailed information concerning dividend policy are presented below.

Dividend

The ability to pay out dividends is provided for in the "mobile Bank" strategy of mBank Group for 2016-2020. However, in its decision recommending the dividend payment to the Supervisory Board, the Management Board of mBank mainly considers current recommendations of the Polish Financial Supervision Authority concerning dividend payments by banks. In March 2018 PFSA issued its standpoint concerning dividend policy of commercial banks in mid-term horizon. Its assumptions were maintained in the PFSA's standpoint from January 2019 referring to dividend policy in 2019. This guidance remains consistent with the PFSA's recommendation regarding dividend payout for 2017. According to the mentioned recommendations, a dividend could be paid only by banks meeting the criteria below (both on stand-alone and consolidated level):

- the bank is not subject to a restructuring programme;
- the bank performed well in the Supervisory Review and Evaluation Process – final SREP score not worse than 2.5 (master scale – score 1 or 2);
- with financial leverage (LR) level higher than 5%;
- with Tier 1 capital ratio not lower than the minimum value set for this ratio increased by 1.5%: $6\% + 75\% \cdot \text{add-on} + \text{the combined buffer requirement} + 1.5\%$;
- with Total Capital Ratio not lower than the minimum set for this value increased by 1.5%: $8\% + \text{add-on} + \text{the combined buffer requirement} + 1.5\%$.

It is recommended that banks which meet all the above criteria can pay out up to 75% of the profit generated in a year preceding the decision.

Moreover, it is recommended to pay out dividend up to 100% of the profit generated in a year preceding the decision by banks meeting all of the above criteria, taking into account, within capital criteria, the bank's sensitivity to an unfavourable macroeconomic scenario (measured by stress tests conducted by the PFSA).

For banks with exposure to FX housing loans for households (which have more than 5% of FX mortgage loans for households in their portfolio of receivables from non-financial sector) the dividend rate should be adjusted based on following criteria:

Criterion 1 – based on the share of FX housing loans for households in the whole portfolio of receivables from the non-financial sector:

- banks with the share exceeding 10% – dividend rate adjustment by 20 p.p.;
- banks with the share exceeding 20% – dividend rate adjustment by 30 p.p.;
- banks with the share exceeding 30% – dividend rate adjustment by 50 p.p.;

Criterion 2 – based on the share of FX housing loans granted in 2007 and 2008 in the portfolio of FX housing loans for households:

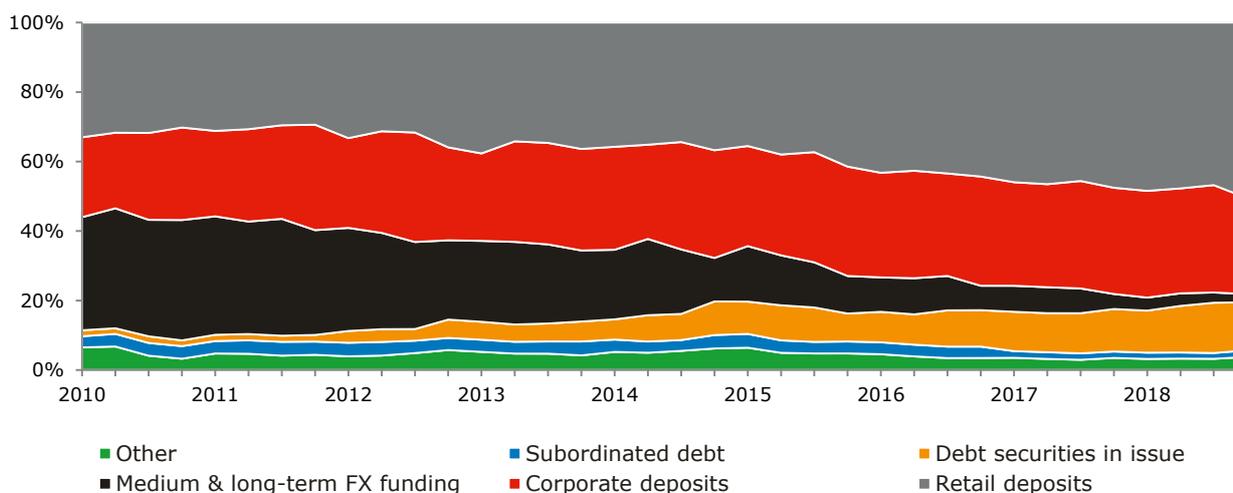
- banks with the share exceeding 20% – dividend rate adjustment by 30 p.p.;
- banks with the share exceeding 50% – dividend rate adjustment by 50 p.p.

Whenever a bank with undistributed profit from previous years intends to pay out dividend, it is obliged to report this plan to the Polish Financial Supervision Authority which will assess it on an individual basis. Only banks which meet the criteria for paying out dividends may apply for such consent.

5.2. mBank Group funding

The “One Bank” Strategy for 2012-2016 provided for optimisation of the Bank’s balance sheet in terms of its profitability and structure by increasing the share of client deposits in funding, further diversification of the funding base, and a bigger share of high-yield assets. The “mobile Bank” Strategy, implemented in mid-2016, provides for the strengthening of the funding profile due to the increasing volume of covered bonds and transaction deposits and maintaining the loan-to-deposit ratio on the level of at most slightly above 100% every year (92.9% at the end of 2018). It was reflected in the changes of the structure of mBank Group’s funding at the end of 2018.

Changes in mBank Group's funding structure



Bond issued under the EMTN Programme

After the successful first eurobond issue in October 2012 and issue of CHF bonds in October 2013, mBank Group completed further issues under the EUR 3 billion EMTN Programme in 2014. In 2015, there were no issues under the EMTN Programme, whereas on October 12, 2015, bonds worth EUR 500 million were repaid. On September 21, 2016, mBank, through its foreign subsidiary mFinance France, completed the issue of bonds with a nominal value of EUR 500 million, maturing in 2020. In 2017, there was one issue under the EMTN Programme. On March 28, 2017, mFinance France issued 6-year bonds with a nominal value of CHF 200 million and 1.005% coupon.

In 2018 two issuances under the programme took place. On June 7, 2018, mBank issued unsecured bonds at nominal value of CHF 180 million, with 0.565% coupon and four-year maturity. On September 5, 2018, an issue of EUR 500 million, 1.058% coupon and four-year maturity was completed. Two EMTN tranches were repaid in 2018, CHF 200 million in October and CZK 500 million in December.

The following table presents a summary of outstanding tranches:

Issue date	Nominal value	Maturity date	Coupon
01.04.2014	EUR 500 M	01.04.2019	2.375%
26.11.2014	EUR 500 M	26.11.2021	2.000%
26.09.2016	EUR 500 M	26.09.2020	1.398%
28.03.2017	CHF 200 M	28.03.2023	1.005%
07.06.2018	CHF 180 M	07.06.2022	0.565%
05.09.2018	EUR 500 M	05.09.2022	1.058%

mBank continues its efforts aimed to diversify the sources of funding and to ensure stable refinancing on attractive terms.

Activity on the covered bond market

mBank Hipoteczny (mBH) is a mortgage bank with the longest track record of issuing covered bonds on the Polish capital market. As of December 31, 2018, the value of issued mortgage covered bonds amounted to PLN 7.2 billion.

Covered bond issues conducted by mBank Hipoteczny constitute an important part of mBank Group's funding strategy. The scale of mBH's issuing activity in 2018 and the parameters of individual issues mark a significant change in the policy of the bank, whose main function is to raise funding and refinance long-term mortgage loans through covered bond issues. The main focus is on narrowing the maturity gap between assets and liabilities, reducing the currency gap, and cutting the cost of new funding.

In 2018, mBank Hipoteczny placed three issues of mortgage covered bonds in the total nominal amount of PLN 1.6 billion. A summary of mBH activity on the public market in 2018 is presented in the following table.

Volume	Currency	Issue date	Maturity	Tenor (in years)	Coupon	Place of quotation
300 M	EUR	26.04.2018	05.03.2025	7	1.073% (MS+42 bps)	Luxembourg Stock Exchange
300 M	PLN	22.06.2018	10.06.2024	6	WIBOR3M +58 bps	WSE Secondary Market and Bondspot
10 M	PLN	15.10.2018	10.06.2024	6	WIBOR3M +58 bps	WSE Secondary Market and Bondspot

EUR 300 million issue is an inaugural benchmark covered bonds issue on an international market performed under the International Covered Bonds Issue Programme. Final price amounted to 42 bps above MS (Mid-Swap) and the coupon was set at 1.073%. This is the biggest covered bonds issue in the mBH's history which constitutes an equivalent of ca PLN 1,250 million. From mBank Group perspective this issue is the longest and most favourably priced issue on an international market in the history. Over 60 investors declared their will for purchasing mBH's covered bonds for a total value of over EUR 800 million (2.7 times the value of actually placed issue). The issue is listed on the Luxembourg Stock Exchange.

PLN 300 million issue was performed under the Domestic Covered Bonds Issuance Programme in the new distribution model. Book building in scope of domestic investors was run by mBank while the foreign demand was represented by Erste Group Bank AG. In total 23 investors declared their will do purchase covered bonds for a joined value of over PLN 577 million, nearly doubling the offer's nominal value.

The PLN 10 million issue from October 2018 was performed in order to assimilate it with PLN 300 million issue from June 2018. Terms of reference granted to buyers of covered bonds is unified for both joined

series of covered bonds' issues. Since assimilation covered bonds from both issues are listed under common ISIN on the WSE secondary market and Bondspot. This was the first capital assimilation of two series of covered bonds in the history of Polish capital market.

Covered bonds issued by mBank Hipoteczny are characterised by low investment risk, which is a result of the statutory obligation to apply complex security mechanisms while issuing and trading in such instruments. This has been proven by the ratings of the bank's mortgage covered bonds assigned by Fitch Ratings Ltd. On June 22, 2018, the rating of mortgage covered bonds was affirmed at A.

6. Financial position of mBank Group and mBank in 2018

6.1. Financial position of mBank Group

Profit and loss account of mBank Group

mBank reported a profit before tax of PLN 1,800.3 million in 2018, compared with PLN 1,527.9 million in 2017 (+PLN 272.4 million or +17.8%). Net profit attributable to the owners of mBank reached PLN 1,316.5 million, compared with PLN 1,091.5 million in the previous year (+PLN 224.9 million or 20.6%). Income tax paid by mBank Group amounted to PLN 483.9 million in 2018 vs. PLN 432.8 million a year before (+11.8%).

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

PLN M	2017	2018	Change in PLN M	Change in %
Interest income	4,052.1	4,518.2	466.1	11.5%
Interest expense	-916.4	-1,021.7	-105.3	11.5%
Net interest income	3,135.7	3,496.5	360.8	11.5%
Fee and commission income	1,659.7	1,641.8	-17.9	-1.1%
Fee and commission expense	-667.5	-665.9	1.6	-0.2%
Net fee and commission income	992.2	975.9	-16.3	-1.6%
Core income	4,127.8	4,472.3	344.5	8.3%
Dividend income	3.4	3.6	0.1	3.8%
Net trading income	294.1	347.3	53.3	18.1%
Other income	-3.9	21.3	25.2	-/+
Other operating income	242.4	407.6	165.3	68.2%
Other operating expenses	-210.2	-193.0	17.2	-8.2%
Total income	4,453.6	5,059.2	605.6	13.6%
Net impairment losses and fair value change on loans and advances	-507.7	-694.4	-186.7	36.8%
Overhead costs and depreciation	-2,043.2	-2,163.9	-120.8	5.9%
Taxes on bank balance sheet items	-375.3	-401.8	-26.5	7.1%
Result on entities under the equity method	0.5	1.2	0.8	155.1%
Profit before income tax	1,527.9	1,800.3	272.4	17.8%
Income tax expense	-432.8	-483.9	-51.1	11.8%
Net profit attributable to:	1,095.1	1,316.4	221.3	20.2%
- Owners of mBank S.A.	1,091.5	1,316.5	224.9	20.6%
- Non-controlling interests	3.5	-0.1	-3.6	+/-
ROA net	0.8%	0.9%		
ROE gross	11.6%	13.0%		
ROE net	8.3%	9.5%		
Cost / Income ratio	45.9%	42.8%		
Net interest margin	2.5%	2.6%		
Common Equity Tier 1 ratio	18.3%	17.5%		
Total capital ratio	21.0%	20.7%		
Leverage ratio	9.0%	8.6%		

Core income - calculated as the sum of net interest income and net fee and commission income.

Other income - in 2017 other income was calculated gains less losses from investment securities and investments in subsidiaries and associates. In 2018 other income was calculated as the sum of gains less losses from investment securities and investments in subsidiaries and associates, gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading financial assets (including equity instruments and debt securities) mandatorily measured at fair value through profit or loss (except for loans and advances).

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 depreciation) - calculated as the sum of total overhead costs and depreciation.

Net impairment losses and fair value change on loans and advances - in 2017 comprised impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. In 2018 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 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.

Gross ROE - Calculated by dividing profit 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.

Net ROE - Calculated by dividing net profit 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.

Cost/Income ratio - Calculated by dividing overhead costs and depreciation by total income comprising: net interest income, net fee and commission income, dividend income, net trading income, other income, other operating income and other operating expenses. In 2017 other income comprises gains less losses from investment securities, investments in subsidiaries and associates. In 2018 other income comprises gains less losses from financial assets and liabilities not measured at fair value through profit or loss and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss' related to equity instruments and debt securities (without loans and advances).

Net interest margin - Calculated by dividing net interest income by average interest earning assets. Interest earning assets are a sum of cash and balances with the Central Bank, loans and advances to banks, debt securities (in 2018 in all valuation methods) and loans and advances to customers (net; in 2018 in all valuation methods). The average interest earning assets are calculated on the basis of the balances as at the end of each month.

The main drivers of the financial results of mBank Group in 2018 included:

- **Increase in total income** which stood at PLN 5,059.2 million. The improvement was recorded in net interest income and net trading income. In addition, in 2018 mBank Group booked a profit from the sale of an organised part of enterprise of mFinanse;
- **Increase in operating expenses** (including depreciation) to PLN 2,163.9 million. A rise was observed in material costs and staff-related expenses as well as depreciation charges;
- **Improved efficiency** measured by the Cost/Income ratio, which stood at 42.8% in 2018 (45.9% in 2017).
- **Higher cost of risk** at 78 bps, compared with 61 bps in 2017;
- **Continued organic growth and business expansion** as demonstrated by:
 - Increase in the individual customer base in Poland, Czech Republic and Slovakia to 5,685.0 thousand (+342.7 thousand customers year on year);
 - Increase in the number of corporate customers to 23,706 (+1,658 compared with the end of 2017).

Net loans and advances increased by 12.1% compared with the end of 2017, while deposits grew by 11.5%. Consequently, the loan-to-deposit ratio rose slightly to 92.9% from 92.3% a year earlier.

The changes in the group's results translated into the following profitability ratios:

- Gross ROE of 13.0% (11.6% in 2017);
- Net ROE of 9.5% (8.3% in 2017).

Capital ratios of mBank Group declined slightly in 2018. At the end of 2018, the Total Capital Ratio stood at 20.7% compared with 21.0% in the previous year. The Common Equity Tier 1 capital ratio reached 17.5% v. 18.3% at the end of 2017. The leverage ratio stood at 8.6% at the end of December 2018, compared with 9.0% a year before.

Income of mBank Group

Total income generated by mBank Group was PLN 5,059.2 million in 2018, compared with PLN 4,453.6 million in 2017, which represents an increase by PLN 605.6 million or 13.6%. The increase was mainly

driven by improved net interest income and net trading income as well as profit from the sale of an organised part of enterprise of mFinanse.

Similarly to 2017, net interest income remained mBank Group's largest income source in 2018 (69.1%). It reached PLN 3,496.5 million, compared with PLN 3,135.7 million in 2017 (+11.5%). High net interest income was mainly driven by an increase in interest income.

Net interest margin, calculated as a relation between net interest income and average interest-earning assets, stood at 2.6% compared with 2.5% in 2017.

Interest income grew by PLN 466.1 million or 11.5% year on year to PLN 4,518.2 million. With a share of 75.0%, loans and advances were the main source of the Group's interest income. Interest income from loans and advances increased by PLN 372.8 million or 12.4% on the previous year to PLN 3,387.6 million. The growth resulted mainly from an expanding volume of loans and a change in the structure of the loans portfolio – rising share of high-margin products, with a simultaneous decrease in the share of mortgage loans in foreign currencies characterised by lower margin. In 2018, interest income from investment securities remained stable. Interest income from derivatives classified into banking book amounted to PLN 180.4 million, going up by 35.0% year on year, due to increased volumes of CIRS transactions and change in the structure of FX swap transactions.

PLN M	2017	2018	Change in PLN M	Change in %
Loans and advances	3,014.8	3,387.6	372.8	12.4%
Investment securities	693.2	692.1	-1.1	-0.2%
Cash and short-term placements	59.9	55.7	-4.2	-7.0%
Trading debt securities	62.8	72.4	9.6	15.2%
Interest income on derivatives classified into banking book	133.6	180.4	46.8	35.0%
Interest income on derivatives concluded under the fair value hedge	66.8	84.4	17.6	26.4%
Interest income on derivatives concluded under the cash flow hedge	15.8	40.4	24.6	155.7%
Other	5.2	5.2	0.0	-0.6%
Total interest income	4,052.1	4,518.2	466.1	11.5%

Loans and advances – starting from 2018, the item covers 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.

Investment securities - starting from 2018, the item covers 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.

In the period under review, interest expenses rose by 11.5%, which is mainly attributable to higher costs of settlements with customers (up by PLN 83.2 million or 16.9%). This was driven by a substantial inflow of deposits, especially those of individual customers, observed in 2018. mBank Group recorded also an increase in expenses arising from the issue of debt securities by PLN 38.7 million or 13.8% as a result of a higher value of issued debt securities (EMTN tranche in the amount of CHF 180 million and EUR 500 million and three public issues of covered bonds totaling PLN 1.6 billion carried out by mBank Hipoteczny). Interest expenses related to loans received decreased by PLN 26.2 million or 47.3% mainly due to a drop in the balance of received loans and advances (repayment of mBank's loans granted by Commerzbank Group in the total amount of CHF 750 million). This was accompanied by a growth in interest expenses on subordinated debt (by 9.1%), pushed up by a higher value of such liabilities.

Net fee and commission income, accounting for 21.8% of mBank Group's total income, dropped slightly year on year. In the period under review, it stood at PLN 975.9 million, which represents a decrease by PLN 16.3 million or 1.6%. The reason was mainly a decrease of income.

PLN M	2017	2018	Change in PLN M	Change in %
Payment cards-related fees	372.9	390.0	17.1	4.6%
Credit-related fees and commissions	324.8	382.0	57.2	17.6%
Commissions for agency service regarding sale of insurance products of external financial entities	187.4	100.6	-86.7	-46.3%
Fees from brokerage activity and debt securities issue	135.5	104.5	-31.0	-22.9%
Commissions from bank accounts	186.7	207.9	21.3	11.4%
Commissions from money transfers	119.9	133.3	13.4	11.2%
Commissions due to guarantees granted and trade finance commissions	71.4	84.7	13.3	18.7%
Commissions for agency service regarding sale of products of external financial entities	136.6	103.2	-33.4	-24.4%
Commissions on trust and fiduciary activities	26.3	26.5	0.1	0.5%
Fees from portfolio management services and other management-related fees	14.8	11.6	-3.2	-21.6%
Fees from cash services	53.3	54.8	1.5	2.9%
Other	30.3	42.7	12.4	41.1%
Total fee and commission income	1,659.7	1,641.8	-17.9	-1.1%

Fee and commission income decreased slightly in 2018 (by PLN 17.9 million or 1.1% year on year). The largest growth was observed in the credit-related fees and commissions (up by PLN 57.2 million or 17.6%) due to a higher volume of loans sold. Payment cards-related fees rose by PLN 17.1 million or 4.6% compared to the previous year. The growth was stimulated by a higher number of customers and issued payment cards as well as by the number and volume of transactions (value of non-cash transactions grew by 21.2% year on year and the number of transactions rose by 23.3%). Driven by a growing customer base, commissions from bank accounts were on an upward trend (+PLN 21.3 million or +11.4%). The development of transactional banking translated into an increase in commissions from money transfers (+11.2%). This was accompanied by a hike in commissions from guarantees granted and trade finance commissions (+18.7%). Owing to the Q1 2018 sale of an organised part of enterprise of mFinanse, which acted as an agent in the scope of group insurance, commissions for agency service regarding the sale of insurance products of external financial entities in 2018 shrank by PLN 86.7 million or 46.3%. A 24.4% decrease (by PLN 33.4 million) was also reported in commissions for agency service regarding the sale of products of external financial entities due to a limited interest of customers in the investment fund market and regulatory changes on the market. Fees from brokerage activity and debt securities issue decreased by 22.9% (PLN 31.0 million), which was connected with the unfavourable situation on the capital market and a substantial drop in turnover on the Warsaw Stock Exchange.

Fee and commission expenses remained almost unchanged in the analysed period (-0.2%). The highest growth was recorded in other fees and commissions paid to external entities for sale of the bank's products. At the same time, payment cards-related fees declined.

Dividend income amounted to PLN 3.6 million in 2018, compared with PLN 3.4 million in 2017.

Net trading income stood at PLN 347.3 million in 2018 and was higher by PLN 53.3 million or 18.1% compared with 2017. The growth was driven mainly by a higher foreign exchange result (+PLN 34.4 million or 11.9%). Gains or losses on financial assets and liabilities held for trading rose by PLN 13.0 million or 73.6% and gains or losses from hedge accounting dropped by PLN 5.9 million or 47.0%. The dynamically developing and ever more popular FX Platform (mPlatforma Walutowa) contributed significantly to the higher foreign exchange result in 2018.

2018 saw an increase in other income, including gains less losses from investment securities and investments in subsidiaries and associates (in 2017), gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading equity instruments and debt securities mandatorily measured at fair value through profit or loss (as of 2018). The increase was mainly sparked by profits from bond sales and valuation of the shares in Visa Inc. after their reclassification to non-trading financial assets measured at fair value through profit or loss. Gains less losses from investment securities and investments in subsidiaries and associates in 2017 was negative due to revaluation in subsidiaries and associates.

Net other operating income (other operating income net of other operating expenses) amounted to PLN 214.7 million in 2018 v. PLN 32.2 million in 2017. The surge was sparked by the profit from selling an organised part of enterprise of mFinanse in Q1 2018 in the amount of PLN 219.7 million.

Costs of mBank Group

In 2018, the total overhead costs (including depreciation) of mBank Group stood at PLN 2,163.9 million, which represents an increase of 5.9% compared to the previous year. The rise was triggered by higher staff-related expenses and material costs as well as depreciation charges.

PLN M	2017	2018	Change in PLN M	Change in %
Staff-related expenses	-902.9	-952.3	-49.4	5.5%
Material costs	-705.2	-744.9	-39.7	5.6%
Taxes and fees	-23.2	-26.0	-2.8	12.1%
Contributions and transfers to the Bank Guarantee Fund	-180.1	-180.4	-0.4	0.2%
Contributions to the Social Benefits Fund	-7.6	-7.7	-0.1	1.5%
Depreciation	-224.2	-252.6	-28.4	12.7%
Total overhead costs and depreciation	-2,043.2	-2,163.9	-120.8	5.9%
Cost / Income ratio	45.9%	42.8%	-	-
Employment (FTE)	6,455	6,524	69	1.1%

In 2018 staff-related expenses increased by PLN 49.4 million or 5.5%. They were pushed up by higher remuneration costs, especially the costs connected with selling of the bank's products.

Material costs increased by PLN 39.7 million or 5.6% in the period under review. In 2018, mBank Group reported higher material costs in the marketing area due to promotional campaigns addressed mainly to young customers and SMEs, and in the IT area due to measures aimed at strengthening the bank's position as a leader of digital banking.

Depreciation rose by 12.7% compared to 2017 as a result of continuous investments in IT systems.

Development of income and expenses resulted in an improvement of the Cost/Income ratio, which stood at 42.8% (45.9% in 2017). Based on recurrent income, the ratio also improved and reached 44.7%.

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

In 2018, 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 694.4 million, including impairment or reversal of impairment on financial assets not measured at fair value through profit or loss of -PLN 527.6 million, and gains or losses from non-trading loans and advances mandatorily measured at fair value through profit or loss amounting to -PLN 166.8 million. Compared with 2017, impairment on and change in the fair value of loans and advances increased by PLN 186.7 million or 36.8%. 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, while 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 2018 stood at 78 bps, compared with 61 bps in 2017.

The quality of loans portfolio improved in 2018 and NPL ratio declined from 5.2% at the end of 2017 to 4.8% at the end of 2018. Asset quality improved mainly in the retail loan portfolio, where NPL ratio declined from 5.2% at the end of 2017 to 4.7% at the end of 2018 (mainly as a result of the sale of impaired receivables). NPL ratio for the corporate loan portfolio also recorded a slight decline and reached 5.1% compared to 5.3% at the end of 2017.

PLN M	2017	2018	Change in PLN M	Change in %
Retail Banking	-342.6	-456.1	-113.5	33.1%
Corporates and Financial Markets	-166.0	-237.9	-71.9	43.3%
Other	0.9	-0.4	-1.3	+/-
Net impairment losses and fair value change on loans and advances	-507.7	-694.4	-186.7	36.8%

Net impairment losses and fair value change on loans and advances in Retail Banking stood at PLN 456.1 million in 2018 compared with PLN 342.6 million in 2017. Risk costs were pushed up by higher volume and changes in the structure of the retail credit portfolio with a growing value of non-mortgage loans (unsecured loans) as well as changes in risk models triggered by the implementation of IFRS 9 as of the beginning of 2018.

Net impairment losses and fair value change on loans and advances in Corporate Banking and Financial Markets stood at PLN 237.9 million in 2018 compared with PLN 166.0 million in 2017. Risk costs were pushed up by higher provisions created on corporate exposures from various sectors and the revaluation of corporate bonds in the portfolio of non-trading financial assets mandatorily measured at fair value through profit or loss.

Contribution of business lines and segments to the financial results

In connection with the change of the cost allocation key for Bank Guarantee Fund since the beginning of 2018, the comparative data for 2017 regarding overhead costs by business segment activities of mBank Group have been changed accordingly. Detailed description of results generated by particular business lines is presented in the applicable chapters: chapter 7. Retail Banking and chapter 8. Corporates and Financial Markets.

A summary of financial results of individual business lines of mBank Group is presented in the table below.

PLN M	2017	2018	Change in PLN M	Change in %	% share in gross profit
Retail Banking	940.9	1,183.3	242.4	25.8%	65.7%
Corporates and Investment Banking	473.4	545.7	72.4	15.3%	30.3%
Financial Markets	96.8	83.4	-13.4	-13.9%	4.6%
Other	16.8	-12.1	-28.9	+/-	-0.7%
Profit before tax of mBank Group	1,527.9	1,800.3	272.4	17.8%	100.0%

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

Changes in the assets of mBank Group

The assets of mBank Group increased by PLN 14,326.1 million, i.e. 10.9% in 2018. Total assets stood at PLN 145,750.1 million as at December 31, 2018.

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

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Cash and balances with Central Bank	7,384.9	9,199.3	1,814.4	24.6%
Loans and advances to banks	1,707.7	2,546.3	838.6	49.1%
Financial assets held for trading and derivatives held for hedges	2,761.7	2,104.3	-657.4	-23.8%
Net loans and advances to customers	84,475.8	94,722.6	10,246.7	12.1%
Investment securities	32,144.7	33,469.7	1,325.0	4.1%
Intangible assets	710.6	776.2	65.5	9.2%
Tangible assets	758.7	785.0	26.3	3.5%
Other assets	1,479.8	2,146.7	666.9	45.1%
Total assets of mBank Group	131,424.0	145,750.1	14,326.1	10.9%

Loans and advances to customers – starting from 2018, the item covers the sum of 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.

Investment securities - the sum of 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.

Loans and advances to customers remained the largest asset category of mBank Group at the end of 2018. As at December 31, 2018, they accounted for 65.0% of the total balance sheet compared with 64.3% at the end of 2017. The net volume of loans and advances to customers increased by PLN 10,246.7 million, i.e. 12.1%, year on year.

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Loans and advances to individuals	48,142.8	52,925.4	4,782.6	9.9%
Loans and advances to corporate entities	37,941.7	44,189.9	6,248.2	16.5%
Loans and advances to public sector	995.6	649.8	-345.7	-34.7%
Other receivables	307.6	0.0	-307.6	-
Total (gross) loans and advances to customers	87,387.7	97,765.1	10,377.4	11.9%
Provisions for loans and advances to customers	-2,911.9	-3,042.5	-130.7	4.5%
Total (net) loans and advances to customers	84,475.8	94,722.6	10,246.7	12.1%

Other receivables – starting from 2018 this item is not extracted from loans' categories.

Gross loans and advances to retail customers increased by PLN 4,782.6 million, i.e. 9.9% annually. Net of the FX effect, loans and advances to individuals grew by 7.5% in 2018. The sales of mortgage loans grew by 35.3% (in 2018 it stood at PLN 4,618.3 million against PLN 3,412.5 million in the previous year). In addition, in 2018, mBank Group sold PLN 8,933.2 million worth of non-mortgage loans, which represents an upturn by 25.4% year on year.

The volume of gross loans and advances to corporate clients increased by PLN 6,248.2 million, i.e. 16.5%, compared with the end of 2017. Excluding reverse repo/buy sell back transactions and the FX effect, the value of loans and advances to corporate clients increased by 12.4% against the end of 2017.

The volume of gross loans and advances to the public sector decreased by PLN 345.7 million or 34.7% in 2018.

Investment securities constituted mBank Group's second largest asset category (23.0%). During 2018, their value grew by PLN 1,325.0 million, i.e. by 4.1%. The portfolio of treasury and municipal bonds went up by PLN 1,410.0 million or 5.1%, while the portfolio of debt securities issued by the central bank shrank by PLN 1,733.0 million or 74.6%.

The balance of trading securities and trading loans and advances dropped by PLN 427.2 million in 2018, primarily as a result of a reduction in the treasury bonds portfolio.

Changes in liabilities and equity of mBank Group

The table below presents changes in the equity and liabilities of the Group in 2018:

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Amounts due to other banks	5,073.4	3,078.4	-1,995.0	-39.3%
Financial liabilities held for trading and derivatives held for hedges	1,095.4	981.1	-114.2	-10.4%
Amounts due to customers	91,496.0	102,009.1	10,513.0	11.5%
Debt securities in issue	14,322.9	18,049.6	3,726.7	26.0%
Subordinated liabilities	2,158.1	2,474.2	316.0	14.6%
Other liabilities	2,986.7	3,941.7	955.0	32.0%
Total Liabilities	117,132.5	130,534.0	13,401.6	11.4%
Total Equity	14,291.6	15,216.1	924.5	6.5%
Total Liabilities and Equity of mBank Group	131,424.0	145,750.1	14,326.1	10.9%

Amounts due to customers are the main source of funding of mBank Group. Their share in the Group's funding structure has been increasing systematically. They accounted for 70.0% of the Group's equity and liabilities at the end of 2018, compared with 69.6% at the end of 2017.

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Individual customers	55,693.6	65,923.6	10,230.0	18.4%
Corporate customers	34,589.6	35,346.3	756.7	2.2%
Public sector customers	1,212.8	739.2	-473.6	-39.1%
Total amounts due to customers	91,496.0	102,009.1	10,513.0	11.5%

Amounts due to customers were growing rapidly in 2018 to reach PLN 102,009.1 million at the end of the year, compared with PLN 91,496.0 million at the end of 2017 (+11.5%). From the perspective of funding cost, in 2018 we observed a continuation of a positive trend reflected in higher dynamics of inflows to current accounts than to term deposits.

Amounts due to retail customers rose by PLN 10,230.0 million, i.e. 18.4% compared with the end of 2017. Current and saving accounts increased by 19.0%, while term deposits went up by 15.9%.

Amounts due to corporate clients increased by PLN 756.7 million or 2.2% in 2018, driven mainly by higher volumes of term deposits (+11.8%) and current account (+0.6%) as well as greater value of repo transactions (+62.2%). The total growth of corporate deposits was partly offset by a drop in the value of loans and advances received (-16.6%), triggered largely by a partial repayment of loans to the European Investment Bank. Excluding repo transactions, amounts due to corporate clients rose by 1.4% compared with the end of 2017.

Amounts due to other banks slid by PLN 1,995.0 million, i.e. by 39.3% compared with the end of 2017, and amounted to PLN 3,078.4 million. The drop in the volume of loans and advances received was spurred mainly by the repayment of loans to Commerzbank AG with a nominal value of CHF 750 million. The amount of current accounts placed by other banks with mBank rose slightly, whereas the value of term deposits went down. Repo/sell buy back transactions and other liabilities to banks grew year on year.

The share of debt securities in issue in mBank Group's funding structure rose from 10.9% at the end of 2017 to 12.4% at the end of 2018. Their value grew by PLN 3,726.7 million, i.e. by 26.0% year on year. This change is attributable mainly to the issue of bonds under the EMTN programme and issue of covered bonds by mBank Hipoteczny.

In 2018, subordinated liabilities grew by 14.6% year on year, which was caused primarily by the issue of new subordinated debt in PLN and replacement of subordinated bonds in CHF with a subordinated loan of CHF 250 million nominal value.

Total equity went up by PLN 924.5 million (+6.5%) in 2018 as a consequence of an increase in retained profits, while its share in total equity and liabilities of mBank Group dropped to 10.4% at the end of 2018 (compared with 10.9% as at the end of 2017).

Changes in off-balance sheet items, changes in guarantees granted to mBank Group subsidiaries and other agreements

More information on significant off-balance sheet items of mBank Group can be found in Note 34 of the mBank S.A. Group IFRS Consolidated Financial Statements 2018.

The funds raised by mFinance France S.A. (mFF) from the eurobond issues under the EMTN programme have been deposited with mBank as a result of the guarantees granted by the bank related to the guarantee payment of all amounts to be settled in respect of debt securities issued under the EMTN Programme. In 2018, the value of the guarantee dropped as a result of redemption of two bond tranches:

- in the nominal value of CHF 500 million redeemed on October 8, 2018;
- in the nominal value of CZK 200 million redeemed on December 6, 2018.

As at December 31, 2018 mBank S.A. did not have any agreements referred to in Article 141t.1 of the Banking Law Act.

6.3. Financial position of mBank in 2018

Profit and loss account of mBank

mBank reported a profit before tax of PLN 1,707.0 million in 2018, compared with PLN 1,470.2 million in 2017 (+PLN 236.8 million or +16.1%). Net profit amounted to PLN 1,317.5 million against PLN 1,089.7 million in the previous year (+PLN 227.8 million or +20.9%). Income tax paid by mBank amounted to PLN 389.5 million in 2018 vs. PLN 380.5 million in 2017 (up by 2.4%).

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

PLN M	2017	2018	Change in PLN M	Change in %
Interest income	3,551.0	3,961.6	410.6	11.6%
Interest expense	-792.5	-874.1	-81.6	10.3%
Net interest income	2,758.5	3,087.5	329.0	11.9%
Fee and commission income	1,405.1	1,467.0	61.9	4.4%
Fee and commission expense	-588.2	-575.8	12.4	-2.1%
Net fee and commission income	816.9	891.2	74.3	9.1%
Core income	3,575.4	3,978.7	403.3	11.3%
Dividend income	166.3	126.4	-39.9	-24.0%
Net trading income	303.4	352.3	48.9	16.1%
Other income	8.2	20.2	12.0	145.5%
Other operating income	113.9	64.0	-49.9	-43.8%
Other operating expenses	-107.1	-154.1	-47.0	43.9%
Total income	4,060.1	4,387.6	327.5	8.1%
Net impairment losses and fair value change on loans and advances	-457.9	-631.2	-173.3	37.8%
Overhead costs and depreciation	-1,790.4	-1,932.1	-141.7	7.9%
Taxes on bank balance sheet items	-350.8	-374.2	-23.4	6.7%
Share in profits of entities under equity method	9.3	256.9	247.7	x27
Profit before income tax	1,470.2	1,707.0	236.8	16.1%
Income tax expense	-380.5	-389.5	-9.0	2.4%
Net profit attributable to:	1,089.7	1,317.5	227.8	20.9%
ROA net	0.9%	1.0%		
ROE gross	11.2%	12.3%		
ROE net	8.3%	9.5%		
Cost / Income ratio	44.1%	44.0%		
Net interest margin	2.3%	2.4%		
Common Equity Tier 1 ratio	21.2%	20.5%		
Total capital ratio	24.6%	24.2%		
Leverage ratio	9.1%	8.7%		

The main drivers of the financial results of mBank in 2018 included:

- **Increase in total income** by PLN 327.5 million. Core income, including net interest income and net fee and commission income, improved considerably in 2018. Net trading income increased as well;
- **Increase in overhead costs** (incl. depreciation). Operating expenses went up by PLN 141.7 million against 2017 due to higher staff-related expenses, material costs and depreciation;
- **Continued excellent effectiveness** measured by the cost/income ratio, which stood at 44.0% in 2018 (44.1% in 2017);
- **Higher risk costs** at 80 bps compared with 62 bps in 2017;
- **Increase in the banking tax** to PLN 374.2 million from PLN 350.8 million in 2017;
- **Increase of share in profits of entities under equity method** to PLN 256.9 million mainly related to the share in the net profit of mFinanse;
- **Continued organic growth and business expansion** as demonstrated by:
 - Increase in the individual customer base in Poland, the Czech Republic and Slovakia to 5,685.0 thousand (+342.7 thousand customers year on year);
 - Increase in the number of corporate customers to 23,706 (+1,658 compared with the end of 2017).

Net loans and advances went up by 13.4% year on year, whereas amounts due to customers grew by 10.6%. Consequently, the loan to deposit ratio increased to 75.8% from 73.9% a year earlier.

The changes in the Bank's results translated into the following profitability ratios:

- Gross ROE of 12.3% (11.2% in 2017);
- Net ROE of 9.5% (8.3% in 2017).

mBank's capital ratios remained high. The Total Capital Ratio stood at 24.2% at the end of December 2018, compared with 24.6% in 2017. The Common Equity Tier 1 ratio reached 20.5% against 21.5% at the end of 2017. The leverage ratio stood at 8.7% at the end of December 2018, compared with 9.1% a year before.

Income of mBank

In 2018, mBank earned a total income of PLN 4,387.6 million compared with PLN 4,060.1 million a year earlier (up by PLN 327.5 million or 8.1%). The increase was predominantly driven by better core income including net interest income and net fee and commission income.

Similarly to 2017, **net interest income** remained mBank's largest revenue source in 2018 (accounting for 70.4% of total income). It stood at PLN 3,087.5 million, compared with PLN 2,758.5 million in 2017 (+11.9%), and was driven by a considerable increase in interest income.

The interest margin, being the relation between net interest income and average interest-earning assets, stood at 2.4% compared with 2.3% in 2017.

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

Average interest rate (mBank)										
		Retail Banking (Poland and foreign branches)			Corporate and Investment Banking			mBank total		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
Deposits	PLN	0.93%	0.67%	0.57%	1.00%	0.81%	0.88%	0.95%	0.72%	0.69%
	FX	0.24%	0.18%	0.20%	0.11%	0.07%	0.16%	0.19%	0.14%	0.18%
Total loans	PLN	6.47%	6.70%	6.64%	3.13%	3.26%	3.27%	4.89%	5.07%	5.10%
	FX	1.42%	1.41%	1.47%	2.17%	2.40%	2.36%	1.56%	1.60%	1.67%
Mortgage loans	PLN	3.60%	3.52%	3.56%						
	FX	1.26%	1.23%	1.19%						

With a share of 72.6%, loans and advances were the main source of interest income in 2018. Interest income in this category rose by PLN 314.0 million (12.3%) year on year as a result of the growing volume and changes in the structure of the credit portfolio, in which products earning higher margins have an ever bigger share. Interest income from derivatives classified into banking book went up by PLN 50.3 million or 42.5%, due to greater volumes of CIRS transactions and changes in the currency structure of FX swaps. Compared with 2017, no major fluctuations were reported with respect to other interest income items.

PLN M	2017	2018	Change in PLN M	Change in %
Loans and advances	2,562.5	2,876.5	314.0	12.3%
Investment securities	678.1	682.4	4.3	0.6%
Cash and short-term placements	57.6	54.3	-3.3	-5.7%
Trading debt securities	63.7	73.1	9.4	14.8%
Interest income on derivatives classified into banking book	118.3	168.5	50.3	42.5%
Interest income on derivatives concluded under the fair value hedge	49.7	57.9	8.2	16.4%
Interest income on derivatives concluded under the cash flow hedge	15.8	40.4	24.6	155.7%
Other	5.3	8.5	3.2	59.2%
Total interest income	3,551.0	3,961.6	410.6	11.6%

Loans and advances –starting from 2018, the item covers 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 - starting from 2018, the item covers 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 2018 (by PLN 81.6 million or 10.3%) was mainly driven by higher deposit costs (up by PLN 87.5 million or 17.7%) due to the strong inflows observed in 2018, especially in the segment of individual deposits. Interest expenses on issued debt securities rose by PLN 10.2 million as a result of issuing further tranches under the EMTN programme (EMTN tranches in the amount of CHF 180 million and EUR 500 million). In 2017, the bank did not record any costs in this category as issues were carried out by its subsidiary, mFinance France. On the other hand, the year 2018 saw a decrease in interest expenses paid to banks (down by PLN 26.1 million or 47.4%) mainly due to a drop in the balance of received loans and advances (repayment of the bank's loans granted by Commerzbank Group in the total amount of CHF 750 million).

Net fee and commission income, accounting for 22.4% of mBank's total income, increased year on year. It reached PLN 891.2 million in the analysed period, up by PLN 74.3 million, i.e. 9.1%, on the previous year.

PLN M	2017	2018	Change in PLN M	Change in %
Payment cards-related fees	372.9	390.0	17.1	4.6%
Credit-related fees and commissions	271.4	313.6	42.1	15.5%
Commissions for agency service regarding sale of insurance products of external financial entities	16.3	17.1	0.8	5.0%
Fees from brokerage activity and debt securities issue	142.1	105.5	-36.6	-25.8%
Commissions from bank accounts	186.7	207.9	21.3	11.4%
Commissions from money transfers	119.6	132.9	13.3	11.2%
Commissions due to guarantees granted and trade finance commissions	65.8	77.8	12.0	18.2%
Commissions for agency service regarding sale of products of external financial entities	103.9	86.1	-17.9	-17.2%
Commissions on trust and fiduciary activities	26.3	26.5	0.1	0.5%
Fees from portfolio management services and other management-related fees	14.8	11.6	-3.2	-21.6%
Fees from cash services	53.3	54.8	1.5	2.9%
Other	32.0	43.4	11.4	35.7%
Total fee and commission income	1,405.1	1,467.0	61.9	4.4%

Commission income went up by PLN 61.9 million or 4.4% year on year. Payment card-related fees grew by PLN 17.1 million, i.e. 4.6% v. 2017 (the amount of non-cash transactions increased by 21.2% year on year, whereas the number of such transactions rose by 23.3%). Credit-related fees and commissions increased by PLN 42.1 million or 15.5%, driven by a substantial upturn in retail and corporate loans sales. Alongside a growing customer base, commissions for bank accounts went up by PLN 21.3 million or 11.4%. Development of transactional banking and a higher number of transactions translated into an increase in commissions for money transfers (up by 11.2%). Fees from brokerage activity and debt securities issue decreased by PLN 36.6 million or 25.8% due to an unfavourable situation on the capital market, a drop in turnover on the Warsaw Stock Exchange and a lower number of primary market transactions in 2018. Commissions for agency service regarding the sale of products of external financial entities declined by PLN 17.9 million or 17.2% as a result of regulatory changes and customers showing smaller interest in the investment fund market.

Dividend income amounted to PLN 126.4 million in 2018 compared with PLN 166.3 million in 2017. It was driven by dividends paid to the bank by mBank Group subsidiaries, including in particular PLN 114.1 million from mFinanse and PLN 8.8 million from mCO.

Net trading income amounted to PLN 352.3 million in 2018 and was higher by PLN 48.9 million, i.e. 16.1%, compared with the previous year. The growth was attributable to higher gains or losses from trading financial assets, including in particular interest-bearing derivatives. Foreign exchange result increased as well.

Other income, including gains less losses from investment securities and investments in subsidiaries and associates (in 2017) as well as gains less losses from financial assets and liabilities not measured at fair value through profit or loss and investments in subsidiaries and associates and gains or losses from non-trading capital instruments and debt securities mandatorily measured at fair value through profit or loss (since 2018), went up by PLN 12.0 million against 2017. The increase resulted from, among other factors, a change in the valuation of Visa Inc. shares after these assets were classified as non-trading financial assets measured at fair value through profit or loss.

Net other operating income (other operating income net of other operating expenses) was negative at -PLN 90.1 million, compared with PLN 6.8 million in 2017. Other operating income contracted, mainly as a

result of lower income from released provisions for future liabilities, whereas other operating expenses went up on, among other factors, higher donations.

Costs of mBank

The total overhead costs of mBank (including depreciation) stood at PLN 1,932.1 million, up by 7.9% on the previous year.

PLN M	2017	2018	Change in PLN M	Change in %
Staff-related expenses	-764.5	-836.3	-71.8	9.4%
Material costs	-624.9	-663.2	-38.2	6.1%
Taxes and fees	-18.8	-22.9	-4.1	21.9%
Contributions and transfers to the Bank Guarantee Fund	-174.9	-175.2	-0.2	0.1%
Contributions to the Social Benefits Fund	-6.4	-6.9	-0.4	6.4%
Depreciation	-200.9	-227.7	-26.9	13.4%
Total overhead costs and depreciation	-1,790.4	-1,932.1	-141.7	7.9%
Cost / Income ratio	44.1%	44.0%	-	-
Employment (FTE)	5,414	5,839	425	7.9%

Staff-related expenses increased by PLN 71.8 million or 9.4% in 2018. The change was driven by higher remuneration costs as a consequence of, among other things, an increased headcount of mBank. The number of FTEs increased from 5,414 at the end of 2017 to 5,839 at the end of 2018, mainly as a result of transferring part of mCO employees to the bank.

Material costs rose by PLN 38.2 million or 6.1% in the period under review. Marketing costs increased on the previous year, pushed up by marketing campaigns, which focused mainly on young clients and SMEs. Development of the mobile application and introduction of innovative digital solutions led to an increase in IT costs.

Depreciation rose by 13.4% in 2018 as a result of continuous investments in IT systems.

The cost to income ratio remained almost flat. It stood at 44.0% at the end of 2018, down from 44.1% in the prior year.

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

In 2018, impairment on and change in the fair value of 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 631.2 million, up by PLN 173.3 million or 37.8% v. the prior year. Growth was reported in both Retail Banking and Corporate Banking & Financial Markets, driven mainly by a higher volume and share of unsecured loans in the retail loans portfolio and higher provisions created for corporate exposures from various sectors.

6.4. Changes in the statement of financial position of mBank

Changes in assets

In 2018, mBank's assets increased by PLN 13,079.7 million or 10.5%. They stood at PLN 137,649.2 million as at December 31, 2018.

The table below presents year-on-year changes in mBank's assets.

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Cash and balances with Central Bank	7,383.5	9,183.0	1,799.5	24.4%
Loans and advances to banks	6,063.7	5,909.3	-154.4	-2.5%
Financial assets held for trading and derivatives held for hedges	2,781.4	2,126.1	-655.2	-23.6%
Net loans and advances to customers	73,431.7	83,277.2	9,845.5	13.4%
Investment securities	31,110.6	32,665.7	1,555.1	5.0%
Intangible assets	648.2	693.2	45.0	6.9%
Tangible fixed assets	509.8	537.0	27.2	5.3%
Other assets	2,640.7	3,257.6	616.9	23.4%
Total assets of mBank	124,569.5	137,649.2	13,079.7	10.5%

Loans and advances to customers – starting from 2018, the item covers the sum of 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 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.

At the end of 2018, loans and advances to customers remained the largest asset category of mBank. Their share in total assets stood at 60.5% as at December 31, 2018 compared with 58.9% a year before.

The net volume of loans and advances to customers increased by PLN 9,845.5 million or 13.4% year on year.

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Loans and advances to individuals	42,429.3	46,998.3	4,569.0	10.8%
Loans and advances to corporate entities	32,388.6	38,415.6	6,027.0	18.6%
Loans and advances to public sector	870.7	538.4	-332.4	-38.2%
Other receivables	307.6	0.0	-307.6	-100.0%
Total (gross) loans and advances to customers	75,996.2	85,952.2	9,956.0	13.1%
Provisions for loans and advances to customers	-2,564.5	-2,675.0	-110.5	4.3%
Total (net) loans and advances to customers	73,431.7	83,277.2	9,845.5	13.4%

Gross loans and advances to individual customers increased by PLN 4,569.0 million or 10.8% year on year. In 2018, the bank sold PLN 4,618.2 million worth of mortgage loans, up by PLN 196.8% against 2017 (PLN 1,556.2 million). The main growth driver in this section was the Group's decision to transfer the offering of retail mortgage loans in Poland from mBank Hipoteczny to mBank as of July 22, 2017, and higher sales growth in the period under review. In 2018, the bank granted PLN 8,933.2 million worth of non-mortgage loans to individual customers, which represents a 25.4% hike as compared with 2017.

Gross loans and advances to corporate customers went up by PLN 6,027.0 million (18.6%) over the same period. Gross loans and advances to the public sector decreased by PLN 332.4 million or 38.2%.

Investment securities constituted mBank's second largest asset category (23.7%). During 2018, their value grew by PLN 1,555.1 million (5.0%). The portfolio of debt securities issued by the central bank shrank by PLN 1,699.5 million or 77.3%, whereas the portfolio of treasury bonds and bonds of local authorities increased by PLN 1,580.2 million or 6.0% year on year.

Other assets made up 15.8% of the bank's balance sheet total.

Changes in equity and liabilities

The table below presents changes in mBank's equity and liabilities in 2018.

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Amounts due to other banks	5,089.7	3,136.8	-1,952.9	-38.4%
Derivative financial instruments and other trading liabilities	1,141.0	1,016.2	-124.8	-10.9%
Amounts due to customers	99,331.6	109,873.4	10,541.8	10.6%
Debt securities in issue	0.0	2,857.7	2,857.7	-
Subordinated liabilities	2,158.1	2,474.2	316.0	14.6%
Other liabilities	2,561.5	3,115.9	554.4	21.6%
Total Liabilities	110,281.9	122,474.1	12,192.2	11.1%
Total Equity	14,287.6	15,175.0	887.5	6.2%
Total Liabilities and Equity of mBank	124,569.5	137,649.2	13,079.7	10.5%

Amounts due to customers remained the dominant funding source of mBank. Their share in equity and liabilities was similar to the figure reported at the end of 2017, standing at 79.8% (compared to 79.7% in 2017).

Amounts due to customers rose by PLN 10,541.8 million or 10.6% to PLN 109,873.4 million in 2018. The most dynamic growth was observed in amounts due to individual customers (18.4%). Amounts due to corporate customers increased by 1.9%, whereas amounts due to the public sector declined by 39.1%.

PLN M	31.12.2017	31.12.2018	Change in PLN M	Change in %
Individual customers	55,693.5	65,923.4	10,230.0	18.4%
Corporate customers	42,425.3	43,210.8	785.5	1.9%
Public sector customers	1,212.8	739.2	-473.6	-39.1%
Total amounts due to customers	99,331.6	109,873.4	10,541.8	10.6%

Amounts due to other banks decreased by PLN 1,952.9 million or 38.4% year on year to PLN 3,136.8 million. They were pushed down by the lower volume of loans and advances received, especially due to the repayment of loans to Commerzbank AG worth CHF 750 million.

In 2018, mBank carried out two EMTN issues of debt securities with nominal values of CHF 180 million and EUR 500 million. Before, EMTN issues were performed by mFinance France, mBank's subsidiary.

In 2018, subordinated liabilities rose by 14.6%, which was caused by the issue of a new subordinated debt in PLN and replacement of subordinated bonds in CHF with a subordinated loan with a nominal value of CHF 250 million.

In 2018, equity grew by PLN 887.5 million or 6.2% thanks to an increase in retained profits. Its share in equity and liabilities of mBank accounted for 11.0% at the end of 2018 (11.5% in 2017).

7. Retail Banking

mBank's Retail Banking segment serves 5,685 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. In 2013, the bank launched a modern, user-friendly online platform (New mBank) designed from scratch, which provides more than 200 new functionalities and solutions. Similar to our mobile application, the transactional platform is constantly improved and enjoys great popularity among our clients.



Key financial data (at the end of 2018):

Share in pre-tax profit	Pre-tax profit	Total income
65.7%	PLN 1,183.3 M	PLN 3,165.0 M

Key business data:

	2014	2015	2016	2017	2018
Number of customers (thousand) ¹	4,551	4,663	5,052	5,342	5,685
Distribution network (pcs.) ²	281	302	316	333	358
Loans to retail clients (PLN M)	41,560	46,259	48,950	48,143	52,925
Deposits of retail clients (PLN M)	39,285	46,117	53,495	55,694	65,924

¹ The number of retail clients in 2017 (and in 2015-2016) has been adjusted due to obligatory closing of inactive accounts and excluding micro-company representatives, without individual products.

² Including 325 outlets in Poland and 33 in Czech Republic and Slovakia.

Key highlights

- Increase of core income by 9.8% year on year.
- Sales of PLN 8.9 billion worth of non-mortgage loans, up by 25.4% year on year.
- Sales of PLN 4.6 billion worth of mortgage loans, up by 35.3% year on year.
- Increase in the retail customer base by almost 343 thousand during the year.
- Increase in the number of active users of mobile application by 25.7%, up to 1,484.5 thousand.
- Increase of retail deposits by 18.4% in 2018, mainly driven by growing current accounts and savings (+19.0% year on year).
- Increase of the value of payment card transactions carried out by mBank by 21.2%; increase in the number of card transactions by 23.3% year on year.

7.1. Financial results

In 2018, the Retail Banking segment generated a profit before tax of PLN 1,183.3 million, which represents an increase by PLN 242.4 million, i.e. 25.8% year on year.

PLN M	2017	2018	Change in PLN M	Change in %
Net interest income	2,013.1	2,310.5	297.4	14.8%
Net fee and commission income	582.3	538.8	-43.5	-7.5%
Net trading income	114.2	127.3	13.1	11.5%
Net other operating income/expense	-33.7	188.4	222.1	-/+
Total income	2,675.9	3,165.0	489.1	18.3%
Net impairment losses and fair value change on loans and advances	-342.6	-456.1	-113.5	33.1%
Overhead costs and depreciation ¹	-1,196.5	-1,319.7	-123.2	10.3%
Taxes on Group's balance sheet items	-195.8	-205.9	-10.1	5.1%
Profit before tax of Retail Banking	940.9	1,183.3	242.4	25.8%

¹ In connection with the change of the cost allocation key for Bank Guarantee Fund since the beginning of 2018, the comparative data for 2017 regarding overhead costs by business segment activities of mBank Group have been changed accordingly.

The profit before tax of Retail Banking in 2018 was driven by the following factors:

- **Increase in total income** by PLN 489.1 million or 18.3% year on year, to PLN 3,165.0 million. Net interest income expanded significantly by PLN 297.4 million (supported by rising volumes and a shift in the credit portfolio structure toward high-margin products). The high income in 2018 was also backed by a profit from selling an organised part of enterprise of mFinanse (PLN 219.7 million). The transaction brought about lower net commission income, since commissions for agency services regarding the sale of insurance products of external financial entities fell substantially;
- **Increase in operating expenses (including depreciation)** by PLN 123.2 million, i.e. 10.3% year on year, driven mainly by the growth in staff-related expenses;
- **Higher net impairment losses and fair value change on loans and advances**, i.e. PLN 113.5 million or 33.1% up compared to the previous year, which was attributable to the introduction of a new accounting standard (IFRS 9), change in the retail credit portfolio structure and a growing volume of non-mortgage loans (unsecured loans);
- **Tax on the Group's balance sheet items** at PLN 205.9 million.

7.2. Activity of Retail Banking segment in numbers

Refers to mBank and mBank Hipoteczny

thousand	31.12.2016	31.12.2017	31.12.2018	Annual change in %
Number of retail clients¹, including:	5,051.5	5,342.3	5,685.0	6.4%
Poland	4,182.5	4,437.0	4,760.6	7.3%
Foreign branches	869.0	905.3	924.3	2.1%
The Czech Republic	612.3	633.6	642.2	1.4%
Slovakia	256.7	271.8	282.1	3.8%
PLN M				
Loans to retail clients, including:	48,926.1	48,122.1	52,510.7	9.1%
Poland	44,646.4	43,703.1	47,801.8	9.4%
mortgage loans	34,112.7	31,294.8	33,245.5	6.2%
non-mortgage loans	10,533.7	12,408.3	14,556.3	17.3%
Foreign branches	4,279.7	4,419.0	4,708.9	6.6%
The Czech Republic	3,310.9	3,585.3	3 768.8	5.1%
Slovakia	968.8	833.7	940.2	12.8%
Deposits of retail clients, including:	53,662.8	55,749.8	65,852.8	18.1%
Poland	45,727.6	46,876.5	55,733.9	18.9%
Foreign branches	7,935.2	8,873.3	10,119.0	14.0%
The Czech Republic	5,630.5	6,346.0	7,163.2	12.9%
Slovakia	2,304.7	2,527.3	2,955.7	17.0%
Investment funds (Poland)²	14,502.8	17,855.0	15,317.6	-14.2%
thousand				
Credit cards, including	340.3	362.8	381.9	5.3%
Poland	309.4	325.9	341.2	4.7%
Foreign branches	30.9	36.8	40.7	10.6%
Debit cards, including:	3,438.4	3,713.0	3,909.0	5.3%
Poland	2,876.0	3,138.1	3,319.9	5.8%
Foreign branches	562.4	575.0	589.1	2.5%
Distribution network				
Advisory Centres	6	10	12	
Light branches	17	24	34	
mBank (f. Multibank)	115	102	95	
mKiosks (incl. Partner Kiosks)	98	123	143	
mFinanse (f. Aspiro) Financial Centres	43	41	41	
Czech Republic & Slovakia	37	33	33	

¹ The number of retail clients in 2017 (and in 2016) has been adjusted due to obligatory closing of inactive accounts and excluding micro-company representatives, without individual products.

² Starting from 2018 investment funds of mBank clients are presented differently due to an incorporation of mBank Brokerage House and mWealth Management into the bank's structure.

7.3. Retail Banking of mBank in Poland

Retail banking offer for individuals

Loans

In 2018, mBank continued the optimisation and development activities aimed at making its products more attractive and rendering unsecured loans available to individual clients. The sales of non-mortgage loans in 2018 amounted to PLN 5,979.4 million, which represents a 30% rise year on year.

Being a leading online and mobile bank, mBank is continuously introducing process improvements in digital channels.

As a result of the increasing number of clients interacting with mBank via its mobile app, we paid particular attention to the projects focused on developing the process of granting unsecured loans in this channel:

- All clients (including those not eligible for the 'one-click' special offer) have the possibility to apply for a cash loan via the application. It increased the share of this acquisition source in the total structure of sales channels. Thus, clients who got approved for a loan within the limit granted to them, and the clients who submitted documents to be analysed by the bank have the possibility to conclude a loan agreement in the mobile application;
- Clients were given the possibility to conclude agreements/annexes to the loan agreement in all sales scenarios;
- Clients eligible for the 'one-click' special offer can also apply for granting and increasing the revolving loan or credit card limits via the mobile application;
- Moreover, within the project "paperless branches" we introduced the possibility to accept the applications and agreements on unsecured loans in the mobile application in the branch.

In April 2018, clients, who log into the transactional service, were given the possibility to increase the loan principal at the stage of concluding an agreement. In practice, this means a quick and accessible process of providing users with extra cash up to the available limit/creditworthiness.

2018 was also the time when we established relationships with brokers in the area of cash loans. In Q1 2018, we introduced a digital process in the branches for the brokerage channel. Regional coordinators for cooperation with brokers were appointed. The measures taken contributed to a significant increase in sales in this channel.

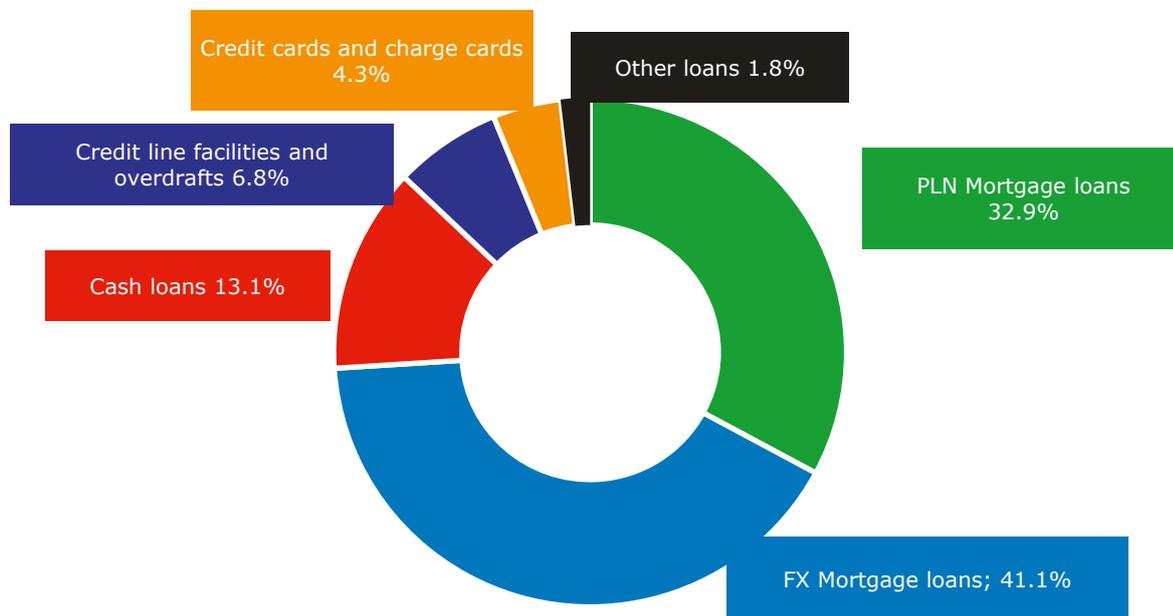
Within the installment payment services, mBank recorded a 61% growth in volume, steadily building its position on the market for online payments. In the area of car loans, we continue to cooperate with a dealer network of selected brands, in particular manufacturers addressing their offer to affluent clients.

In scope of mortgage loans, in 2018 we achieved the assumed increase in sales while maintaining favourable pricing parameters. It is worth mentioning that according to the adopted strategy majority of mortgage loans' production qualifies for pooling to mBank Hipoteczny, allowing for funding the assets with better-matched maturity structure. The ongoing works on enhancing the process of granting mortgages to clients are expected to significantly shorten the time necessary of issuing credit decision and should allow for improving scalability of the process.

Last year we implemented the mortgage loans limits for part of our internal clients. Ca. 400 thousand customers were informed about the credit limit calculated for them, totalling PLN 100 billion. High effectiveness of the direct campaign ensured us to develop this action and communicate it to the wider range of clients. The major aim of the initiative is to create an image of the bank with an attractive mortgage loans' offer. The current campaign is focused on developing long-term relations with good clients by means of providing them with best-tailored offer.

The graph below presents the structure of the Retail Banking loan portfolio in Poland (including mBank Hipoteczny) at the end of 2018:

Retail loan portfolio in Poland (Household loans, mBank in Poland only)



The NPL ratio of the mortgage loan portfolio in Poland dropped slightly year on year and stood at 2.6% at the end of 2018 (compared to 3.3% a year before).

Deposits and investment funds

As of the end of 2018 the amount of total retail banking deposits in Poland amounted to PLN 55,733.9 million compared to PLN 46,876.5 million a year ago. An increase was driven mainly by current accounts accumulation. As for the savings accounts and term deposits, in 2018 this part of retail deposits portfolio rose by PLN 4,564.9 million or 15.5% compared with the end of 2017. The strong sales results in the area of savings products were possible thanks to a number of initiatives, including:

- introduction of a new simple savings offer, which helps our customers to save money efficiently and responds to their needs;
- four special offers on term deposits for new money;
- promotional campaign supporting cross-selling, based on a special offer of open-end investment funds combined with a term deposit;
- continuation of the effective process of term deposit retention aimed at rolling-over maturing term deposits.

The increase in deposits was achieved without detriment to the assumed financial discipline. Growth in retail deposits was accompanied by a decrease in investment products. The decline in investments was mainly driven by:

- developments on the stock markets, in particular the Warsaw Stock Exchange (WSE), the New York Stock Exchange (NYSE) and EU markets;
- supply pressure from the absolute return funds affecting small companies listed on the WSE;
- problems faced by the domestic corporate bond market and deteriorated confidence in domestic collective investment schemes.

Cards

In August 2018, we introduced FX cards for business clients into our offer. The offer comprises EUR and USD cards, which can be used for payments abroad.

Since November, each Visa card holder may activate a multi-currency service. Thanks to the service, a debit card can be linked not only to a customer's PLN account, but also to FX accounts. Currently, it covers four currencies: EUR, USD, GBP and CHF. In the future, the bank is planning not only to extend the service with new currencies, but also make it available to MasterCard card holders. The service can be activated and used free of charge.

In December, we launched a limited MasterCard offer to mark the 27th Grand Finale of the Great Orchestra of Christmas Charity (WOŚP), featuring a special WOŚP design. The interest in the card was so immense that all of the 15 thousand cards sold out.

In 2018, mBank presented its affluent customers with a new mKonto Intensive account, thus simplifying the offer for this customer group. The account holders enjoy free cash withdrawals from ATMs all over the world, can make three instant transfers per month free of charge and have access to the priority service in the call centre. In addition, only mKonto Intensive account comes with a multi-currency card Visa Świat Intensive and a credit card World MasterCard Intensive. The Visa Świat Intensive card allows commission-free conversion of transactions in over 150 currencies at a competitive Visa exchange rate and free cash withdrawals from ATMs all over the world. World MasterCard holders pay no fees for converting transactions made abroad and cash withdrawals from ATMs all over the world. They can also join the Priceless Specials programme and earn points for everyday payments by the World MasterCard card. They can spend the points on airline tickets, accommodation, shopping vouchers for top brand stores and many more. As at the end of 2018, we issued 3.3 thousand World MasterCard Intensive cards with an overall limit of more than PLN 157 million.

Brokerage operations and asset management

The Brokerage Bureau of mBank (BM) provides a comprehensive offer of brokerage services to the largest Polish institutional investors (pension funds, investment funds, asset management companies), foreign funds, and individual clients, i.e. mass and affluent clients. The Brokerage Bureau enables clients to trade in regulated markets in Poland and abroad as well as in the OTC (FOREX/CFD) market. As part of wealth management services, clients may use investment advisory and asset portfolio management services. The Bureau is an active player in the capital market, preparing and conducting public and private offerings (IPO/SPO/ABB).

In 2018 we observed a visible decrease of investors' activity on the WSE compared to 2017 (-19.7% year on year) accompanied by weakening position of domestic investors and growing domination of global investment banks, functioning as remote members of WSE. The turnover of BM on WSE amounted to PLN 17.5 billion (-38.6% year on year), which made mBank the eleventh player on the market in terms of total turnover (4.1% market share) and fifth player from the perspective of turnover on the clients' account (6.7% market share). Our clients express systematically growing interest in investing on the foreign markets. At the end of the year, the number of brokerage accounts of BM clients amounted to 306.8 thousand.

Deterioration of economic situation on the stock exchange in 2018 caused a drop in volume of BM's assets under management by 8.6%. It also led to significant shifts of assets between particular investment products. The biggest beneficiary of the reallocation process was mFundusz Lokacyjny Plus (fund managed by BM), the assets of which grew through the year by PLN 202.3 million. On the other hand investment products of higher risk profile, such as products characterized with an exposure to the stock exchange, enjoyed smaller popularity and caused drop in the asset management. Clients' assets gathered in "mFundusze Dobrze Lokujące" offered by retail business line of mBank amounted to PLN 388.8 million at the end of 2018 which implies a slight decline compared to an end of 2017 (-3.6%).

Stock market in 2018 was marked by low transactional activity, especially in scope of capital transactions like IPO, the majority of which was suspended or delayed. BM remained an active player and successfully performed several calls for shares, buybacks and squeeze outs, with regards to the shares of Emperia Holding (PLN 1,155.9 million), Neuca (PLN 46.5 million), AviaAM Leasing (PLN 44.0 million), Amica (PLN 30.0 million), Prochem (PLN 24.0 million), as well as a number of other transactions.

Offer for small and medium-sized enterprises

The year 2018 revolved around the issue of adjusting banking systems to new legal regulations. The split payment mechanism, new bank transfer to the Social Insurance Institution (ZUS) and account blockage made by the head of the National Revenue Administration (NRA) obliged mBank to introduce numerous system-related and procedural changes. We successfully implemented all of them. When preparing the bank for implementation of new regulations, we do not forget how they will affect entrepreneurs. Our aim is to support our customers. Therefore, we prepared a comprehensive information campaign on the changes accompanying the split payment mechanism. We ran the campaign by directly communicating with customers via the transactional system and the mobile application, as well as by publishing articles on mBank's blog. Daily, we also provide ongoing support to entrepreneurs and focus on their needs. We arrange periodic "Face to Face" meetings with entrepreneurs, which give us the opportunity to get inspired and to listen to our customers' views. We can thus ensure a better value and quality for business owners.

In the previous year, we continued our cooperation with the public administration. Thanks to it, the sales of company accounts in mBank were backed by "Firmootwieracz", a process of registering a company in the Central Registration and Information on Economic Activity (CEIDG) and obtaining accounting advice from mBank. Thus, almost 15,000 sole proprietors launched their operations with mBank in 2018, which represented 18% of acquisition of business accounts in mBank. The new offer allowed mBank to increase the share on the market of sole proprietors by 2.8 p.p. to the level of 15.6%.

In the lending segment, mBank introduced a new financing scenario for the e-commerce sector, which allows entrepreneurs to use a special offer of overdraft facility or a borrowing for companies via one of e-commerce partners, among which Allegro is the biggest platform.

Moreover, in 2018 we provided our clients with a quick loan for companies in the mobile application of mBank as part of the "one-click" offer. The new solution enables business customers to finance their ongoing operations up to the amount of PLN 100,000 online without submitting any paper documents.

In order to meet the customer's payment expectations, we delivered a customised Visa Foto Business card. This makes us the only bank that gives the opportunity to print the company logo on a payment card. Additionally, we prepared a pilot programme for EUR and USD currency cards for entrepreneurs who make payments abroad.

In 2018, mBank also introduced further functionalities to the FX mPlatform (mPlatforma Walutowa), allowing entrepreneurs to exchange money online 24/7 in the transactional service. We launched the Currency Counter (Licznik Walutowy), which is a loyalty programme for mBank's business customers who actively use mPlatforma Walutowa. It allows the collection of points for currency exchange transactions. The customer can redeem the points for free-of-charge SEPA and SWIFT transfers. In addition, we enabled our customers to apply for the access to the FX mPlatform via the mobile application. It is now possible for customers not only to make currency transactions whenever and wherever they wish to, but also to activate the service anywhere via a mobile phone in order to immediately exchange the currency. Moreover, we changed the rules for currency negotiations for mBank business customers, so that entrepreneurs can now receive a currency offer even better tailored to their needs in the branch or via the mLine.

Last year, we also offered our business customers payment terminals as part of the Cashless Poland Programme (Polska Bezgotówkowa). We offer up to three Planet Pay or SumUp payment terminals free of charge. Within the offer, a company does not incur any commission charges on transactions for the period of 12 months and can possess a terminal for free or use it with no license fee for the period of 18 months. The free-of-charge terminals win great interest among business customers. They constitute over 86% of payment terminals sold by mBank.

We also improved mAccounting tool (mKsięgowość) by adding the functionality of Accounting Expert. Accounting Expert is a free accounting call centre available in the transactional service of a given company. Thanks to it, the customers who run book-keeping on their own are provided with assistance and support by a professional accountant.

In the previous year, mBank made it easier to receive e-commerce payments via mTransfer. They can now be confirmed by using a BLIK code. Therefore, after choosing mTransfer in order to pay online, customers do not have to enter their login data. They simply need to have a smartphone and mBank's mobile application. After choosing the BLIK option, mTransfer transaction can be confirmed with a one-time 6-

digit code. It speeds up the online payment, which is valuable also for our e-commerce customers constituting ca. 35% of companies from this sector.

Mobile application

In 2018 we continued development of our mobile application. Details concerning new functionalities are described in chapter 3.2. The pillars of the "mobile Bank" strategy in mBank's activities.

Cooperation with AXA Group

In 2018, mBank continued cooperation with its strategic insurance partner AXA in terms of bancassurance. The partnership covers selling insurance products to mBank customers and focuses particularly on so called standalone product segment, including communication, tourist, housing and life insurance as well as segment of products linked to the banking products such as credit products.

Under the announced review of products offer, the bank modified its products portfolio by replacing previously provided group insurance products with insurances of individual character. In line with the market tendency, insurance products dedicated to credit products have been carefully scrutinised and simplified. The changes resulting from this verification constitute a starting point for wider transformation of mBank insurance offer, following needs of modern clients who intensively take advantage of remote channels to fulfil their needs and contact the bank. First adjustments are going to comprise standalone products and shall include both modifications as well as extending the insurance offer of the bank.

7.4. Retail Banking in the Czech Republic and Slovakia

The main focus in 2018 was on non-mortgage lending excellence and optimisation of processes related to those products. The branches completed several projects aimed at sales capacity extension and sales processes fine-tuning. The product offer was expanded with new scenarios, which strengthened and extended the range of available solutions.

mBank continued to strengthen its position of a mobile banking leader. 2018 was marked by further development of mobile banking by adding new features including fast loans based on pre-approved limits as well as opening a current account via the app. The interface was refreshed and currently application includes new features such as fingerprint and faceID login and Android Pay. In Slovakia Google Pay was launched in February 2018 and mBank was the only bank on this market with this service directly integrated into its own mobile application, together with improved user experience in lending process for new-to-bank customers by excluding of physical contact before credit decision.

The activities of the branches in the Czech Republic and Slovakia were also focused on active customer acquisition and the onboarding. At the end of 2018 mBank served 924.3 thousand customers in both markets (282.1 thousand in Slovakia and 642.2 thousand in the Czech Republic). Following customer-first approach and to be closer to our customers the new flagship branch in light design was opened in Prague Anděl area.

As a result of strategic partnership with Broker Consulting, a Czech independent financial services agent, 45 co-branded advisory outlets (OK points) specialising in banking services were operating in the country. The same number of deposit machines were also installed as part of the cooperation.

In June 2017 mBank introduced the first investment fund supermarket in Slovakia to its transactional system. It allows clients to invest independently and free of charge, 24/7 via the internet. At the end of 2018 clients opened 3.2 thousand investment accounts.

Activities of mBank in the Czech Republic and Slovakia won several major awards in 2018. mBank performed excellently in the Czech Zlatá koruna (Golden Crown) and Slovak Zlatá minca (Golden Coin). It won a total of 5 awards in Zlatá koruna contest, including the main awards in the two most important categories - Retail Clients' Choice and Entrepreneurs' Choice. Our new mobile application got double silver in categories "On-line application" and "News of the Year". In Slovakian Zlatá minca contest mBank received 7 awards including Golden success in Debit card category for Zlatá mKarta, Silver for mKonto and mSporenie. The mortgage loan won gold award and mKonto silver award in the Finparáda - financial product of the year contest. The competition is based on the analysis of annual market data carried out by Scott & Ross analysts. The Czech branch of mBank won a third in the row award Superbrands, while Slovak branch

won Superbrands award for the second time. The awards confirm mBank's place among the strongest brands in both countries.

Loans and deposits

The loan portfolio of mBank in the Czech Republic and Slovakia proved its growing tendency in 2018 and at the end of the year stood at PLN 4,708.9 million, which represents an increase of PLN 289.9 million, i.e. +6,6% year on year. As in 2017, the growth was driven primarily by non-mortgage loans.

Thanks to several new activities in non-mortgage lending and continuous trend of product and process improvements bank managed to significantly strengthen its non-mortgage portfolio in foreign branches. New sales of non-mortgage loans in 2018 amounted to PLN 708.1 million, down by 3.9% year on year. New sale of non-mortgage loans in the Czech Republic stood at PLN 521.6 million which implies a slight drop of 4.0% annually. At the same time new sale of non-mortgage loans in Slovakia fell by 3.6% and totalled PLN 186.5 million.

In mortgage lending branches were focused on sales recovery in Slovakia impacted by Polish banking tax introduction and keeping the level of the sales in the Czech Republic. Total new sales of mortgages in foreign branches in 2018 amounted to PLN 754.3 million, up 21.1% year on year. New sales of mortgage loans in Slovakia amounted to PLN 165.0 million compared to PLN 38.9 million in 2017. Czech branch kept positive development, observed earlier.

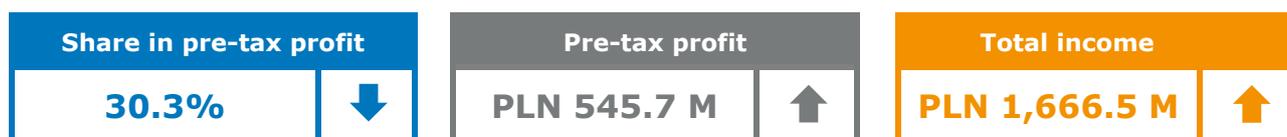
The volume of deposits continued to grow in 2018 to reach PLN 10,119.0 million at the end of 2018 which represents an increase of 14.0% year on year. This volume growth is represented mainly by growth on current accounts and is driven by increased clients transactionality.

8. Corporates and Financial Markets

The Corporates and Financial Markets segment serves 23,706 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 46 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. The segment comprises two areas: Corporate and Investment Banking, and Financial Markets.



Key financial data (at the end of 2018):



Key business data:

	2014	2015	2016	2017	2018
Clients (thousand)	17.8	19.6	20.9	22.0	23.7
Branches (pcs)	48	51	45	46	46
Loans to corporate clients (PLN M)	32,841	33,447	34,174	37,942	44,190
Deposits of corporate clients (PLN M)	32,237	34,424	37,383	34,590	35,346

Key highlights

- Increase of core income by 11.3% in comparison with 2017.

- Increase in corporate loans by 16.5% year on year.

- Record acquisition of 1.7 thousand of new corporate clients.

- Keeping Net Promoter Score (NPS) for corporate customers who indicated mBank as their main bank, at the high level of 40, close to the last year’s performance (market average at 25)¹.

- Increase in mBank’s market shares in loans to enterprises to 6.6% (from 6.4% in 2017).

- Providing corporate customers with new functionality of mobile authorisation in mCompanyNet transactional platform.

- Implementation of Qlips functionality, allowing issuers of invoices to display them in clients’ transactional services via mBank.

¹ Source: Kantar Millward Brown, August 2018.

8.1. Corporate and Investment Banking

Financial results

The Corporate and Investment Banking segment generated a profit before tax of PLN 545.7 million in 2018, which represents an increase by PLN 72.4 million, i.e. 15.3% year on year.

PLN M	2017	2018	Change in PLN M	Change in %
Net interest income	832.7	922.8	90.1	10.8%
Net fee and commission income	406.3	456.7	50.5	12.4%
Net trading income	246.3	252.8	6.4	2.6%
Other income	-6.1	0.2	6.2	-/+
Net other operating income/expense	17.9	34.0	16.0	89.4%
Total income	1,497.3	1,666.5	169.2	11.3%
Net impairment losses and fair value change on loans and advances	-168.1	-238.0	-70.0	41.6%
Overhead costs and depreciation ¹	-714.1	-728.8	-14.7	2.1%
Taxes on Group's balance sheet items	-141.7	-153.9	-12.2	8.6%
Profit before tax of Corporates and Investment Banking	473.4	545.7	72.4	15.3%

¹ In connection with the change of the cost allocation key for Bank Guarantee Fund since the beginning of 2018, the comparative data for 2017 regarding overhead costs by business segment activities of mBank Group have been changed accordingly.

The profit before tax of Corporate and Investment Banking in 2018 was driven by the following factors:

- **Higher total income** compared with the previous year (+PLN 169.2 million, i.e. 11.3%). The increase was observed in net interest income (+PLN 90.1 million, i.e. +10.8%), which was mainly caused by higher credit margins and volumes and lower costs of deposits (as a result of the conversion of term deposits into transactional accounts). The growth in net fee and commission income by PLN 50.5 million, i.e. 7.3%, was attributable mainly to higher credit-related commissions resulting from a substantial increase of loans origination;
- **Slight increase in operating expenses (including depreciation)** by PLN 14.7 million, i.e. 2.1%, in the analysed period;
- **Increase in net impairment losses and fair value change on loans and advances** by PLN 70.0 million, i.e. 41.6%, compared with 2017;
- **Tax on the Group's balance sheet items** at PLN 153.9 million.

Activity of Corporate and Investment Banking segment in numbers (mBank only)

	31.12.2016	31.12.2017	31.12.2018	Annual change in %
Number of corporate clients	20,940	22,048	23,706	7.5%
K1 ¹	2,123	2,093	2,193	4.8%
K2 ¹	6,067	7,088	7,520	6.1%
K3 ¹	12,750	12,867	13,993	8.8%
PLN M				
Loans to corporate clients, including	20,874.0	23,010.6	25,349.8	10.2%
K1	4,999.7	5,316.9	6,994.3	31.5%
K2	12,744.8	14,529.7	15,745.6	8.4%
K3	2,957.9	2,973.0	2,519.1	-15.3%
Reverse repo/buy sell back transactions	56.7	57.1	17.4	-69.5%
Other	114.9	133.8	73.4	-45.1%
Deposits of corporate clients, including	33,303.5	31,425.5	32,987.4	5.0%
K1	12,659.0	11,999.2	12,765.2	6.4%
K2	12,348.3	13,483.3	13,048.9	-3.2%
K3	6,276.4	5,079.0	5,993.2	18.0%
Repo transactions	1,600.5	439.6	713.1	62.2%
Other	419.8	424.4	467.1	10.1%

¹ Due to the customer re-segmentation in 2018, corporate customer, loans and deposits data is incomparable year on year.

The year 2018 saw an increase in corporate loans and deposits. The corporate loans market grew by 8.6% year on year, whereas the corporate deposits market expanded by 3.1%. In this context, mBank reported higher growth in loan volumes (12.0%), but a decrease in deposit volumes by -2.9% (based on the volumes comparable with loans and deposits of enterprises aggregated by NBP). At the end of 2018, mBank market shares in the loans and deposits of enterprises reached 6.6% and 9.0%, respectively.

In 2018, 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 by 1,658 companies year on year, up to 23,706.

The acquisition of new clients boosted current account deposits, which increased by 11.2% year on year. The high volume of current deposits is a springboard for further development of transactional banking,

which is of special relevance to the bank due to growth potential and the forging of closer relations with clients.

2018 was marked by dynamic growth and development in the SME (K3) segment with an over 30% year-on-year increase in the number of new clients. More than 3,000 new clients chose financial solutions offered by mBank. A wide range of corporate banking services coupled with state-of-the-art tools, including the modern electronic banking system mBank CompanyNet, were highly popular with clients with over 60% of them selecting the package offer.

Clients appreciated the initiatives and measures introduced so far in the K3 segment, which can be seen in the results of the customer satisfaction survey – for entrepreneurs who indicated mBank as their main bank, NPS stood at 32. In addition, the proportion of clients who were satisfied or very satisfied with mBank's services stood at 76%, thus, not changing from the previous year (source: Corporate Client Satisfaction Survey - K3 Segment, December 2018).

To respond to challenging market conditions, mBank has been continuously enhancing its SME customer service processes and adjusting its product portfolio to clients' needs and the legal environment. We were one of the first banks to launch a comprehensive solution implementing VAT split payments and took an active part in educational campaigns addressed to companies. We organised training sessions, developed webinars and participated in debates and conferences on split payment. The solution was accompanied by special credit ("Frozen VAT" or "Zamrożony VAT") and deposit ("We'll pay you 2% on your VAT account by the end of the year" or "W mBanku oprocentujemy Twój rachunek VAT 2% do końca roku") offers. In 2018, for the first time, mBank was an official partner of the Great Orchestra of Christmas Charity (WOŚP) with the corporate banking area launching the "Heart-to-heart Account" ("Rachunek na dwa serca") campaign. Account fees charged from January until June 2018 were donated to the charity.

In 2018, we launched another edition of the Corporate Client Satisfaction Survey. It is a relationship exercise, which consists of a comprehensive assessment of clients' cooperation with the bank. We believe that feedback from clients is a highly valuable indicator of measures that should be taken in order to enhance our image as a bank offering the very best solutions for demanding corporate clients. The Net Promoter Score (NPS) is the key indicator which we continuously focus on in satisfaction surveys. For corporate clients who indicated mBank as their main bank, NPS stood at 40 and was similar to the previous year's figure. mBank fared much better than the market average of 25 (source: Kantar Millward Brown, August 2018). The most important element of the NPS programme is the closed-loop contact: mBank advisers talk to representatives of corporate clients immediately after the survey with a view to collecting more detailed feedback from the clients. This helps to identify reasons for low recommendations among the respondents as well as the incentives thanks to which promoters are willing to recommend mBank to their business partners.

The sound level of NPS in the Corporate and Investment Banking segment results from the implementation of the NPS programme - mSatysfakcja project (mSatisfaction). The main goal of this initiative is to increase the level of genuine satisfaction of corporate clients with mBank's offer and services, listen to the clients and improve our relationship with them in the context of promoting one of the most significant values of mBank – empathy towards clients.

mBank's corporate banking was praised by the Global Finance magazine. mBank won the competition and was named the Best Treasury and Cash Management Provider in Poland. mBank triumphed also in the "World's Best Corporate/Institutional Digital Banks 2018" category of the competition. In addition, we were hailed as the best transactional bank for corporate clients in Poland in the Euromoney Cash Management Survey.

Products and services on offer

Corporate loans

The value of loans granted by mBank to corporate clients (excluding reverse repo transactions) stood at PLN 25,332.4 million at the end of 2018, representing an increase of 10.4% year on year (PLN 22,953.5 million at the end of 2017).

PLN M	31.12.2016	31.12.2017	31.12.2018	Annual change in %
Loans to corporate clients ¹	20,817	22,953	25,332	10.4%
Loans to enterprises ²	19,950	21,969	24,616	12.0%
Loans granted to local governments	708	550	360	-34.5%
Market of loans to enterprises	324,817	344,882 ³	374,438	8.6%
mBank's share in the market of loans to enterprises	6.1%	6.4%	6.6%	

¹ The bank, excluding reverse repo transactions.

² NBP category which ensures comparability of results of the banking sector.

³ Position was changed compared to the Management Board Report on Performance of mBank S.A. Group in 2017 resulting from an update of data by NBP.

Corporate deposits

The value of corporate deposits at mBank (excluding repo transactions) stood at PLN 32,274.3 million at the end of 2018, representing an increase of 4.2% year on year (PLN 30,985.9 million at the end of 2017).

PLN M	31.12.2016	31.12.2017	31.12.2018	Annual change in %
Corporate deposits ¹	31,703	30,986	32,274	4.2%
Deposits of enterprises ²	28,450	27,909	27,099	-2.9%
Deposits of local governments	237	506	267	-47.2%
Market of deposits of enterprises	282,215	291,941	301,026	3.1%
mBank's share in the total deposits of enterprises	10.1%	9.6%	9.0%	

¹ The bank, excluding repo transactions.

² NBP category which ensures comparability of results of the banking sector.

Structured finance, project finance, syndicated loans

mBank's Corporate and Investment Banking offers structured and mezzanine financing, supporting in particular mergers and acquisitions and investment projects. In 2018, mBank co-financed around 50 projects as part of bilateral and syndicated arrangements, providing clients with approx. 114 credit risk products. The bank's new exposure under syndicated and bilateral products stood at PLN 4,697.8 million.

De Minimis guarantees

In 2018, mBank continued to execute the Portfolio Guarantee Line De Minimis (PLD) Agreement as part of the government's "Supporting Entrepreneurship through BGK Sureties and Guarantees" programme. As at December 31, 2018, the limit utilisation level reached PLN 2,507.8 million. On June 25, 2018, mBank signed another Portfolio Guarantee Line De Minimis Agreement (PLD-KFG) as a continuation of the previous agreement (PLD). As at December 31, 2018, the limit utilisation level reached PLN 294.3 million.

COSME

mBank offers the portfolio guarantee line with a counter-guarantee provided by the European Investment Bank under the COSME programme (a European Union programme supporting the competitiveness of

enterprises in 2014–2020). The BGK guarantee limit for mBank stands at PLN 550 million. As at December 31, 2018, the limit utilisation level reached PLN 389.8 million.

European Union financing

On July 11, 2018, the bank signed a new agreement with the European Investment Bank (EIB) on opening a EUR 150 million credit line dedicated to financing projects and liabilities related to the production cycle of SMEs (entities with less than 250 employees) and MID-CAPs (entities with a headcount ranging from over 250 to less than 3,000 employees).

Issue of debt securities for corporate clients

The share of mBank in the non-treasury debt market as the end of 2018 is presented in the table below.

	Short-term debt	Corporate debt	Mid-term bank debt
mBank (PLN M)	1,825	8,741	13,092
Market (PLN M)	15,793	72,766	55,920
Market share	11.56%	12.01%	23.41%
Market position	#3	#3	#1

The biggest transactions in 2018 included the placement of subordinated bonds of mBank worth PLN 750 million and covered bonds of mBank Hipoteczny worth a total of PLN 310 million.

In the corporate bonds market, the bank carried out a series of new significant issues, i.e.: EPP Finance (EUR 102 million), CCC (PLN 210 million), Echo Investment (PLN 140 million), LC Corp (PLN 100 million), EFL S.A. (PLN 75 million), Archicom SA (PLN 50 million).

Transactional banking

Cash management is an area of Corporate Banking which offers state-of-the-art solutions that facilitate the planning, monitoring and management of highly liquid assets, cash processing, as well as electronic banking. The solutions streamline daily financial operations, enhance effective cash flow management, and help to optimise interest costs and income.

mBank’s comprehensive cash management offer, supporting long-term relationships with clients, is reflected in the following data (year on year comparison):

Number of domestic transfers	+1.3%
Number of outgoing foreign transfers	+7.9%
Number of direct debit transactions	+16.9%
Number of corporate payment cards	+12.8%
Number of prepaid corporate cards	+30.3%

Electronic escrow account

The **electronic escrow account** is a new product that was launched in 2018. It is an electronic platform enabling clients to open escrow accounts and make and settle escrow account transactions without the need to sign a paper-based account agreement or visit a branch. Using the platform, clients can easily secure and settle transactions that carry a certain degree of risk. The service process is fully automated, fast and smooth. The electronic escrow account is the first transactional system offered by mBank that serves both corporate and retail clients. It is integrated with the new transactional system of mBank and mBank CompanyNet with all features available also in the mobile version.

Digitalised cash management process - cash deposit machines on client’s premises

In an effort to digitalise its banking service, mBank launched a unique solution based on dedicated devices allowing clients to quickly and easily deposit cash into their mBank accounts. Installed in a location agreed between a client and the bank, a cash deposit machine enables making open cash deposits in banknotes and coins in any currency and amount. The machine performs full automatic verification and identification

of deposited funds. It communicates automatically with the bank, enabling online booking of deposits, and with the cash transportation company, sending a notification whenever funds need to be collected.

Mobile authorisation

Mobile authorisation is a new, convenient and safe way of logging into mBank CompanyNet and authorising transactions in the system. The operations are executed using a dedicated application installed on a smartphone running on Android or iOS. Mobile authorisation saves time as clients no longer have to enter a confirmation password generated by a token when logging into the system and making wire transfers and other transactions. All the user needs to do now is select "Accept" in the mobile application to authorise an operation. Operation details are presented in a clear way in an authorisation message. It takes only one click to authorise or reject an operation.

Administrator's Centre

In an effort to digitalise processes taking place between the bank and our clients, we added the Administrator's Centre in mBank CompanyNet. The centre allows clients to manage users, e.g. quickly add a new user or define his/her authorisations in a simplified and convenient manner.

Ultimately, all clients will have users with administrative privileges, which will enable them to not only manage parameters in mBank CompanyNet, but also apply for banking products without the need to deliver paper-based documentation.

QLIPS – available to corporate and retail banking clients of mBank

Qlips enables invoice issuers to transmit information about bills and invoices via mBank and make it available to payers in the form of ready-to-pay wire transfers in online banking. The Qlips version for retail clients is called "Your bills" ("Twoje rachunki"). Qlips is addressed to B2C invoice issuers, such as telecoms, energy and gas providers, insurance companies, housing cooperatives, schools etc. and C2B payers. Issuers who wish to use Qlips must sign an agreement with their bank, whereas payers must provide their bank with the relevant consent. In both cases, the bank must be a signatory to the interbank agreement.

Qlips, which is an interbank system, is available 24/7. It runs fully automatically and does not require any codes or passwords. The payer is provided with a transfer instruction, which they can accept, reject or ignore. The issuer is notified about the payer's decision before the payment is credited to their account. In the future, invoice issuers will be able to post links to their electronic customer service bureaus onto electronic banking platforms. This will enable payers to check bills and invoices. We also plan to launch a B2B version of Qlips.

Electronic mismatch reports

In September 2018, mBank CompanyNet launched electronic mismatch reports for closed cash deposits, i.e. cash deposited by clients. Before, mismatch reports were mainly paper-based and their distribution was time-consuming. The new solution is easy and convenient.

Implementation of changes arising from PSD2

On December 17, 2018, we introduced changes arising from PSD2 relating to corporate banking products. The directive was implemented in Poland by way of the Payment Services Act, which entered into force on June 20, 2018. The most important changes include a shorter period for handling a complaint - 15 business days or 35 business days in special cases. In addition, SHA has become the only cost option for foreign payments sent to other EU countries, Norway, Iceland and Lichtenstein (EEA), which means that the bank's fees and commissions are paid by the payer, whereas the remaining fees and commissions related to a transaction are charged to the beneficiary.

8.2. Financial Markets

Financial results

In 2018 the Financial Markets segment generated a profit before tax of PLN 83.4 million in 2018, compared with PLN 96.8 million posted in 2017, marking a drop by PLN 13.4 million, i.e. 13.9%, year on year.

PLN M	2017	2018	Change in PLN M	Change in %
Net interest income	282.2	253.5	-28.6	-10.2%
Net fee and commission income	-7.6	-10.1	-2.4	32.2%
Net trading income	-64.9	-32.1	32.8	-50.6%
Other income	20.8	18.2	-2.6	-12.5%
Net other operating income/expense	-0.3	-0.5	-0.3	101.5%
Total income	230.2	229.0	-1.2	-0.5%
Net impairment losses and fair value change on loans and advances	2.1	0.2	-2.0	-92.4%
Overhead costs and depreciation ¹	-103.2	-109.3	-6.0	5.9%
Taxes on Group's balance sheet items	-32.3	-36.5	-4.3	13.2%
Profit before tax of Financial Markets	96.8	83.4	-13.4	-13.9%

¹ In connection with the change of the cost allocation key for Bank Guarantee Fund since the beginning of 2018, the comparative data for 2017 regarding overhead costs by business segment activities of mBank Group have been changed accordingly.

The profit before tax of Financial Markets in 2018 was driven by the following factors:

- **Slight drop in total income** by PLN 1.2 million on the prior year. The decrease in core income resulted mainly from reduced net interest income (-PLN 28.6 million, i.e. 10.2%), mainly due to lower yields on treasury bonds. At the same time, net trading income increased by PLN 32.8 million or 50.6%, which was attributable to the valuation of interest rate derivatives and larger volume of transactions concluded with clients;
- **Increase in operating expenses (including depreciation)** to PLN 109.3 million;
- **Tax on the Group's balance sheet items** at PLN 36.5 million.

Activity of the Financial Markets segment in 2018

Since January 2018, the activities of the financial market products sales area have been focused on centralising its dealing room in Warsaw. The centralisation referred to the dealers serving clients over the phone. The sales force, i.e. product specialists, were relocated to the bank's branches in order to be closer to clients.

Additionally, the Financial Markets Sales Department undertook activities that impacted the volume of realised transactions and income generated from the bank's cooperation with clients:

- Low market volatility and regulatory changes (including MiFID) made it necessary for sales teams to step up their efforts in acquiring new clients over the phone, which eventually pushed the margin on transactions with corporate clients up by 2.8% year on year;
- The margin on the currency platform grew by 8.7% year on year;
- The onboarding and retention measures taken in the area of entrepreneurs served by mBank's Retail Banking business line led to increased sales on the retail platform by 27.2% year on year with margins up by 24.5% compared with 2017;

- Also the volume of commodity prices hedging transactions concluded with corporate clients grew considerably in 2018. Turnover rose by 24.3% and margins surged by 72.0%. The Commodity Transactions Sales Division launched numerous initiatives consistent with the client-centric strategy, such as co-organisation of conferences for industries in which our clients operate. The aim of named events is strengthening mBank’s position as a leader of commodity transactions sales in Poland.

mBank’s market shares in specific financial instrument markets as of December 31, 2018, are presented below:

	Treasury bills & bonds	IRS/FRA
mBank	14.3%	10.7%

Financial Institutions

The Financial Markets area covers relations with financial institutions, focusing mainly on raising capital from other banks and placing excess funds with them.

As at December 31, 2018, mBank had 11 active received loans in the amount of PLN 5,356 million, of which the utilized value stood at PLN 5,152 million. In 2018 four loans in EUR were repaid at the total value of PLN 1,720 million. We repaid also two loans in Swiss franc totalling PLN 7,633 million. Additionally, new loans were obtained by the bank: we received a loan in USD in the amount of PLN 188 million, in CHF in the amount of PLN 954 million and in EUR of PLN 645 million. Concerning all transactions described above, net debt of mBank resulting from loans received from financial institutions was reduced by PLN 2,381 million compared to end of 2017. At the exchange rates from the end of 2017, the decrease would amount to PLN 203 million.

At the end of December 2018, mBank’s exposure of loans granted to other banks reached the equivalent of PLN 124.2 million. mBank’s portfolio comprised short- and medium-term active loans granted to financial institutions from Poland and abroad.

The greatest accomplishments of the Financial Institutions Department in 2018 included mainly obtaining new funding in the amount of:

- EUR 150 million from the European Investment Bank (EIB);
- USD 50 million from Wells Fargo Bank N.A., London branch;
- CHF 250 million from Commerzbank AG.

Also, in the past year mBank managed to acquire several new loro accounts and kept its position as one of the leading Polish banks in handling settlements in the Polish zloty. Moreover, in 2018 the Financial Institutions Department continued to actively support trade transactions concluded by Polish exporters by offering short-term financing to financial institutions. At the same time, the bank was still serving banks from the Commonwealth of Independent States (CIS) and offering them medium-term loans secured with KUKE (Export Credit Insurance Corporation) insurance policies.

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 their assets, and processing corporate actions. mBank’s custody clients are mainly financial institutions, in particular investment and pension funds, local and foreign financial institutions, banks offering custodian and investment services, insurance companies, asset management institutions and non-financial institutions.

In 2018, the number of served investment funds decreased by 8.7% year on year. The reduction resulted from continued change in the structure of the portfolio of clients serviced by the Custody Department. The number of non-public assets funds declined as well.

9. Activities of subsidiaries of mBank Group

9.1. Summary of financial results of mBank Group subsidiaries

In 2018, the profit before tax generated by mBank Group subsidiaries amounted to PLN 522.7 million, compared with PLN 245.5 million in the previous year.

The year-on-year increase was attributable to, among others, changes in the Group's structure, in Particular sale of an organised part of mFinance enterprise. Higher results were also recorded by mBank Hipoteczny and mFaktoring. Improvement of "Other" position was mainly related to the sale of real estate previously owned by Garbary subsidiary.

The table below presents the profit before tax posted by individual subsidiaries in 2018 compared with 2017.

PLN M	2017	2018	Change in PLN M	Change in %
mFinance	141.4	364.4 ¹	223.0	157.7%
mLeasing ²	64.8	65.1	0.4	0.6%
mBank Hipoteczny	34.8	60.7	25.9	74.5%
mFaktoring	14.7	21.0	6.3	43.1%
Other ³	-10.1	11.5	21.6	+/-
Total gross profit of mBank's subsidiaries	245.5	522.7	277.2	112.9%

¹ Reflects result on the sale transactions of organised parts of enterprise of mFinance.

² Includes result of Asekum Sp. z o.o.

³ Other subsidiaries include mFinance France, mCO, BDH Development, Garbary, Tele-Tech Investments and Future Tech.

9.2. Business activity of selected subsidiaries



In 2018, the activities of an open platform of financial products distribution mFinance remained under influence of organizational changes resulting from sale of organized parts of business. The biggest impact on the subsidiary's financial results came from the sale of an organised part of enterprise whose activities involved, among others, providing insurance intermediation in the area of group insurance, which took place in Q1 2018. In Q4 2018 mFinance performed sale transaction of an organised part of enterprise, providing among others insurance intermediation in scope of group insurance of leasing assets, to Asekum. In consequence, gross profit of subsidiary in 2018 amounted to PLN 364.4 million compared to PLN 141.4 million a year before.

mFinance recorded in 2018 an increase in mortgage loan sales by 41.5% (PLN 1,897.4 million in 2018 against PLN 1,341.2 million in 2017). In the period under review, mFinance also reported an increase in cash loan sales by 81.4% (PLN 550.5 in 2018 against PLN 336.9 million a year before). The profit from selling car loans dedicated to car dealers rose year on year by 16.3% (PLN 324.4 million in 2018 against PLN 278.9 million in previous year). In 2018 the subsidiary's sales results in the area of car leasing increased significantly by 244.1% (PLN 126.0 million compared to PLN 36.6 million in 2017).

In 2018, mFinance continued its sales network development project aimed at placing new outlets in the regions with no physical presence of mBank and mFinance. Additional 20 outlets were established in the analysed period and at the end of 2018 the company managed 143 mKiosks.

The subsidiary's profit before tax in 2018 amounted to PLN 364.4 million compared with PLN 141.4 million a year before. The profit before tax was, to a large extent, influenced by sale transactions of organised parts of insurance business.

m Leasing

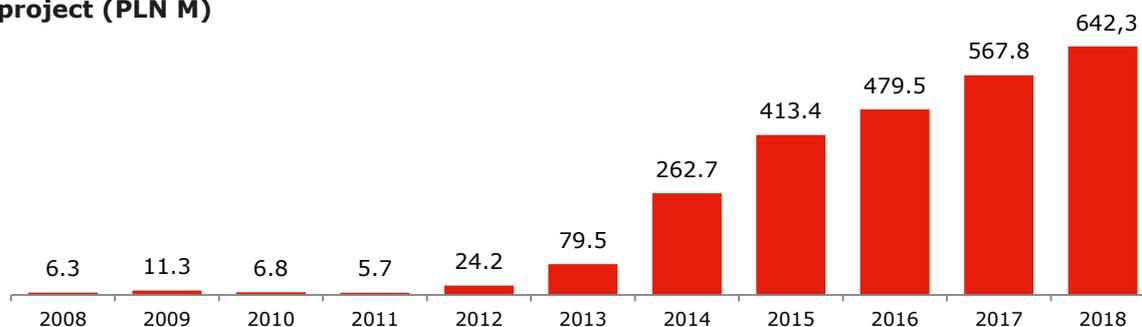
The value of contracts executed in 2018 amounted to PLN 6.1 billion compared with PLN 5.0 billion in 2017, which represents an increase of 22.1% year on year. As demand increased in 2018, the sales grew year on year, mainly driven by an increase in the vehicles sector. The value of contracts regarding movables concluded in 2018 amounted to PLN 6.0 billion compared with PLN 4.6 billion a year before (i.e. +27.9% year on year), while the value of contracts concerning real estate stood at PLN 0.1 billion compared with PLN 0.3 billion in 2017 (i.e. -60.4% year on year).

The profit before tax of mLeasing in 2018 was kept at the level close to last year’s result, i.e. PLN 65.1 million against PLN 64.8 million in 2017. In 2018 continuation of increasing cost of funding expressed in higher margin on loans received by mLeasing could have been observed.

The “Leasing in Retail” project continued in 2018. The initiative is dedicated to mBank’s business clients and enables them to conclude a leasing agreement using special leasing processes. Thanks to the combined efforts of Retail Banking and mLeasing, in 2018 mLeasing financed fixed assets obtained in cooperation with Retail Banking worth PLN 642.3 million according to their purchase price.

The chart below presents the value of leasing contracts executed under the “Leasing in Retail” project:

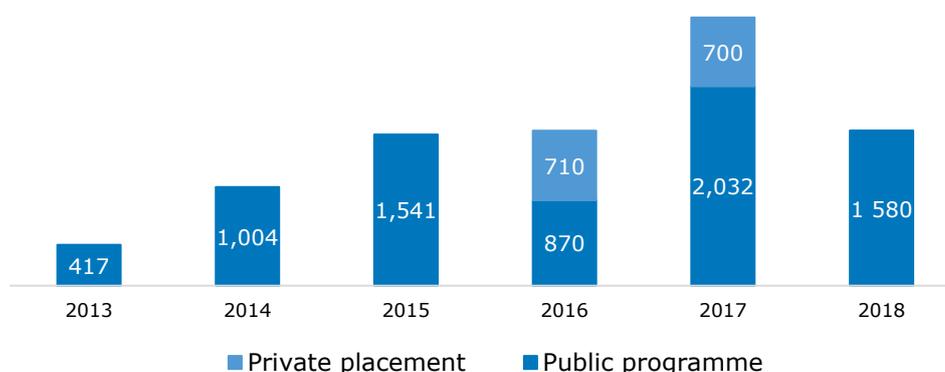
Value of new leasing contracts as part of "Leasing in Retail Banking" project (PLN M)



m Bank Hipoteczny

In 2018, mBank Hipoteczny (mBH) placed 3 issues of mortgage covered bonds in the total nominal amount of PLN 1.6 billion. Details concerning covered bonds issue are described in chapter 5.2. mBank Group funding.

Covered bonds issues in 2013-2018



The gross loan portfolio of mBank Hipoteczny totalled PLN 11.3 billion at the end of 2018 (i.e. +3.8% in comparison with 2017). That change was driven mainly by a systematic rise in the commercial portfolio

(+12.3% year on year). Over the year, sale in this segment amounted to PLN 1.8 billion. Despite transfer of retail loans sale to mBank, in 2018 this portfolio increased by 5.7% at mBH. Retail portfolio in 2018 benefited from pooling transactions which amounted to PLN 603 million over the year.

Despite the additional burden imposed on the bank in the form of a banking tax (PLN 27.6 million), in 2018 the company reported a 74.5% increase year on year in the standalone profit before tax. The profit before tax amounted to PLN 60.7 million at the end of 2018, compared with PLN 34.8 million in 2017.

Compared with the previous year, mBH's profit was driven mainly by improvement in the net interest income (+11.7%) linked to substantial early repayments in the corporate portfolio (higher by 27.6% than year before). Moreover, in 2018 mBH recorded lower fee and commission costs compared to the previous year, thanks to, among other reasons, transfer of retail loans sale to mBank. In addition, loan loss provisions remained at the similar level to the one observed in 2017 while costs of mBH's functioning decreased by 6.2% year on year.

Faktoring

In 2018, the company was growing dynamically, breaking new business records. Turnover (the value of purchased invoices) was historically high at PLN 19.2 billion (an increase of 39.5% year on year). The company was growing faster than the factoring market in Poland, which expanded by 31.2% year on year. Thanks to this the company ranked sixth on the factoring market in Poland with a 7.9% market share (according to the Polish Factors Association). In 2018 mFaktoring acquired nearly 200 new clients and currently serves over 600 customers.

All corporate branches actively participated in development of factoring portfolio, adding PLN 695 million of new factoring limits. Structure of clients distributed by corporate segments was as follows: K1 – PLN 65 million (2 clients), K2 – PLN 444 million (64 clients), K3 – PLN 186 million (114 clients).

Dynamic business development positively contributed to an improvement of subsidiary's financial results. The profit before tax of mFaktoring amounted to PLN 21.0 million in 2018 compared to PLN 14.7 million in the previous year.

10. Investments

10.1. Investment spending in 2018

The investment projects run by mBank in 2018 were aimed primarily to support technological development and, in consequence, further organic growth of the bank. We put the greatest focus on solutions enhancing customer satisfaction and experience. With PLN 363.5 million spent in 2018 (vs. PLN 393.9 million in 2017) the Group's investment spending was lower than in the year before.

As in previous years, the biggest portion of mBank's investment spending was allocated to IT (PLN 258.8 million). The mobile application was enriched with new features and products as well as adjusted to new regulatory requirements, such as General Data Protection Regulation (GDPR) and split payment regulations. More information about the new features of mBank's mobile application can be found in chapter 3. Strategy of mBank Group. At the same time, we started to implement iterative changes to our online banking to meet the needs and expectations of our clients. We also launched a range of new features making the platform even more useful from the point of view of our clients - for more details see chapter 7.3. Retail Banking of mBank in Poland and chapter 8.1. Corporate and Investment Banking.

Our investment projects were focused on enhancing efficiency and cost optimisation. We improved the corporate banking credit procedure for K3 clients (SMEs) using an automated scoring mechanism, standardized documents and a simplified collateral catalogue. Another project aimed at increasing efficiency in the corporate banking area involved integration of the key processes in central units.

Furthermore, we carried out a number of projects adjusting the bank's processes and systems to new regulations, such as MiFID II (Markets in Financial Instruments Directive), PSD2 (Payment Services Directive), STIR (clearing house ICT system) and split payment (both related to the Polish tax system), GDPR and IFRS 9 (International Financial Reporting Standard 9).

With PLN 61.2 million, the real property area ranked second in terms of investment spending.

In 2018, we continued the "One Network" project by opening six light branches and four advisory centres. Additionally we carried out development of selected branches in our network. As a result four new light branches were opened.

10.2. Investment plans for 2019

Investments scheduled for 2019 are targeted on further digital transformation. We will be optimising and automating customer service and internal processes to strengthen our competitive advantage. The projects are designed to support our "mobile Bank" strategy and omnichannel approach to customer assistance. The new projects will be aimed at increasing process efficiency, reducing costs, improving IT system security and ensuring compliance with legal regulations.

Over the next few years, we will also work on strengthening our market position in the Czech Republic and Slovakia by increasing the number of acquired clients, offering better customer experience and developing the mobile application.

Many projects launched in 2018 will be continued in 2019. We plan to open 12 light branches, one standard advisory centre and two small advisory centres. We will also focus on ensuring full compliance of our operations with all legal requirements.

11. HR development

11.1. Changes in employment

At the end of 2018, the total employment in mBank Group was 6,524 FTEs compared with 6,455 FTEs a year before (+1.1% or +69 FTEs).

At the end of 2018, employment at mBank amounted to 5,839 FTEs and rose by 425 FTEs, i.e. 7.8% compared with 2017. The visible annual growth resulted mainly from organizational changes after incorporation of part of mCentrum Operacji subsidiary into the bank.

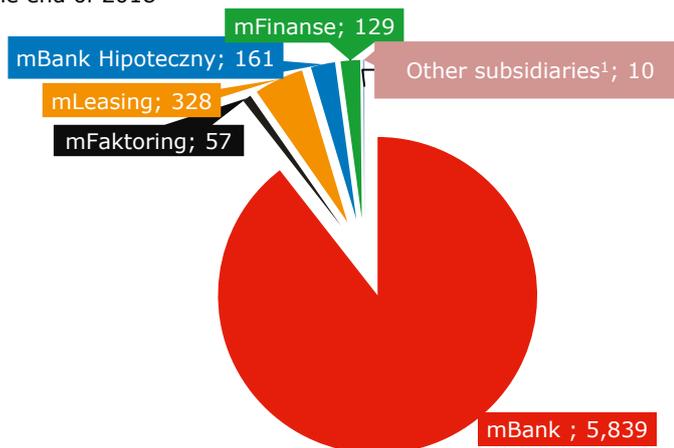
At the end of 2018, employment in mBank Group subsidiaries amounted to 685 FTEs and decreased by 356 FTEs or 34.2% v. 2017. Reduction of employment in the subsidiaries is related primarily to shifting part of FTEs from mCO to the bank after division of the subsidiary as well as continuation of processes optimisation after the transfer of mortgage lending competency from mBH to mBank. At the same time an increase of employment in mLeasing was recorded, partly driven by enhancing offer by leasing objects insurance.

mBank's employees are relatively young: 43% are below the age of 35. They are also well-educated: 83% 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

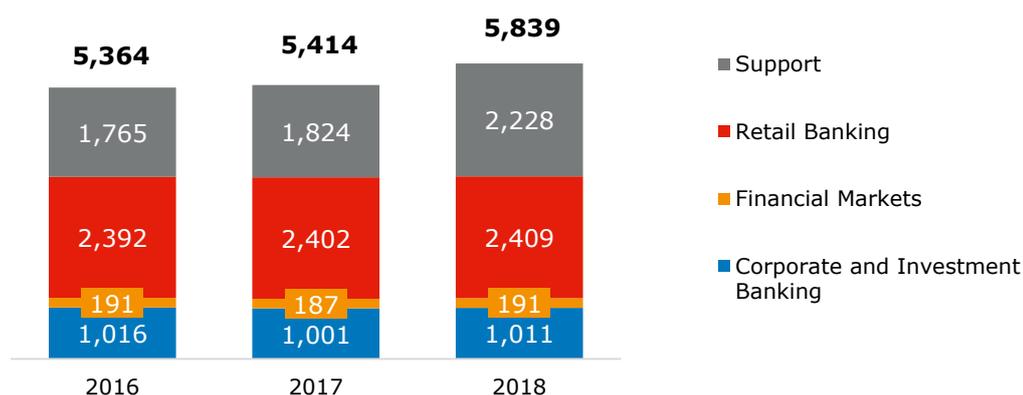
in FTE at the end of 2018



¹ Other subsidiaries include: Tele-Tech Investment, mFinance France, BDH Development, mCentrum Operacji and Garbary.

Headcount in mBank by business lines

in FTE in 2016-2018



11.2. Training and development activities

Development activities

mBank Group's operations are guided by specific objectives, vision and business strategy, which arise from the organisational values defined by the employees. Both the business objectives and values constitute the foundation for planning development activities. We are currently pursuing development activities under the slogan "Log in to Development", which reflects and promotes the touch of mobility we add to our activities in this field.

Zaloguj się
do rozwoju



The aim of development activities is to constantly improve the level of knowledge and skills and create optimum development possibilities for our employees, who are the most valuable resource of mBank Group. We firmly believe that an employees' development depends mostly on their own initiative and engagement in the career planning process. The role of a manager is to support, inspire and offer new opportunities. Knowing the development needs and plans of employees, managers can skilfully stimulate the employees' development, help them create individual development plans, offer encouragement and create favourable conditions for self-investment.

The key role of the Employee and Organisation Culture Development Department is to provide appropriate tools and support and to professionally implement development and training processes. We constantly upgrade existing and design new activities to respond to the development needs of our organisation. Our new development programme "**Manager's Role in the New Strategy**", addressed to all managers in mBank Group, is a good example. Underlying the programme are Empathy and Effectiveness, the two pillars of the new strategy. The Empathy module comprises exercises in empathic communication and conflict-solving and in understanding other people's needs and opinions. The Effectiveness module aims at improving management skills and is based on Lean Management philosophy, a concept under which team work, ongoing problem-solving and continuous drive for excellence become part and parcel of a strategy pursued by an organisation.

Another example is the programme "**Host, Designer, Coach New**", which helps build managerial skills and attitudes. The programme was designed with young managers in mind, who have just begun picking up skills and gaining experience in the field of employee management. It consists of a series of training sessions and activities to be incorporated into daily work with the trainees' teams and supervisors. The programme teaches young managers how to delegate, motivate, plan and develop the skills of their employees.

Your Development Plan, in turn, is an interactive online training course designed to support employees in creating their individual development plans. Its attractive and user-friendly interface introduces the employees to the development area and helps them answer questions about self-improvement and learning new skills. Individual sessions can be accessed via links emailed to the employees. One session lasts from several minutes to about an hour and covers diverse materials dedicated to the issue of development in the form of inspiring texts, videos, quizzes and webinars.

mBank brings a multitude of development tools to its employees, giving them unlimited access to mobile training. The advantages offered by mobile training are highly valued in the bank, while the broad range of topics covered allows the employees to gain loads of new knowledge. The tools include, in particular:

- **LinkedIn Learning** - access to over 10 thousand courses in various forms: videos, lectures, audio tutorials, presentations, animations and tests. The courses are broken down into numerous categories ranging from soft skills to technical knowledge, as well as extended development paths based on recommendations from business practitioners;
- **Legimi digital library** - a platform allowing our employees to freely use a vast resource of e-books and audiobooks;
- **Harvard Business Review Poland** - unlimited access to the digital library of the "Harvard Business Review Polska" magazine, the electronic version of the magazine and to a training module "The Art of Business Writing" by ICAN Business Advisor;

- **E-tutor platform for learning English** - offering more than 800 lessons at all levels ranging from A1 to C2 and 150 lessons in business English. The platform is available to all interested employees who made learning English one of their development goals.

We also created a number of platforms dedicated to development, such as **Employees** or **Log in to Development**, and update them on an ongoing basis by adding new information, inspiring users to start development activities, presenting the development tools available in mBank and posting interesting articles. Using the intranet and direct mailing, we encourage the employees to participate in selected development programmes that cater for their needs.

Other development campaigns organised in 2018 include:

- **Development Days** - a cyclical event lasting several days held once a year. The participants have the chance to discover the development opportunities offered by our organisation and are encouraged to get inspired by and experiment with various forms of development. Moreover they can join in a variety of activities: presentations, lectures, workshops, discussions, consultations, webinars, etc. During this event we also present development tools powered by new technologies;
- **Our people make the difference. Help us find the exceptional ones** - the purpose of the programme is to select the employees who demonstrate above-average commitment beyond their standard duties, share knowledge and adopt an attitude compatible with the values cherished by the bank. "Our people make the difference" is not a catchy marketing slogan, but an initiative designed to support the new strategy of the bank and award forward-thinking employees who inspire others, constantly learn new things and expand their horizons. The programme was launched in order to appreciate employees who made a remarkable debut in our organisation and show the support teams and people behind the unique products and transactions, outstanding managers, innovators and all those whose attitudes and behaviour may be held up as an excellent example of effective cooperation;
- **Development Fridays** - a cyclical event held every first Friday of the month offering the chance to participate in interesting workshops, lectures and consultations. During this event we also present development tools powered by new technologies.

The efforts made by the HR department have been awarded in this year's edition of the Employer Branding Stars contest. We received the EBstars 2018 award in the category *The Best Employer Branding Campaign* up to PLN 100,000 for our campaign "Discover mBank's Colours in Yourself" and for the campaign "Link Leaders for mBank (Przystanek mBank: Move)" in the category of campaigns worth over PLN 100,000.

mBank's team was also awarded in a partner's category for its project "To help. Not to annoy. To delight. Anywhere - effective and friendly recruitment in mBank", which represents a friendly recruitment process based on broad communication with potential candidates. The project is a true reflection of candidates' voices. It helps them learn the guiding principles of our company, both before and after getting on board. Speaking of support for candidates, it is also worth mentioning a special website created by the bank, combining standard onboarding with unique solutions, such as, a virtual walk around the office.

The Young Talents Programme

The Young Talents Programme, launched 8 years ago, is mBank's response to current and future needs of the organisation and expectations of candidates - students and graduates.

The programme is a part of mBank Group's strategy of creating its image as an employer among students and graduates. It helps the organisation to acquire talented individuals entering the labour market and prepare them to take up independent tasks at the bank. Consequently, it facilitates access to candidates for entry-level positions, thus optimising recruitment processes and increasing the importance of internal recruitment.

Composed of traineeships and internships, the Young Talent Programme is addressed to students and graduates who intend to work in the banking industry in the future. The programme participants receive the opportunity to acquire practical skills and knowledge and receive ongoing support from their supervisor. Moreover, interns and trainees work under an employment contract and have access to employee benefits.

The Young Talents Programme consists of the following two sub-programmes:

- **Traineeship programme**, consisting of traineeships with flexible working hours, with trainee positions offered throughout the calendar year so that trainees may easily combine their work at mBank with studies and other obligations. Thanks to traineeship, the trainees become familiar with one area of the bank's operations. The traineeship contract is signed for a term of 3 to 12 months for part-time or full-time. There were 98 trainees at mBank Group in 2018, of whom 31 interns were employed after the programme and 32 interns continue the programme in 2019;
- **Internship programme** of mBank is addressed to people who are open, committed and full of enthusiasm, who have already gained experience as trainees or as members of students' science associations and student organisations. Internship contracts are signed for a term of 6 to 12 months. Interns work full time. The internships in Łódź and Warsaw are conducted on a rotational basis which makes it possible for an intern to become familiar with several areas of the bank. Candidates applying for an internship choose one profile determining the leading competence during the internship. There were 44 interns at mBank Group in 2018, of whom 17 interns were employed after the programme.

11.3. mBank Group's incentive program

The incentive system of mBank is based on the remuneration policy and intangible elements (e.g. career development opportunities). The incentive system plays a key role in developing corporate culture and builds the competitive advantage by helping the bank to acquire and retain competent employees.

The remuneration policy of the bank covers both the base salary (fixed component) as well as the variable part depending on the objectives achieved by the whole organisation and by individual employees.

In 2018, incentive programmes for both the Management Board Members and key staff of mBank Group were implemented.

Incentive programmes for the Management Board Members

On March 31, 2014, the Supervisory Board acting in line with the recommendation of the Remuneration Committee approved the mBank S.A. Incentive Programme Rules, which replaced the mBank S.A. Incentive Programme Rules of December 7, 2012. On March 2, 2015, the Supervisory Board extended the programme until December 31, 2021. Under the programme, the Management Board Members of the bank have the right to receive a bonus, including a "non-cash bonus" paid in the bank's shares, including phantom shares (i.e. virtual shares).

The basis for the acquisition of the right to receive a bonus and of the calculation of the base amount for a financial year includes:

- net return on equity (net ROE) of mBank Group;
- monthly remuneration of the Management Board Member as at December 31 of the financial year for which the bonus is to be awarded, and
- assessment of the financial standing of mBank by the Remuneration Committee of the Supervisory Board.

The equivalent of 50% of the base amount, that is the first part of the base bonus, is calculated on the basis of ROE. As regards the remaining part of the base amount, the Remuneration Committee of the Supervisory Board may award the other part of the bonus if it decides that the Management Board Member has achieved the annual/multi-annual business and development target. The decision whether to award the other part of the bonus is made at the sole discretion of the Remuneration Committee of the Supervisory Board, which uses its own judgment to confirm the achievement of MbO, taking into account the situation on the financial markets in the last/previous financial periods.

The two parts of the bonus constitute the base bonus of the Management Board Member for the financial year. 40% of the base bonus is not deferred and is paid in the year when it is determined, as follows: 50% in cash and 50% in the bank's shares or bonds with a pre-emptive right to take up shares, or phantom shares.

The remaining 60% of the base bonus is deferred and paid in three equal tranches in three subsequent years after the year when the base bonus is determined, as follows: 50% of each deferred tranche in cash and 50% of each deferred tranche in the bank's shares or bonds with a pre-emptive right to take up shares, or phantom shares.

The programme covered the bonus granted for 2014-2017. The last settlements are scheduled for 2021.

Employee programme for the key staff of mBank Group

On March 31, 2014, mBank's Supervisory Board acting in line with the recommendation of the Remuneration Committee approved a resolution amending the employee programme rules, which replaced the 2013 employee incentive programme for key staff of mBank Group; however, for persons who acquired bonds or were granted the right to acquire bonds in Tranche III, IV, V or VI, the programme will be carried out under the existing principles.

On March 2, 2015, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee, extended the programme until December 31, 2022 (from December 31, 2019). The aim of the programme is to ensure growth of mBank's shares value by linking the interest of the key staff of mBank Group with the interest of the Company and its shareholders and to implement the mBank Group policy on variable components of remuneration of persons holding managerial positions in mBank Group.

Bonds awarded within tranches III, IV, V and VI were acquired by eligible persons, and the rights to take up shares as part of a conditional increase of the bank's share capital, arising from the bonds, were exercised. The last settlements of the tranches were made in 2017.

Starting with Tranche VII, the right to acquire bonds granted to an eligible person will be divided into four parts exercisable as follows: the first part – non-deferred bonds representing half of 60% of the discretionary bonus amount granted for the financial year in the year when the right was determined, and then subsequent three equal parts – deferred bonds representing half of 40% of the discretionary bonus amount granted for the financial year on the lapse of 12, 24, and 36 months after the date on which the right was granted, in accordance with internal regulations of mBank Group governing the rules of variable remuneration for mBank Group risk takers.

The programme covered the bonus granted for 2014-2017 (starting from tranche VII). The last settlements are scheduled for 2021.

2018 incentive programme for the Management Board Members and key staff of mBank Group – mBank risk takers

On April 18, 2018, the Supervisory Board, acting in line with the recommendation of the Remuneration Committee and the AGM decision of May 18, 2018, adopted the mBank S.A. Incentive Programme Rules. The Incentive Programme replaced the existing programmes, that is the employee programme introduced by the EGM resolution of October 27, 2008, as amended, and the programme for the Management Board Members, introduced by the AGM resolution of March 14, 2008, as amended. Nevertheless, the rights arising from bonds acquired under the replaced programmes will be exercised under the rules of those programmes.

The new programme will be in force from January 1, 2018 to December 31, 2028. 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 Takers I or Risk Takers II, excluding Risk Takers II – Members of the Management Board of mBank Hipoteczny S.A., which applies a separate incentive programme.

"Risk Taker I" means a Member of the Management Board of mBank. "Risk Taker II" means a person holding a position identified as having a material impact on the bank's risk profile pursuant to the Risk Takers Identification Policy, including a person holding a position of a management board member in an mBank Group subsidiary. On the terms and conditions stipulated in the Rules and the Risk Takers Remuneration Policy, 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.

Bonus for Risk Takers 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 the period of at least 3 years, whereby the bonus amount depends on the bonus pool. The bonus pool is a total of base amounts calculated for each Management Board Member. The base amount is calculated as a multiple of the base salary, which depends on the Economic Profit (EP); EP is calculated for the period of 3 years pursuant to the rules specified in the Risk Takers Remuneration Policy.

The bonus consists of the non-deferred part (40% of the bonus) and the deferred part (60% of the bonus). 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 in cash is paid in the year when the bonus is granted. The other half of the non-deferred part is paid in the form of subscription warrants, not earlier than 12 months from the AGM date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 5 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than 12 months from the date on which the consolidated financial statements are approved.

Bonus for Risk Takers II

The bonus amount for a given calendar year is determined on the basis of assessment of MbO achievement for the period of the last three years, the Economic Profit of mBank Group and the result of a business line / subsidiary / organisational unit respectively. The bonus amount for Risk Takers II (the bank's employees) is determined by the bank's Management Board and the bonus for Risk Takers II (members of the management board of an mBank Group subsidiary) is determined by the subsidiary's Supervisory Board for. The bonus consists of the non-deferred part (60% of the bonus) and the deferred part (40% of the bonus).

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 in cash is paid in the year when the bonus is granted. The other half of the non-deferred part (50%) is paid in the form of subscription warrants, not earlier than 12 months from the AGM date.

The deferred part, both the cash portion and the subscription warrant portion, is paid in 3 equal annual tranches. In each tranche, the cash portion is paid once the consolidated financial statements of mBank Group for the previous calendar year have been approved, and the subscription warrant portion is paid not earlier than 12 months from the date on which the consolidated financial statements are approved.

In the case when the bonus amount determined for a Risk Taker II (the bank's employee) for a given calendar year does not exceed PLN 200,000, the total amount of the bonus may be paid in cash in a non-deferred form, based on a relevant decision of the bank's Management Board.

The deferred bonus part for Risk Takers I and Risk Takers II is assessed in terms of its determination and payment. The Supervisory Board of mBank (with respect to Risk Takers I), the Management Board of mBank (with respect to Risk Takers II – the bank's employees) or the Supervisory Board of mBank Group subsidiary (with respect to Risk Takers II – members of the subsidiary's management board) may decide to withhold the full amount or to reduce the amount of a deferred tranche if it concludes that in a time horizon longer than one financial year, i.e., a period of at least 3 years, the Risk Taker had a direct and negative impact on the financial result or the market position of the bank/subsidiary/group, violated the rules and standards adopted in mBank Group or directly contributed to significant financial losses, where at least one of the scorecard components has not been met or any of the premises stipulated in Article 142 (2) of the Banking Law Act has occurred.

If the circumstances referred to above occur at the stage of determining the Risk Taker bonus amount, the Supervisory Board of mBank / the Supervisory Board of the subsidiary / the Management Board of mBank may decide not to grant a bonus for a given calendar year or to reduce it.

Moreover, a Risk Taker I or Risk Taker II may be obliged, under the rules and within the time limit determined by the decision of the Supervisory Board of mBank / the Supervisory Board of the subsidiary / the Management Board of mBank, to return the bonus granted and paid for a given calendar year (i.e. the

non-deferred part and all deferred parts) if he/she has violated rules and standards adopted in mBank Group, has materially violated the generally applicable law or has directly contributed to significant financial losses being the consequence of his/her deliberate adverse actions to the detriment of mBank Group / the subsidiary or has contributed to financial sanctions being imposed on the bank/subsidiary by supervisory bodies under a final and non-appealable decision.

The decision determining the occurrence of the events described above may be taken by the end of the calendar year when the last tranche of the deferred part of the bonus granted for the year in which the event occurred is paid.

In the case of a GM resolution on payment of dividend for a given year, a Risk Taker I and a Risk Taker II to whom the bonus has been granted within the deferred or non-deferred part, is entitled to a cash equivalent, regardless of the bonus, pursuant to the rules specified in the Risk Takers Remuneration Policy, in connection with the deferral of the portion paid in subscription warrants.

The bonus paid under the said programme will first be granted to Risk Takers I and Risk Takers II in 2019 for 2018.

Employee programmes in mBank Group's subsidiaries

The rules of granting the bonus in mBank Hipoteczny are specified in mBank Hipoteczny's Risk Takers Remuneration Policy. The bonus is based on phantom shares of mBank Hipoteczny and treated as an incentive programme under IAS 19.

Detailed information on the incentive programmes is presented in Note 42 of the mBank S.A Group IFRS Consolidated Financial Statements 2018.

11.4. Management by Objectives (MbO) – planning and evaluation system

Since 2011 mBank has been applying the Management by Objectives system (MbO), which covers also all employees of the key mBank Group subsidiaries. Thereby it supports effective cooperation and communication across mBank Group.

By the end of 2018 MbO we started setting targets for 2019 in mBank and selected subsidiaries of the Group. Special focus is being put on the solidarity targets which constitute an incentive for cooperation.

The MbO system has the following functions in the organisation:

- it translates directly into mBank's and mBank Group's performance by imposing discipline and involving the entire organisation in the achievement of results;
- it forms a direct platform for management and communication. Moreover it enables sharing information with individual employees concerning their role and involvement achieving the strategic goals.

In mBank we keep pace with the changing environment (in terms of, among others, technology, culture, and business) and perform tests of new approaches supporting management of organisation. After running the pilot programme of new management mechanism, the Objectives and Key Results (OKR) and Ongoing feedback, and obtaining positive results we consider working under new method on a larger scale. The new management technique shall enhance the dynamics and elasticity of work as well as support the execution of mBank Group's strategy. The knowledge of strategic goals will allow mBank Group to focus the employees' involvement on the most important issues. Key characteristics of OKR and Ongoing Feedback are:

- transparency of tasks performed by individual employees;
- the possibility of reacting quickly to changing needs (ongoing management of objectives instead of the one-off annual appraisal);
- direct influence on the level of cooperation with other employees thanks to reciprocal feedback;
- integration of HR processes related to employee appraisal.

The new system is also meant to increase the involvement and efficiency of all the bank's employees.

12. mBank and social corporate responsibility

12.1. mBank Foundation

In 2018, we spent nearly **PLN 4 million** on supporting mathematical education in Poland (the cost of performing foundation's statutory tasks)

mBank Foundation develops and implements programmes supporting mathematics education. The "M for Maths" strategy sets the foundation's goals until 2020 and addresses the ever growing gap in science education. mFoundation's mission is to support the development of mathematics education in Poland. We strongly believe that mathematics provides the foundation for logical thinking and is vital to understanding the world around us. Mastering it helps us take informed financial decisions or follow the academic path in scientific subjects, and thus contributes to the economic development and achievement of professional success.

In 2018, we pursued our mission through:

- subsidising development projects in the area of mathematics education, such as the "mPower" grant programme, the competition for the best maths thesis called "Step into the Future", the "Summer with Mathematics" grant competition and the "Masters of Mathematics" scholarship programme;
- publishing the book "Maths is Everywhere. Family Adventures with Mathematics" which encourages children to develop their maths skills with a little help from their parents, full of creative ideas adjusted to the needs of young explorers;
- breaking the Guinness record for the longest human representation of pi digits;
- partnering to and financially supporting external initiatives promoting maths education: "Mathematics Counts" and "Festival of Mathematics", organised together with *Gazeta Wyborcza*, daily newspaper.

"mPower" grant programme, the fifth edition

In 2018, as part of our flagship grant programme we spent more than PLN 1 million to subsidise 185 maths programmes. In addition, the mPower programme was designed to encourage teachers, parents and maths enthusiasts to break the routine and go off the beaten track in mathematics education. From September to December, schools, non-governmental organisations, universities and public libraries organised unconventional campaigns to help students realise the importance of mathematics in everyday life.

Grants ranging from PLN 2 to 7 thousand were awarded in two categories: projects for fourth-sixth graders, and for seventh-eighth graders and middle school pupils. The mPower grant programme won the Golden Banker award in the competition organised by *Bankier* and *Puls Biznesu* in the category "Socially responsible bank" for 2016.

Guinness record broken!

Every year, on March 14, when the world celebrates the Pi Day, we sum up and announce the next edition of the mPower grant programme during the Maths Picnic. In 2018, we were the first in Poland to attempt at breaking the Guinness record for the longest representation of pi. Exactly 627 people, children from schools taking part in the mPower programme and from two primary schools in Warsaw, gathered along the Vistula Boulevards in Warsaw. The attempt was successful and entered in the Guinness World Records book.

On the initiative of mFoundation, 627 people created the longest human representation of pi digits in the world. The record was featured in the Guinness World Records book.

Last year, together with more than 300 pupils and 34 teachers from over 30 schools, we broke the Polish record in the same category.

Golden Banker 2018 for the book "Maths is Everywhere"

In 2018, mBank won the prestigious Golden Banker award in the category "Socially Responsible Bank" for the book "Maths is Everywhere", published by mFoundation.

At the end of 2017, we published our first book "Maths is Everywhere". Dedicated to children aged 5-12 and their parents, the book was written by Maja Kramer. It is a collection of inspiring ideas, which guide parents through the ways of spending time with their children and opening their minds to mathematical correlations in the world around us.

In 2018, the book was handed out for free in all retail branches of mBank. The campaign was organised three times during the year. The book sparked lively interest. In total, parents ordered 107 thousand copies. Since October 2018, the book has been also available for downloading in an e-book format at www.mjakmatematyka.pl. The book aroused many positive emotions among readers. It was broadly commented on by parents, who were spreading the word about the book online, appreciating its potential.

Employee volunteering programme

mFoundation helps mBank's employees to take actions for local communities through the support of the employee volunteering programme "Let's Do Good Together" and the sports volunteering programme "Let's Run Together for Others". In 2018, three projects implemented by 12 volunteers were co-financed by mFoundation as part of the employee volunteering programme "Let's Do Good Together".

12.2. Other social-oriented activities

"Be cautious online". mBank's social campaign promoting online security

In 2015, we launched a social campaign called "You don't do it in real life? Don't do it on-line!" which was not only the first campaign promoting online security in the bank's history, but also the first such campaign in the banking industry. The campaign was addressed to all those who bank using their computers and mobiles and its aim was to present the threats lurking online.

In 2018, we organised our third social campaign, this time entitled "Be cautious online", which is addressed to both our customers and to all Internet users. Within its scope, we unveil the most popular methods used by cybercriminals and explain how not to fall victim to them. The campaign covers TV ads showing consequences of risky behaviours.

In the next step, we launched a dedicated service (mbank.pl/uwazniwsieci), explaining in a concise way what may pose a threat to Internet users and why, and how to protect oneself from it. This website is supplementary to the service <https://mbank.pl/bezpieczenstwo>, which has been administered by mBank for many years, offering guidelines for customers and warnings against cyber-attacks.

"What does year 2000 want? They want more. mBank's offer for Generation Z

In 2018, we launched a campaign called "What does year 2000 want? They want more!" addressed to people who came of age in 2018. In mBank we understand and meet the needs of young people born at the turn of centuries. In our TV ad, we lay emphasis on the specific experiences of those born in 2000 and the world they grew up in. This is reflected in mBank's offer dedicated to the young. We guarantee clear bank account conditions and its 24/7 accessibility via our mobile app.

The offer for young clients includes a dedicated account for the young as well as a unique card, which can be personalised or designed by the user.

"#bericher" – take up the challenge with mBank

In the "be richer in" campaign, we encourage internet users to take up the challenge and enrich their everyday lives together with mBank. In mBank, we are committed to making top technological solutions more accessible to our customers. At the same time, we do understand that satisfaction of our customers, derived from well made decisions, is not limited to the financial dimension, but is also connected with their experiences, feelings and passions. In the campaign, we want to show our customers that by putting minimum effort and being systematic, using their knowledge and experience and strengthening

interpersonal relationships, they can achieve their goals with our help, and that money is merely a tool supporting the process. One of the most popular TV ads within the campaign was "Be richer in good heart" created in cooperation with the Great Orchestra of Christmas Charity (WOŚP), or "Be richer in good decisions".

mBank for companies and mAccounting – channels that make running business easier

In the pursuit to make running business as easy as possible for our customers, we post videos in the mBankTV channel, in which we explain, step by step, the rules and benefits of using our services. We also share our knowledge on business conditions in Poland and methods to improve them. Short videos are available to all internet users and help them make the most of mBank's offer, without the need to contact a customer advisor. Materials deal with, e.g., lease types, instant invoice issuing in the mAccounting service or setting up a company via mBank's platform.

13. Non-financial data

13.1. Information about the statement

This statement concerning non-financial information of mBank Group for 2018 includes a brief description of the business model, key non-financial qualitative efficiency ratios, description of risks and policies applied with respect to social, employment, environmental, human rights and anti-corruption issues.

The statement refers to mBank S.A. together with foreign branches in the Czech Republic and Slovakia as well as selected subsidiaries of mBank Group, i.e. mLeasing, mFaktoring, mBank Hipoteczny and mFinanse.

The statement was prepared on the basis of the international Global Reporting Initiative (GRI) Sustainability Reporting Standards and UN Global Compact principles.

Social responsibility initiatives are performed i.a. by means of CSR Strategy as well as internal standards and regulations, including Code of Conduct, the model of values and behaviours of mBank employees and external Code of Ethics for Bankers. More information will be provided in the integrated report of mBank Group for 2018, available on mBank's website.

13.2. About us

Business model

For years mBank has been a synonym for innovative banking solutions. As Poland's first fully online bank, we continue setting the direction for mobile banking. Being one of the strongest and fastest growing financial brands in Poland, we aspire to offer the best online banking and give our clients control of their finance, at all times and anywhere. The starting point of all internal processes, product development and customer tools is our digital DNA and current strategy. We are a universal bank serving all groups of clients and our development is based on organic growth.

mBank Group's business model is further specified in chapter 1.1. Business model and history of mBank Group.

CSR strategy

We aspire to be a leader of social corporate responsibility in the Polish banking industry. We pursue this objective based on the mBank S.A. Corporate Social Responsibility and Sustainable Development Strategy, which is consistent with the "mobile Bank" business strategy for 2016-2020.

mBank's key objectives of corporate social responsibility and sustainable development in 2016-2020 are as follows:

- We want to understand, respect, and share the values of our clients. We want to be open. We want to think and feel like our clients (building stable long-term customer relations);
- We want to be a responsible lender;
- We want to build a unique team, competences, and skills. We want to share the best of us with others. We want to be unique;
- We want to limit our environmental impact;
- We want to improve our governance approach (improving responsible management in the organisation, including supply chain management).

Ethics, values and compliance

Our business philosophy assumes conducting our operations based on five values: client-centricity, forward-looking, simplification, engagement and professionalism.

Practical fulfilment of the declared values builds our credibility as a driver of continuous development of the Group.

What attitudes and behaviours follow from mBank's five values?

- We understand the needs of our clients and deliver our products and solutions of top quality based on co-operation and lasting relations with clients;

- We are open for change and innovation, we look for new interesting solutions which stay boldly ahead of the curve;
- We promote a simple, understandable approach to all actions and communications with clients. Thus, we respect our clients' time and strive for mutual benefits;
- We are strongly motivated and aspire to fully achieve our objectives, which is how we contribute to the development of the organisation and create stakeholder value;
- We focus on knowledge and competences, which is reflected in a professional approach to work and continuous search for opportunities to grow.

Ethics Officer

We appointed an Ethics Officer in 2018. The Ethics Officer helps to develop ethical standards for the bank and co-ordinates their execution, among others by issuing opinions on motions tabled to the Management Board, providing education to employees and supporting them in resolving ethical dilemmas.

Code of Conduct

mBank's Code of Conduct is binding to all employees, managers and the Management Board. It forms the basis of internal relations and relations with external partners and suppliers. It defines acceptable and prohibited business practices, appropriate behaviour at the work place, financial rules and corporate social responsibility.

Legal compliance

The public's confidence in financial service providers relies on their full compliance with the applicable laws and regulations. For this reason all our plans, including new products and services, are subject to in-depth multi-step compliance review. Furthermore, we monitor expected legal amendments and prepare our organisation well ahead of time.

Thanks to our focus on compliance and effective procedures, there were no legitimate complaints in 2018 concerning mBank's non-compliance with social and economic laws and regulations.

Policies

Our business is governed by policies we have approved and comply with. The key policies governing social affairs, employee relations, environment, human rights and anti-corruption are listed in the table below.

Area	Policy
Anti-corruption	<ul style="list-style-type: none"> ■ Anti-corruption Policy at mBank S.A. ■ Gift Policy at mBank S.A. ■ Fraud-Prevention Policy of mBank S.A. ■ Conflict of Interest Management Policy at mBank S.A.
Anti-mobbing	Mobbing Prevention Policy of mBank S.A.
Occupational health and safety	We follow all applicable occupational health and safety regulations in our business
Employee relations	<ul style="list-style-type: none"> ■ Code of Banking Ethics published by the Polish Bank Association ■ Work Rules at mBank S.A. ■ Remuneration Policy at mBank S.A. ■ Code of Conduct ■ Bonus Rules at mBank S.A. ■ Regulation concerning the organisation of the Effectiveness Needs Survey process and the implementation of development measures in mBank S.A.

	<ul style="list-style-type: none"> ■ Training and development activities in mBank Group – manual for employees ■ Detailed rules of carrying-out the process of planning objectives and appraisal of mBank S.A. employees
Diversity	<ul style="list-style-type: none"> ■ Provisions on diversity are contained in the Work Rules at mBank S.A. ■ Policy for the Assessment of Qualifications (Suitability) of Members of the Supervisory Body, Management Body and Key Function Holders in mBank S.A. ■ Diversity Charter (mBank joined the initiative in January 2018)
Social issues	<ul style="list-style-type: none"> ■ Rules of Processing Complaints in mBank S.A. ■ Book of Quality Standards for Complaint Handling in the Corporate and Investment Area ■ Policy of Serving and Financing Entities Conducting Business in Areas Particularly Sensitive to mBank’s Reputation Risk ■ Rules of Granting Financial Support by the mBank Foundation
Environment	mBank S.A. Credit Policy of Financing Renewable Energy Source Installations
Supplier relations	This area is governed by the Principles of Participation in the Procurement Process. By joining the procurement process, each supplier commits to comply with the law, including labour law, anti-corruption and human rights regulations, etc.

Identified risks and risk management

The table below present an overview of key risk areas and their management:

Risk area	Measures
Corruption	<ul style="list-style-type: none"> ■ Activity of the Compliance Department: implementation of policies, regular training of all employees ■ An anti-corruption clause is inserted in contracts with suppliers, contractors and service providers
Data security	<ul style="list-style-type: none"> ■ Implementation of GDPR-compliant regulations ■ The social campaign “Be cautious online”
Employees	<ul style="list-style-type: none"> ■ Compliance with the mBank S.A. Anti-mobbing Policy, trainings for managers, the possibility of anonymous reporting of infringements via application mSygnał (whistleblowing) ■ Compliance with occupational health and safety requirements under applicable regulations
Diversity	<ul style="list-style-type: none"> ■ Compliance with the diversity provisions of the mBank S.A. Work Rules ■ Accession to the Diversity Charter initiative in January 2018 ■ Telework and home office opportunities ■ Rooms for parents with children ■ Extra 2 days off for child care

	<ul style="list-style-type: none"> ■ Solutions for clients with disabilities (e.g., service in the Polish Sign Language)
Society	<ul style="list-style-type: none"> ■ Dialogue with stakeholders (meetings with investors, meetings with clients), regular customer satisfaction surveys
Environment	<ul style="list-style-type: none"> ■ Implementation of the RES development support policy ■ For major projects financed by bank syndicates, we hire or require a technical consultant in order to promptly identify any irregularities, including those affecting the environment
Products	<ul style="list-style-type: none"> ■ Transparent communication and information concerning products and services ■ Transparent complaint handling procedures ■ Rules of clear communication (mKanon) ■ Simplification of agreements (Akcja Renowacja)
Reputation and image	<ul style="list-style-type: none"> ■ Selected units of the bank monitor reputation risk on an on-going basis and manage it in line with the mBank S.A. Group Reputation Risk Management Strategy ■ Compliance with the mBank S.A. Sponsorship Policy ■ Regulation concerning development and publication of advertising of products and services offered by mBank S.A.

Stakeholders

The key stakeholders of mBank include:

- Employees: full-time employees, students, potential employees;
- Investors: Commerzbank (the strategic investor), institutional investors, individual investors, the Warsaw Stock Exchange, rating agencies, brokers;
- Clients: corporate clients, financial institutions, companies including micro-firms, individuals;
- Business partners: key suppliers, subsidiaries in which the bank holds minority interest;
- Institutional environment: Polish Financial Supervision Authority (PFSA), Polish Bank Association (ZBP), National Bank of Poland (NBP), Office of Competition and Consumer Protection (UOKiK), Financial Ombudsperson, the media;
- The Great Orchestra of Christmas Charity (WOŚP) and beneficiaries of the mBank Foundation.

Dialogue with stakeholders

We want to engage stakeholders in a dialogue rather than only just meeting legal obligations. By selecting relation building techniques and the level of formality depending on the stakeholder group, we always look for mutual benefits and ensure open and transparent communication.

Focus on stakeholder relations in 2018:

- we communicated with capital market participants through our Investor Relations service;
- we conducted regular market research;
- we regularly polled employee engagement and performed employee assessment including assessment of attitudes towards clients;
- we developed the channels of communication with clients to better understand their needs, problems and expectations.

13.3. Our approach to clients and services

Customer relations – facilities

Empathy Strategy

The key pillars of the “mobile Bank” strategy include improvement of the ability to look through our clients’ eyes. This way, we can treat clients as we want to be treated, for instance by offering intuitive solutions. Empathy is the very foundation of our offer, which is structured to ensure that clients want to work with us.

The empathy measures taken in mBank Group in 2018 are described in details in chapter 3.2. The pillars of the “mobile Bank” strategy in mBank’s activities.

Client data security

Effective protection of consumer data and privacy is a precondition of trust in financial service providers. It is also essential for our clients: no less than 61% of respondents in a stakeholder survey consider it to be very important. For these reasons, and to ensure full legal compliance, we have developed and continue to pursue a comprehensive policy in this regard.

In 2018, the mBank as well as mBank Hipoteczny, mLeasing and mFaktoring S.A. received no legitimate complaints concerning breach of customer privacy or loss of customer data. No such complaints were filed against mBank S.A. to the Polish Financial Supervision Authority.

mFinanse received two complaints concerning unauthorised marketing communication by phone. It was caused by employee omission as the company did not process personal data of the complaining customers for such purpose and the employees had access to the applicable procedures. We have taken steps to avoid such incidents in the future.

Customer satisfaction surveys

Since 2018, we have been designing new products and services and developing existing products and services together with clients based on the design thinking methodology. For this purpose, we conduct in-depth one-on-one and group interviews and invite clients to evaluate our prototype solutions.

Retail clients

mBank clients’ satisfaction is monitored on various levels:

■ **strategic:**

- once a year, we measure the level of loyalty and satisfaction of clients – relation NPS. On this basis, we identify key reasons why clients recommend the brand to their friends and family, as well as, optimisation areas. In 2018, NPS reached 19, with 41% of promoters.

■ **operational:**

- we defined 12 key points of contact where we monitor the level of transactional NPS. On this basis, we precisely learn about the most important needs and expectations of our clients.

- We continuously measure the level of satisfaction of clients who use traditional and digital contact channels. We analyse the collected feedback and react to the client expectations on an ongoing basis.

Corporate clients

Every year, mSatysfakcja project is run in partnership with Kantar Millward Brown. It includes two satisfaction surveys of our corporate clients. Survey reports are presented to managers, the sales force, and product specialists. NPS for corporate customers who indicated mBank as their main bank was kept at the high level of 40 in 2018, close to the last year’s performance (market average at 25).

Our relationship surveys addressed to all clients measure:

- the likelihood that clients will recommend our service to others;
- general customer satisfaction;

- satisfaction with several areas of experience (including i.a. the transparency of the offer, co-operation with account managers, complaint handling);
- mBank's score in the peer group;
- satisfaction of customers shared with mLeasing and mFactoring.

Transaction surveys evaluate specific processes, such as client onboarding or loan disbursement. We use a dozen different transaction questionnaires, each asking questions about i.a. customer satisfaction with individual features of a process/product or the likelihood that clients will recommend mBank's service to others.

Clients' responses are entered into the CRM system during the survey. Consequently, account managers have direct access to the feedback and may react as necessary. In addition, we use survey results to improve our products and processes. For instance, clients' comments are taken into account whenever we upgrade the electronic banking system mBank CompanyNet.

Once a month, mLeasing distributes SMS surveys to Car Fleet Management services (CFM) users.

In 2018, we completed a satisfaction survey of corporate customers shared by mLeasing and mBank. The survey identified specific areas of co-operation and invited clients to provide comments. They were analysed by branch managers, account managers contacted clients to get more feedback and address their questions and needs.

Complaints

We analyse complaints on an on-going basis to take the initiative and reduce their number in partnership with business managers. The knowledge gained from complaints is also used when we design new products and services.

Processing complaints of retail clients

We strive to make sure that clients who report an issue are satisfied with resolution at the first contact, for instance, customers who report an unauthorised transaction can get a refund during the call. If that is not possible, we make best efforts to resolve the issue as soon as practicable.

We want clients to be happy with the way we address their issues. As a result, we have maintained a high proportion of complaints closed as requested by clients.

When a complaint is resolved, we ask the client to rate the service. We use polls to change our practice as suggested by clients.

In 2018, we received more than 15,000 replies and 78% of clients rated their satisfaction very high. We reviewed more than 6,000 ideas and suggestions from our clients.

Processing complaints of corporate clients

Corporate clients may file complaints in many convenient ways: by phone, by email, in writing, personally at an mBank branch, or via mBank CompanyNet. In the latter case, the complaint goes directly to the complaint handling unit and the client receives a confirmation. The reply is also provided electronically.

Since 2017, we have followed the Complaint Processing Quality Standard Book in Corporate and Investment Banking. It describes the language to be used in the complaint handling process to make our communication clear.

In 2018, we aligned our complaint handling process with the new requirements of the Payment Services Act imposed by PSD2. Among other things, we reduced the maximum time limit for the processing of all types of complaints from 30 calendar days to 15 business days. Similar to retail clients, we poll corporate customer satisfaction with the complaint handling process.

13.4. Engaged employees

The key internal regulations which govern the recruitment and management of human resources include the mBank S.A. Work Rules, the mBank S.A. Remuneration Policy, and the mBank S.A. Bonus Policy.

They are complemented by procedures related to recruitment, development and assessment of employees. To the extent allowed by the specificity of their business, solutions developed by mBank are implemented in subsidiaries. We ensure effective co-operation and communication through the Management by Objectives (MbO) System. The system focuses on objectives which drive co-operation not only within mBank but also across the Group.

Incentive system

We support employee motivation through the remuneration policy as well as in non-financial ways, for instance by opening opportunities of professional development. The incentive system plays a key role in the acquisition and retention of competent human resources, necessary to build our competitive advantage.

- We support staff development;
- We provide employee training and programmes which develop management, sales, and communication competences. We support employees' social engagement, passions and hobbies, including in mBank Club sections, in order to strike a balance between professional and personal life. We have for years operated the programme Our People Make the Difference;
- We ensure friendly onboarding of new employees;
- New employees, including interns, undergo induction training which covers the values, procedures, products, history and current business of the bank;
- We pursue a comprehensive remuneration policy;
- We ensure fair conditions of employment in all ways possible. Group companies offer their employees a very similar range of fringe benefits, including private health care and access to sport facilities.

Anti-mobbing policy

We want our employees to respect one another and stay sensitive to what their colleagues might feel. For this reason, we eliminate all forms of discrimination and behaviour which could cause mental or physical discomfort or otherwise hinder interpersonal relations at work. Measures taken to prevent and address mobbing are described in detail in the mBank S.A. Anti-mobbing Policy, approved in October 2018.

Victims or witnesses of mobbing may contact the HR Business Partner, the Ethics Officer, or the Anti-mobbing Committee. An employee who does not feel up to the task of reporting mobbing under their name may contact the HR Department via mSygnał. If the Anti-mobbing Committee opens an inquiry, we make sure that all those involved feel comfortable. Pursuing efforts to educate employees about mobbing, we offer training sessions and workshops in partnership with experts in anti-discrimination law.

Changes implemented in 2018:

- The newly appointed Ethics Officer joined the Anti-mobbing Committee, which is also comprised of an mBank brand representative, a representative of the Legal Department, the Data Protection Officer / Deputy Director of the Compliance Department, and a representative of the HR Department. Representatives of the sales network join the Anti-mobbing Committee as required in individual cases;
- We have drafted a mobbing report template to let employees know what information would be required. The template includes a notice to the effect that inquiries are fully confidential. Confidentiality is binding on the Anti-mobbing Committee, witnesses, and the employee who reports the incident;
- We have possibility to establish a special team even if no employee reported a complaint but there is reasonable suspicion that mobbing or similar hostile behaviour may be taking place in the organisation.

Diversity

We appreciate and support the diversity of qualities and experiences of our employees. We do not have a formal diversity policy in place but our approach to diversity is reflected in internal procedures.

Our recruitment procedures ensure an objective assessment of candidates' competences. We enforce equal treatment in recruitment, professional development, and promotion. We do not tolerate any forms of discrimination on grounds on gender, age, financial status, family situation, physical ability, nationality,

sexual orientation, political beliefs or religious creed, etc. We make sure that all employees feel respected and acknowledged.

Our focus on diversity is reflected in the composition of mBank's Supervisory Board. Its members have complementary professional experience, expertise and skills. Two members of the Supervisory Board are women. Diversity on the Supervisory Board is governed by the Policy for the Assessment of Qualifications (Suitability) of Members of the Supervisory Body, Management Body and Key Function Holders in mBank S.A., which took effect in December 2018.

Each employee of mBank Group may be promoted to a managerial position if they have the right skills. Our managers have completed programmes in economics, technology, IT, law, and languages. Many managers have extensive experience with Polish and international institutions, financial and otherwise. They care about and foster employee diversity with the support of special training and Success Insights.

Ergonomics and safety at work

We officially opened our new headquarters, Przystanek mBank in Łódź on January 12, 2018. Five spacious floors accommodate more than two thousand experts, who used to be dispersed across six locations in the city. The shared offices facilitate co-operation. Przystanek mBank is situated at the main street Piotrkowska, in the proximity of the historic city centre and a revitalised historic power plant. Such location supports the work/life balance. As the train station is only steps away, the trip to Warsaw and the bank's other headquarters takes slightly more than an hour.

Work stations for persons with disabilities

The work stations for persons with disabilities have been audited. We have also audited the areas around our buildings, the social and sanitary infrastructure, as well as, the layout of our office space.

Occupational health and safety

We cannot tolerate any threat to the health or safety of our employees. As a result, we have implemented a comprehensive management system covering occupational health and safety at mBank Group. It is based on the following framework:

- Managers and all employees are engaged in the development and implementation of the occupational health and safety policy;
- Measures are planned to implement the occupational health and safety policy. The Occupational Health and Safety Committee meets once per quarter;
- Conditions have been put in place to implement action plans, including a budget for specific initiatives, identification of threats, assessment of risks;
- The implementation of action plans and the operation of the system are monitored, corrective and preventive measures are taken, including monitoring of occupational health and safety conditions and analyses of causes of accidents at work;
- The occupational health and safety management system is improved through regular reviews and third-party expert audits;
- Induction and regular training is offered in occupational health and safety.

13.5. Supporting the society

Review of projects supported by mBank

We always make sure that investment projects applying for financing from mBank have all the required decisions and permits of the public administration. We mitigate the risk of investing the money of our clients in projects which might breach legal requirements, for instance lacking social consultations or offset of environmental damage.

For major projects financed by bank syndicates, we hire or require a technical consultant. The consultant supervises and monitors the investment project in order to promptly identify any irregularities, including those affecting the community or the environment.

Furthermore, the Policy of Serving and Financing Entities Conducting Business in Areas Particularly Sensitive to mBank's Reputation Risk (effective since 2015) imposes restrictions on the opening of accounts and lending to companies, including clients of the bank, whose business:

- uses child labour, forced labour, or causes other gross violations of human rights;
- involves economic exploitation of valuable natural areas;
- poses a threat to the world cultural heritage.

This approach is closely aligned with the Ten Principles of the UN Global Compact, which we signed in 2015. Principles governing social and environmental risks are also included in the following documents:

- mBank Corporate Client Credit Risk Policy, updated in 2018;
- Rules of Financing of Entities in the Defence sector.

Solutions for persons with disabilities

All mBank clients with disabilities get a service which accommodates their special needs. Every year, we launch new initiatives to improve access of persons with disabilities to financial services.

In 2018, we implemented many initiatives in this area:

- Since November 1, 2018, clients who have accepted the processing of data concerning their disability are automatically redirected by the call centre to a qualified consultant. Clients with hearing disabilities have long been offered the option of video calls in the Polish Sign Language;
- We enable clients to give the consent for the processing of data concerning their disability when they contact the call centre and, in special cases, use our chat or video chat. The option was previously only available based on written statements (no certificate was required);
- We have invested in signing frames and banknote readers for clients who are blind or visually impaired, and we will install them in branches in early 2019;
- We continue our co-operation with the Polish Association of the Deaf, which provides sign language interpreting for clients and consultants, both at branches and in video calls. We have jointly produced a video about services available to deaf clients at mBank;
- We have implemented accessibility options for mute-and-deaf clients as well as deaf clients who do not speak the Polish Sign Language and were previously excluded from communication with the bank. Clients who have accepted the processing of data concerning their disability may place orders via our chat;
- We have offered special in-house training for approximately 30 consultants to whom calls of clients with disabilities are redirected, as well as general training for all consultants. We have updated materials concerning services for clients with disabilities in our knowledge repository for consultants and branches;
- The "Integration" Foundation (Fundacja Intergacja) has trained our staff in services for clients with disabilities (total of 60 employees) and in website accessibility standards (approximately 20 employees);
- We have offered education, including meetings for deaf and hard-of-hearing young people at the Special Educational Centre No. 1 in Łódź, dedicated to electronic banking and online security;
- As a part of the Moments of Truth Project (Moment Prawdy) dedicated to difficult life circumstances of clients, such as debt enforcement, death of a close person or illness, we have interviewed more than 200 persons with many different disabilities. Combined with other observations (suggestions, complaints) from our clients, we have developed more than 100 improvements of services for clients with disabilities;
- We have developed a blog dedicated to disabilities, addressed to all mBank employees. It will launch in early 2019;
- We have tested availability of transactional system functionalities dedicated to clients with disabilities.

mBank Foundation

The mBank Foundation focuses on creating and fulfilling the programmes which support education in scope of mathematics. "m like mathematics" strategy, which orientates the Foundation's activity until 2020, fills-in a gap in the education of scientific subjects. The Foundation pursues its mission of assisting maths education in Poland. In 2018, we spent nearly PLN 4 million on this cause.

For more information about the mBank Foundation, see the Management Board Report on the Activity of mBank Group in 2018, chapter 12.1. mBank Foundation.

We Play together with the Great Orchestra of Christmas Charity (WOŚP)

In 2018, we became the bank partner of the Great Orchestra of Christmas Charity (WOŚP), a non-governmental organisation which enjoys the highest trust of the general public in Poland. We processed financial transactions of WOŚP both during the 26th Finale of the Orchestra on January 14, 2018 and throughout the whole year. We not only encouraged our clients to support the initiative, but also decided to donate PLN 7 million to WOŚP.

For more information about our strategic co-operation with the Great Orchestra of Christmas Charity, see chapter 1.6. Key projects and innovations of mBank Group in 2018.

Environmental responsibility

We actively manage our environmental impact and always strive to reduce our footprint.

Selected direct environmental initiatives of mBank in 2018 include:

■ Tap water filters

We have increased the number of installed tap water filters by 40 (in Warsaw and Łódź). As a result, we can reduce orders for bottled water and water dispensers. This way we reduce consumption of plastic and educate our employees.

■ Integrated print platform MyQ

In 2018, we implemented the MyQ system in most of the bank's branches. The system identifies business processes which generate redundant print tasks and helps to reduce paper waste, for instance by using duplex printing as the default option and starting print jobs only when they are authorised by the user at the printer (to eliminate printing of requested but uncollected copies).

Indirect initiatives: rules and standards

Environmental protection is an important part of our CSR strategy. Therefore we have reduced our relations with companies which exploit valuable natural areas or are in breach of environmental regulations.

In December 2018, we approved a policy of lending to windfarms and photovoltaic projects (mBank S.A. Credit Policy of Financing Renewable Energy Source Installations). We expect to provide approximately PLN 500 million under the auction support system. Priority will be given to projects whose owners and operators have experience with renewable energy sources.

Our support for green technology and climate-friendly business models explores a market niche previously not served by mBank and contributes to global efforts in favour of a sustainable and low-carbon economy.

14. Statement of mBank on application of corporate governance principles in 2018

14.1. Application of corporate governance principles

The general corporate governance principles applicable at mBank, i.e. regulations and procedures determining the 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, the provisions regulating the operation of the capital market and the rules laid down in the following documents: "Best Practice for WSE Listed Companies 2016", "Principles of Corporate Governance for Supervised Institutions" issued by the Polish Financial Supervision Authority on July 22, 2014 and the "Code of Banking Ethics" issued by the Polish Bank Association.

In 2018, the bank applied the corporate governance principles contained in the "Best Practice for WSE Listed Companies 2016", issued by the Warsaw Stock Exchange by way of Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) dated October 13, 2015. The text of the "Best Practice for WSE Listed Companies 2016" is available on the website of the Warsaw Stock Exchange, in the section dedicated to the corporate governance of listed companies (www.gpw.pl/best-practice).

The "Principles of Corporate Governance for Supervised Institutions" are available on the website of the Polish Financial Supervision Authority (www.knf.gov.pl/en/MARKET/Regulations_and_practice/Practice).

Best Practice for WSE Listed Companies 2016

From among the detailed principles of the "Best Practice for WSE Listed Companies 2016", mBank does not apply principle no. VI.Z.2., which reads as follows: "To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years".

The principles for granting variable components of remuneration at mBank are compliant with the Regulation of the Minister of Development and Finance of March 6, 2017, on the Risk Management System, the Internal Control System, the Remuneration Policy as well as the Detailed Method for Banks' Internal Capital Assessment (Journal of Laws of 2017, item 637) and EBA's Guidelines on sound remuneration policies (EBA/GL/2015/22) of June 27, 2016, which do not provide for the premise indicated in item VI.Z.2 of the Best Practice.

Moreover, from among all recommendations specified in the "Best Practice for WSE Listed Companies 2016", mBank does not apply the following recommendations:

- items 2 and 3 of recommendation IV.R.2, which refer to conducting a General Meeting with the use of means of electronic communication. Item 2 concerns ensuring two-way communication in real time during the General Meeting, which allows shareholders to speak from a different location, whereas item 3 is related to exercising the voting right in person or by proxy during the General Meeting. For many years, mBank has broadcast General Meetings in real time, however, without the possibility to engage in two-way online communication by allowing shareholders to speak during the General Meeting from a different location. The bank's By-laws and the Standing Rules of the General Meeting do not provide for the possibility to actively participate in General Meetings with the use of means of electronic communication. Moreover, as assessed by the Management Board of mBank, the organisation of General Meetings with the use of means of electronic communication involves additional legal, organisational and technical risks. mBank has a stable majority shareholder, while a large part of minority shareholders are represented at each General Meeting even if active participation in General Meetings with the use of means of electronic communication is not available;
- recommendation VI.R.3. concerning the remuneration committee. The recommendation stipulates, among others, that it is required that at least the majority of the committee members be independent. At mBank, the Remuneration Committee of the Supervisory Board is composed of four members, including one independent member. Three members do not meet the criterion of independence.

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, rules for ensuring an effective and efficient internal control system, as well as the risks of business activities.

mBank has adopted the "Principles of Corporate Governance for Supervised Institutions", excluding the principles laid down in Article 8 (4) and in Article 16 (1).

The principle in Article 8 (4), which reads as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting", is similar to recommendation IV.R.2 of the "Best Practice for WSE Listed Companies 2016". As a large part of mBank's shareholders are represented at General Meetings, with a view to mitigating the risk inherent in active participation in General Meetings with the use of means of electronic communication, mBank has decided that non-compliance with the rule defined in Article 8 (4) was justified.

Likewise, mBank does not comply with the rule defined in Article 16 (1), which reads as follows: "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."

The non-compliance derives from the fact that all Members of mBank's Management Board speak fluent English. Communication without an interpreter is more effective as discussions and decisions can be made without the participation of a third party (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 specialised language. Furthermore, given that Management Board meetings review 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 mBank's Management Board Members speak Polish, which implies that the bank can be represented whenever participation of Management Board Members is required including communication in Polish without an interpreter. Furthermore, minutes of Management Board meetings, as well as resolutions of mBank's Management Board, are prepared in two language versions, ensuring compliance with the provisions of Article 16 (2) of the "Principles of Corporate Governance for Supervised Institutions".

The stand 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 following its interest;
- not to violate the competence 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; the 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 authorisations, whereas it will only take place after the analysis of the entirety of reasons which led to such a necessity; the shareholders will take into consideration the possibility of providing support from the point of view of their financial situation, provisions of law and supervisory regulations the shareholders are bound to respect and considering the best interest of mBank and its clients;

- to make decisions with regard to dividend payment, depending on the need for maintaining an appropriate level of equity and on the achievement of strategic objectives of mBank and to take into consideration general and individual recommendations issued by the supervisory authorities; and
- to implement the recommendations of the PFSA regarding the election of Members of the Supervisory Board of the Bank.

Code of Banking Ethics

Apart from the corporate governance principles, mBank has for many years complied with 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" includes two parts: the "Code of Best Banking Practice" and the "Code of Bank Employee Ethics". The "Code of Banking Ethics" is available on the website of the Polish Bank Association (<http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>).

The model of values and behaviours of mBank employees and the Rules on conduct towards business partners

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. This is meant to contribute to 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.

It is also worth mentioning that mBank has defined behaviours which are most important from the perspective of the organisation and which facilitate achieving individual and team results, as well as, contributing to customer satisfaction. The model of values and behaviours applicable at the bank, which sets mBank's work standard, is based on the following organisational values: "client-centricity", "looking ahead", "simplifying", "commitment" and "professionalism".

Information policy

mBank pursues a transparent, open, and reliable information policy, which builds mutual trust and loyalty of investors. When implementing its information policy, mBank complies with requirements arising from provisions related to information confidentiality and security, which it must abide by as a public company and a supervised institution. The bank's high ratings and awards for widely understood corporate governance and investor relations bespeak transparency and effectiveness of its information policy. In 2018, mBank again won a distinction of the Institute of Accountancy and Taxes and *Gazeta Gieldy Parkiet* daily in the category "Transparent WIG20 company."

The main means applied by the bank in its information policy towards investors relations include:

- current and periodic reports;
- meetings, tele- and video-conferences of representatives of the Management Board and the Analysis and Investor Relations Department with investors and analysts, both in Poland and abroad;
- quarterly presentations of financial results for investors and analysts provided directly and through interactive webcasts and teleconferences;
- an ongoing contact by phone or e-mail with analysts and investors, including sending Newsletters on a monthly basis and, if necessary, other informational materials;
- participation of the representatives of the bank in domestic and foreign investor conferences and road-shows in selected European countries and in the United States of America;

- a website of the company with a comprehensive investor relations section where information is published on, among others, the shareholders of mBank, the composition of the Management Board and Supervisory Board, General Meetings (including video recordings of General Meetings), ratings, the Euro Medium Term Note Programme, quotations of mBank's shares on the WSE, analysts' recommendations, the consensus on mBank Group's expected performance and the target share price. On mBank's website, there are annual, periodical and current reports and presentations, including presentations of the results of the Group for analysts and stock exchange investors as well as presentations for investors interested in the bank's debt securities, an online version of the integrated annual report enabling interactive access to the audited financial data, an investor's calendar and the mBank Analyser which makes it possible to analyse the financial and business data of mBank Group in different dimensions.

Open communication with shareholders during the General Meetings manifests itself, among others, in the following aspects:

- providing stakeholders with answers and explanations by the members of the bank's governing bodies;
- broadcasting the General Meeting online;
- enabling media representatives to participate in the General Meeting.

14.2. Internal control and risk management systems with regard to the process of preparing financial statements of mBank

mBank is equipped with an internal control system which 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 the law, internal regulations and market standards.

The internal control system encompasses the following:

- control function whose task is to ensure observance of control mechanisms concerning in particular risk management at the bank and which covers positions, groups of people and organisational units responsible for performance of tasks assigned to the function;
- compliance unit (Compliance Department), whose task is to identify, assess, control and monitor the risk of non-compliance of the bank's activities with the law, internal regulations and market standards and report in this respect;
- independent internal audit unit (Internal Audit Department), whose task is to examine and assess, impartially and objectively, the adequacy and effectiveness of the risk management system and the internal control system, excluding the internal audit unit.

The control function is a part of the internal control system comprised of all control mechanisms in processes running in the bank, independent monitoring of the application of such control mechanisms and reporting on the issue.

The control function is based on the following principles:

- guaranteeing access to important, real, up-to-date and complete information by decision makers;
- organising and maintaining adequate IT systems that ensure proper storage and processing of data, facilitate the evaluation and monitoring of different risk categories and generation of information useful in decision-making process;
- determining the information circulation rules in order to ensure that relevant information is submitted to competent persons.

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 controls. Manual adjustments are subject to special controls.

The bank continuously monitors changes in provisions and external regulations related to the preparation of financial statements and updates internal regulations on an ongoing basis as well as adjusting IT systems where necessary.

The process of monitoring the operational risk which occurs in the preparation of financial statements in the bank includes mechanisms which effectively ensure the security of IT systems. mBank has an established 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. Consolidated financial statements are drawn up based on data submitted by Group subsidiaries. The Financial Reporting Department monitors the reporting packages prepared by the subsidiaries in terms of their correctness, completeness and coherence of data.

The responsibility for controlling the coherence and completeness of the bank's accounting books and administering the model chart of accounts lies with the Accounting Department. Both Departments report to the Vice-President of the Management Board, Chief Financial Officer.

Financial statements are submitted to the Management Board of mBank for verification. 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 financial statements of mBank are respectively subject to an independent audit or review by a statutory auditor. The selection of the statutory auditor of the bank requires a resolution of the General Meeting. The Audit Committee of the Supervisory Board issues an opinion on the selection of the statutory auditor. In the subsidiaries, supervisory boards decide on the selection of the statutory auditor.

mBank abides by the principle regarding the rotation of statutory auditors.

On April 18, 2018, the 31st Annual General Meeting of mBank selected Ernst & Young Audyt Polska Sp. z o.o. spółka komandytowa 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 2018-2019. Ernst & Young Audit Sp. z o.o. sp. k. was also authorised to audit mBank's financial statements and the Group's consolidated financial statements earlier, i.e. in the years 2013-2015. In the years 2016-2017, PricewaterhouseCoopers Sp. z o.o. was the entity auditing the bank's financial statements and the Group's consolidated financial statements.

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 2017" contest organised by the Accounting and Tax Institute (IRiP), the results of which were announced in October 2018, mBank won the title "The Best of the Best" for the best annual report in the category of financial institutions for the sixth time in a row.

Auditor's services other than 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 Ernst & Young Audyty Polska spółka z ograniczoną odpowiedzialnością sp. k. in the year 2018, 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, 2018 and as at and for the 9-month period ended September 30, 2018.
2. Review of the consolidation package of mBank S.A. for Commerzbank AG as at and for the 6-month period ended June 30, 2018 and as at and for the 9-month period ended September 30, 2018.
3. Audit of the consolidation package of mBank S.A. for Commerzbank AG as at and for the year ended December 31, 2018.
4. Verification of the disclosure document regarding the capital adequacy of the mBank S.A. Group as at June 30, 2018 and December 31, 2018.
5. Verification of the disclosure document regarding the capital adequacy of mBank Hipoteczny S.A. as at December 31, 2018.
6. Assessment of compliance with the requirements for storing assets of mBank S.A. clients for 2018.
7. Services related to the verification of the prospectus supplement for mBank S.A.
8. Services related to the verification of the prospectus supplement for mBank Hipoteczny S.A.
9. Review of interim financial statements of 2 subsidiaries as at and for the 6-month period ended June 30, 2018.
10. Audit of consolidation packages of 3 subsidiaries for mBank S.A. as at and for the year ended December 31, 2018.
11. Agreed-upon procedures on consolidation packages of 6 subsidiaries and review of consolidation package of 1 subsidiary for mBank S.A. as at and for the year ended December 31, 2018.
12. Agreed-upon procedures on consolidation packages of 2 subsidiaries for mBank S.A. as at and for the 9-month period ended September 30, 2018.
13. Agreed-upon procedures on consolidation packages of 2 subsidiaries and review of consolidation packages of 2 subsidiaries for mBank S.A. as at and for the 6-month period ended June 30, 2018.
14. Agreed-upon procedures on consolidation package of 1 subsidiary and review of consolidation packages of 2 subsidiaries for Commerzbank AG as at and for the year ended December 31, 2018.
15. Agreed-upon procedures on consolidation package of 1 subsidiary and review of consolidation packages of 2 subsidiaries for Commerzbank AG as at and for the 6-month period ended June 30, 2018.

Significant blocks of shares

mBank's share capital amounts to PLN 169,347,928 and is divided into 42,324,982 ordinary bearer shares and 12,000 ordinary registered shares with a nominal value of PLN 4 each.

Commerzbank AG is the majority shareholder of mBank.

As at December 31, 2018, Commerzbank held directly 29,352,897 shares of mBank, which accounted for 69.33% of the share capital and votes at the General Meeting.

Shares accounting for 30.67% 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 at December 31, 2018, Nationale-Nederlanden Otwarty Fundusz Emerytalny exceeded the 5% threshold of shares and votes at the General Meeting of mBank. In accordance with the lists of shares of WSE-listed companies held in funds' portfolios as at the end of 2018, published by open-end pension funds, Nationale-Nederlanden Otwarty Fundusz Emerytalny held 5.00% of mBank shares. Furthermore, AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK held 4.1% of mBank shares, and Otwarty Fundusz Emerytalny PZU - 4.0%.

Shareholder	Number of the shares as at the end of 2018	% share in the number of shares and votes
1. Commerzbank AG	29,352,897	69.33%
2. Nationale-Nederlanden Otwarty Fundusz Emerytalny ¹	2,117,564	5.00%

¹ Data based on the List of shares of companies listed on the WSE in the portfolio of NN OFE.

On February 4, 2019, the bank received from the Nationale-Nederlanden OFE a notification of a reduction of shares in the company's shareholding to less than 5% of votes at the General Meeting of mBank.

Pursuant to the By-laws of mBank, each share gives the right to one vote at the General Meeting. There are no preferred shares. The control rights of Commerzbank AG as the parent entity of mBank are a result of the number of shares held, their percentage share in the equity, and 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 which would separate the equity rights attached to securities from the holding of securities. Furthermore, there are no limitations on the transfer of the property right to securities issued by the bank.

Information on the majority shareholder

The strategic shareholder of mBank, Commerzbank AG, is a leading German bank with a history dating back to 1870. It provides services to private and corporate customers.

Commerzbank holds branches and offices in almost 50 countries. The main markets for Commerzbank are Germany and Poland. There are about 1,000 branches in the branch network of Commerzbank in Germany. The Bank serves more than 18 million private customers, as well as, more than 70 thousand corporate clients, multinational companies, financial service providers, and institutional clients. The bank finances more than 30% of Germany's foreign trade. It is the leader in financing corporate clients in Germany and a major supplier of financial market products.

Commerzbank Group is composed of two business segments: Private and Small Business Customers (Privat- und Unternehmerkunden) and Corporate Clients (Firmenkunden). Comdirect, owned by Commerzbank, is the German market leader in respect of direct banking and online brokerage services. In 2018, Commerzbank generated income of EUR 8.6 billion with approximately 49,000 employees. Commerzbank posted a net result attributable to Commerzbank shareholders of EUR 865 million for 2018.

The German government, currently the largest shareholder of Commerzbank, holds a 15% stake in the share capital through Germany's Financial Market Stabilisation Fund (SoFFin). The largest institutional investors are Cerberus (more than 5% of Commerzbank shares) and BlackRock (less than 5% of Commerzbank shares). The remaining institutional investors hold about 55% of shares in free float.

14.3. 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 (PFSA) approves two Members of the Management Board of the bank: the President of the Management Board and the Chief Risk Officer (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.

14.4. Principles of 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.

14.5. General Meeting and shareholder rights

Meeting procedures and powers of the 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.

The 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 defined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

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. The By-laws of mBank and Standing Rules of the General Meeting do not provide for the possibility of voting by mail or with the use of electronic means of communication.

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 report of the Management Board on the bank's operations 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 redemption of shares, which set the rules of acquiring shares by the bank, in particular the amounts allotted to purchasing shares for redemption and funding sources and resolutions on redemption of shares, and in particular setting the policy of share redemption 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;
- election of the entity authorised to audit financial statements as a statutory auditor of the bank.

The General Meetings of mBank take place in the bank's headquarters in Warsaw and are broadcast on-line. The General Meetings may be attended by the representatives of the media.

Shareholders' rights

The 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 one-half of the share capital or at least one-half of the total number of votes in the Company may convene an Extraordinary General Meeting. The shareholders 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.

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 of the bank. 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.

The 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;
- take the floor in the course of the General Meeting and make a reply;
- submit draft resolutions concerning the 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 associated 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.

14.6. 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 5 years. At least half of the Management Board Members, including the President, must be Polish citizens, have permanent residence in Poland, speak Polish and have experience in the Polish market necessary to manage mBank. The 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 the Members of the Management Board has been described in detail in the Management Board's resolutions.

On April 12, 2018, mBank's Supervisory Board appointed the following Members of the Management Board of mBank S.A. for a joint term of five years:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Frank Bock - Vice-President of the Management Board, Head of Financial Markets
3. Andreas Böger – Vice-President of the Management Board, Chief Financial Officer
4. Krzysztof Dąbrowski - Vice-President of the Management Board, Head of Operations and Information Technology
5. Lidia Jabłonowska-Luba – Vice-President of the Management Board, Chief Risk Officer
6. Cezary Kocik – Vice-President of the Management Board, Head of Retail Banking
7. Adam Pers - Vice-President of the Management Board, Head of Corporate and Investment Banking

In 2018, the composition of the Management Board did not change.

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 second half of 1980s, he studied at Columbia University Business School in New York as a participant of the Fulbright Program. Starting in 1991, he chaired the Management Board of Bank Handlowy S.A. (currently Citibank Group) for nearly thirteen years. In 2003, he was appointed the President of the Management Board of PZU Group and held this function for three years. From 2006 to 2010, he worked for J.P Morgan in London, from 2007 as the 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, co-chair of the Emerging Markets Advisory Council of the Institute of International Finance in Washington (IFF).

Mr Stypułkowski was appointed the President of the Management Board of mBank S.A. on August 2, 2010. He has been acting as the President of the Management Board of the Bank as of October 1, 2010. The Polish Financial Supervision Authority approved his appointment on October 27, 2010.

Frank Bock - Vice-President of the Management Board, Head of Financial Markets



Mr Bock graduated from the Technical University in Karlsruhe (Germany) with specialisation in financial engineering and IT.

During his professional career, Frank Bock gained considerable experience in the scope of risk and treasury management in numerous institutions in Germany, the USA (New York) and Great Britain (London). Starting from the beginning of 2009, Frank Bock was the Managing Director for Treasury at Commerzbank AG. His duties included asset and liability management, market risk management and liquidity management at Commerzbank in Central and Eastern Europe, as well as functional support in strategic subsidiaries of Commerzbank: Comdirect, Commerz Real and mBank. Previously, as the Asset and Liability Management Director in Group Capital and Treasury Management of Dresdner Bank AG in Frankfurt, he was responsible for the management of market risk and liquidity portfolio. Prior to joining Dresdner Bank AG, Mr Bock worked for WestLB AG in Düsseldorf as Credit Treasury Head in Group Treasury and was a senior manager for risk management.

Vice-President of the Management Board of mBank S.A., Head of Financial Markets since May 1, 2017.

Andreas Böger- Vice-President of the Management Board, Chief Financial Officer



Mr 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 assets and liability management and capital advisory. Since 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. Mr Andreas Böger joined Commerzbank in 2013. Prior to taking up the position at mBank, he managed the corporate finance division within Commerzbank's Group Development and Strategy.

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



Mr 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.

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 the head of the Software Development Department,

he co-created the Polish service centre of F. Hoffman-La Roche. In the following years, as the 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.

Vice-President of the Management Board of mBank S.A., Head of Operations and IT since April 1, 2017.

Lidia Jabłowska-Luba - Vice-President of the Management Board, Chief Risk Officer



Lidia Jabłowska-Luba graduated from the Mathematics Institute of the University of Gdańsk. From 1994 to 2001, Ms Jabłowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised financial institutions on M&A and public equity transactions. In 2002, Lidia Jabłowska-Luba joined Citigroup in Poland, first as the Head of Financial Institutions & Public Sector Division and since November 2003 as the Member of the Management Board in charge of finance and operational

risk management, capital management and implementation of the New Capital Accord. From 2008 to 2010, she served as the Vice-President of the Management Board of Kredyt Bank acting as Chief Finance and Risk Officer. She was also the Advisor to the CEO of Warta S.A. and TUnŻ Warta S.A. From 2010 to 2012, Lidia Jabłowska-Luba was the Senior General Manager at KBC Group in Brussels, where she was responsible for managing all risk types in the group, including model development and valuation, risk policies and procedures, risk support for business decisions, supervision and reporting, ICAAP and ORSA processes, capital adequacy policy and technological support for risk management. Additionally, Lidia Jabłowska-Luba held the position of the Vice-Chairwoman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at KBC Group.

Vice-President of the Management Board of mBank S.A., Chief Risk Officer since April 12, 2013.

Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking



Mr Kocik graduated from the University of Łódź with a degree in Banking and Finance. In 2015, he completed the Advanced Management Program (AMP 189) at Harvard Business School. 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, Mr Kocik was employed with the debt

collection and loan restructuring department of Bank Pekao S.A., he was, among others, director of a Pekao Branch in Łódź.

He has been shaping mBank's retail banking since 2004: first in the retail credit risk area, then in the sales and business processes area, contributing to successful implementation of CRM system and substantially improving the effectiveness of key sales processes in direct channels.

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 SGH Warsaw School of Economics. 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 the financial markets area. 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 a 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 the Management Board of mBank S.A., Head of Corporate and Investment Banking since October 26, 2017.

Powers and procedures of the Management Board

The 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:

- Resource Management Committee (chairperson: Cezary Stypułkowski)
- Capital Management Committee (chairperson: Andreas Böger)
- Data Quality and IT Systems Development Committee (chairperson: Andreas Böger)
- Assets and Liabilities Management Committee of mBank Group (chairperson: Frank Bock)
- Foreign Branch Supervision Committee of mBank S.A. (chairperson: Cezary Kocik)
- Credit Committee of mBank Group (chairperson: Lidia Jabłowska-Luba)
- Retail Banking Risk Committee (chairperson: Lidia Jabłowska-Luba)
- Corporate and Investment Banking Risk Committee (chairperson: Lidia Jabłowska-Luba)
- Financial Markets Risk Committee (chairperson: Lidia Jabłowska-Luba)
- Model Risk Committee (chairperson: Lidia Jabłowska-Luba)
- Investment Banking Committee (chairperson: Lidia Jabłowska-Luba)
- IT Architecture Committee of mBank Group (chairperson: 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 of 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.

Total remuneration of the Members of the Management Board includes a fixed and a variable part.

A detailed description of the rules of the incentive programmes for the Management Board based on shares is presented in Note 42 of mBank S.A. Group IFRS Consolidated Financial Statements 2018.

On April 12, 2018, the resolution regarding the implementation of the incentive programme and determination of the rules for conducting it, and the resolution regarding the issue of subscription warrants, conditional share capital increase with divestment of the existing shareholders' pre-emptive right to subscription warrants were adopted at the 31st Annual General Meeting of mBank. The new Incentive Programme replaced two other programmes: the employee incentive programme dated October 27, 2008 on principles of conducting the employee incentive programme by the company, as amended, and the incentive programme of mBank dated March 14, 2008 for Members of the Management Board. In line with the Incentive Programme dated April 12, 2018, the bank will issue no more than 934,000 ordinary bearer shares with a face value of PLN 4.00 each. In order to grant the right, the bank will issue 934,000 registered subscription warrants. The Incentive Programme will be implemented until December 31, 2028 or until all shares are taken up, if it happens before that date.

The existing programmes will be expiring gradually. No newly issued shares will be granted under the existing programmes, and the bank will only meet the obligations arising from deferred tranches under the existing programmes.

Warrants are offered to the group of Risk Takers, composed of Members of the Management Board of mBank and mBank Group's subsidiaries and selected employees of mBank.

The bonus of a Management Board Member is paid in the following way:

- 40% of the bonus - in the calendar year in which the bonus amount is determined (non-deferred part);
- 60% of the bonus - in equal tranches in the five subsequent calendar years following the calendar year in which the bonus amount is determined (deferred part).

The non-deferred part: 50% is paid in cash in the month following the month of the Annual General Meeting; the other 50% is paid in the form of subscription warrants issued not earlier than twelve months from the date of the AGM. The value of one subscription warrant will equal the Average Market Price minus PLN 4.00.

The deferred part is paid in five equal tranches in the five subsequent calendar years: 50% of each tranche is paid in cash in the month following the month of the Annual General Meeting of mBank; the other 50% is paid in the form of subscription warrants issued not earlier than twelve months from the date of the AGM.

The bonus amount granted to a Risk Taker for a given calendar year is calculated individually for this Risk Taker and depends on the amount of the bonus pool.

The remuneration of the Members of Management Board in 2017-2018 is presented in the following tables.

	Remuneration paid in 2018 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2017	Deferred bonus ¹
1. Cezary Stypułkowski	3,580,421	241,475	434,466	805,415
2. Lidia Jabłonowska-Luba	1,629,000	183,087	150,000	445,000
3. Frank Bock	1,694,638	252,467	108,334	-
4. Andreas Böger	1,729,940	132,699	87,500	-
5. Krzysztof Dąbrowski	1,733,565	146,847	150,000	76,667
6. Cezary Kocik	1,879,956	199,194	250,000	475,000
7. Adam Pers	1,676,801	126,426	126,334	90,000
In total	13,924,321	1,282,195	1,306,634	1,892,082

¹ In 2018, the third deferred tranche was paid as part of the settlement of the cash portion of the bonus for 2014, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2015 and the first deferred tranche as part of the settlement of the cash portion of the bonus for 2016. Krzysztof Dąbrowski and Adam Pers were paid deferred tranches (with the date of payment in 2018) as the settlement of the cash portion of the bonus granted during the period of performing the functions of the Managing Directors.

	Remuneration paid in 2018 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2017	Deferred bonus ¹
Remuneration of former Members of the Management Board who ceased to perform their functions in 2017				
1. Christoph Heins	-	-	75,000	62,500
2. Jarosław Mastalerz	-	-	50,000	475,000
3. Przemysław Gdański	-	-	166,668	445,000

Remuneration of former Members of the Management Board who ceased to perform their functions in 2016

1. Jörg Hessenmüller	-	-	-	402,500
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¹ In 2018, Members of the Management Board who ceased to perform their functions in 2017 and Jörg Hessenmüller received the third deferred tranche as part of the settlement of the cash portion of the bonus for 2014, the second deferred tranche as part of the settlement of the cash portion of the bonus for 2015 and the first deferred tranche as part of the settlement part of the cash bonus for 2016.

	Remuneration paid in 2017 (in PLN)			
	Basic remuneration	Other benefits	Bonus for 2016	Deferred bonus ¹
1. Cezary Stypułkowski	2,661,046	237,960	460,831	575,000
2. Lidia Jabłonowska-Luba	1,500,000	173,320	250,000	320,000
3. Frank Bock	1,061,379	229,370	-	-
4. Andreas Böger	797,633	68,338	-	-
5. Krzysztof Dąbrowski	1,125,000	87,939	-	-
6. Cezary Kocik	1,500,000	189,036	250,000	350,000
7. Adam Pers	272,727	19,266	-	-
In total	8,917,785	1,005,229	960,831	1,245,000

¹ In 2017, the second deferred instalment was paid as part of the settlement of the cash portion of the bonus for 2014 and the first deferred tranche as part of the settlement of the bonus part of cash for 2015.

	Remuneration paid in 2017 (in PLN)				
	Basic remuneration	Other benefits	Bonus for 2016	Deferred bonus ¹	Severance payment
Remuneration of former Members of the Management Board who ceased to perform their functions in 2017					
1. Christoph Heins	776,684	269,061	125,000	-	-
2. Hans-Dieter Kemler	500,000	127,984	200,000	320,000	-
3. Jarosław Mastalerz	665,926	101,811	250,000	350,000	-
4. Przemysław Gdański	1,442,587	168,052	250,000	321,000	1,500,000

Remuneration of former Members of the Management Board who ceased to perform their functions in 2016

1. Jörg Hessenmüller	-	-	125,000	340,000	-
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¹ In 2017, Members of the Management Board who ceased to perform their functions in 2017 and Jörg Hessenmüller received the second deferred tranche as part of the settlement of the cash portion of the bonus for 2014 and the first deferred tranche as part of the cash bonus settlement for 2015.

The bank's shares held by the Members of the Management Board:

As at 31 December 2018, the bank shares were held by four Members of the Management Board: Cezary Stypułkowski – 19 384 shares, Frank Bock – 223 shares, Andreas Böger – 180 shares and Krzysztof Dąbrowski – 1 630 shares.

As at December 31, 2017, two Members of the Management Board held mBank's shares: Cezary Stypułkowski - 16,275 shares and Krzysztof Dąbrowski – 1,117 shares.

Composition of the Supervisory Board

The Supervisory Board acts on the basis of 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 no less than five Members elected by the General Meeting for a joint term of three years. Members of the Supervisory Board should possess knowledge, skills and experience adequate for fulfilling their function and duties entrusted to them and should guarantee proper fulfilment of these duties. At least half of all Supervisory Board Members, including the Chairman, shall hold Polish citizenship, permanently reside 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. The independence criteria of the Supervisory Board Member are stipulated in the mandatory provisions of law.

As at the end of 2018, the Supervisory Board's composition was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board
2. Stephan Engels – Deputy Chairman of the Supervisory Board
3. Tomasz Bieske – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Marcus Chromik – Member of the Supervisory Board
6. Janusz Fiszer – Member of the Supervisory Board
7. Mirosław Godlewski – Member of the Supervisory Board
8. Jörg Hessenmüller – Member of the Supervisory Board
9. Gurjinder Singh Johal – Member of the Supervisory Board
10. Michael Mandel – Member of the Supervisory Board
11. Teresa Mokrysz – Member of the Supervisory Board
12. Agnieszka Słomka-Gołębiowska – Member of the Supervisory Board

Compared with the composition of the Supervisory Board appointed on March 30, 2017 by the 30th AGM, only one change in the Supervisory Board took place. On September 11, 2018, Thorsten Kanzler resigned from mBank's Supervisory Board, and from the Supervisory Board Risk Committee effective as of September 23, 2018. By way of resolution of mBank's Supervisory Board, Gurjinder Singh Johal was elected as a new Member of the Supervisory Board of mBank effective as of September 24, 2018 until the end of the current term of office of the Supervisory Board.

Detailed information on mBank Supervisory Board Members, who performed their functions as at December 31, 2018, is presented in the table below.

Maciej Leśny - Chairman of the Supervisory Board

Maciej Leśny graduated from the Faculty of Economic Sciences at Warsaw University in 1969. During his professional career, Maciej Leśny worked for 6 years in the shipbuilding industry in Gdańsk and 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. For more than 22 years, he worked in the central state administration, including 8 years in the position of Undersecretary of State: in the Ministry of

Foreign Economic Co-operation; the Ministry of Economy; the Ministry of Economy, Labour and Social Policy; and finally in the Ministry of Infrastructure.

He completed a post-graduate course and training courses at universities in the USA: Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993, as a holder of scholarship granted by the US government, Maciej Leśny studied at the American University in Washington, DC. During his scholarship time, he took part in a four-month internship at the World Bank and completed a privatization training course in the International Monetary Fund.

From March 1994 to 1998, Maciej Leśny was the Chairman of the Supervisory Board of mBank (former BRE Bank). Then, until December 2001, he was a Member of the Supervisory Board. In 2004, Maciej Leśny was re-elected as the Chairman of the Supervisory Board.

Stephan Engels - Deputy Chairman of the Supervisory Board

Mr Engels is a graduate of the University of St. Gallen in Switzerland. In the period of 1988-1993, he worked at Daimler-Benz AG's Internal Audit Department. Afterwards he headed the Regional Controlling (Europe) at debis AG for three years. From 1996 to 2000, he served as the Chief Financial Officer at debis AirFinance B.V. In 2000, Mr Engels joined DaimlerChrysler Bank AG as the Member of the Board for Credit, and then CFO and IT. In 2003, he took the position of the Member of the Board for Finance, Controlling, Risk Management & Strategy at DaimlerChrysler Services AG. From 2007 to 2012, he was a Member of the Executive Committee of Mercedes-Benz Car Group for Finance & Controlling and the Head of Management Group Controlling at Daimler AG.

Since April 1, 2012, Member of the Board, Chief Financial Officer at Commerzbank AG.

Tomasz Bieske - Member of the Supervisory Board

Mr Bieske studied economy at the University of Cologne. He worked in Dresdner Bank's head office in Frankfurt for six years. In 1990, Tomasz Bieske co-founded Arthur Andersen in Poland and became the Head of Financial Markets Group responsible for cooperation with financial sector clients. After the merger with Ernst & Young, he continued his career path as the director of the Financial Markets Group, Audit and Business Advisory. He participated in most key projects in the financial services sector including 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. He managed many advisory projects in the banking sector.

Since 2011, he has been participating in the work of the committee for legal and business regulatory changes of the cooperative banking sector and closely cooperating with the Polish Bank Association (Związek Banków Polskich) and the National Association of Cooperative Banks (Krajowy Związek Banków Spółdzielczych). Tomasz Bieske has professional qualifications of a Polish statutory auditor. Until June 30, 2013, he worked for Ernst & Young.

Andre Carls - Member of the Supervisory Board

Having studied business economics and completed a doctorate at the University of Cologne, Dr Carls joined Commerzbank through an international trainee programme in 1990.

He held positions in corporate finance and capital markets areas in Frankfurt. Later he became the Executive Director of the investment banking line of Commerzbank in London.

From 2000 to 2008, Dr Carls was a Member of the Board of Managing Directors of comdirect bank AG, from September 2002 to November 2004 he served as the company's CFO and from November 2004 to March 2008 as its President of the Management Board (CEO). From March to September 2008, he was the Vice-President of the Management Board and CFO of BRE Bank SA.

From March 2008 to December 2013, Dr. Carls was the CEO of Commerzbank Auslandsbanken Holding AG and managed the Central & Eastern Europe Holding segment of Commerzbank AG.

In the years 2014-2015, Dr. Carls took over the position of Managing Director of the segment of medium-

sized corporate clients for the northern regions and western Germany, while from 2015 he is responsible for the Western Germany region.

Marcus Chromik - Member of the Supervisory Board

Marcus Chromik studied physics in Göttingen, Kiel and Munich. He also spent some time in the US, where he engaged in scientific research at Michigan State University. Mr Chromik holds a PhD in nuclear physics.

He started his professional career with McKinsey in 2001. In 2004, he joined Postbank Group, where he held various executive positions, being responsible for, among other things, new 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 the Bank's market and liquidity risk management. As of 2012, Dr 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.

Janusz Fiszer - Member of the Supervisory Board

Dr. Janusz Fiszer is a legal advisor and a certified tax advisor. He is a graduate of the Faculty of Law and Administration of the University of Warsaw, a specialist in the field of tax and financial law. Since 1980, Janusz Fiszer has been an employee of the University of Warsaw, the Faculty of Management. In addition, since 1991, he has been a senior advisor at the White & Case international law firm and also, from 1998 to 2012, he served as partner in this company. From 2012 to 2013, Dr Fiszer was a partner in the tax & legal department of the PricewaterhouseCoopers (PwC) international advisory company and in January 2014, he joined the GESSEL law firm as a partner.

Moreover, he is a lecturer in international tax law at the Postgraduate Programme of International Tax Strategies at Warsaw School of Economics (SGH). Janusz Fiszer was a scholarship holder of the University of Kansas School of Business in Lawrence, Kansas, USA (1982-1983) and of Deutscher Akademischer Austauschdienst (DAAD) as well as of the Fritz Thyssen Foundation (Fritz Thyssen Stiftung) at the University of Munich in Germany (1988-1989 and 1990). Since 1993, he has been a member of the editorial board of the *Monitor Podatkowy* monthly journal. Since the 1990s, he has worked as a correspondent for the *Tax Notes International* professional periodical in the USA. Since 2004, he has been writing regular tax commentaries for the *Dziennik Gazeta Prawna* daily. Janusz Fiszer is a co-founder and a member of the Supervisory Board of the Polish branch of the International Fiscal Association (IFA).

Mirosław Godlewski - Member of the Supervisory Board

Mirosław Godlewski completed the MBA programme at Warsaw University of Technology, the MBA programme at Ashridge Management College and Harvard Business School Advanced Management Program.

He is the Executive Chairman of Apteka Gemini, Senior Advisor at BCG, a Member of the Supervisory Board of Celon Pharma S.A., a Member of the Supervisory Board of Netia S.A. and the so-called "Angel Investor" at Hedgehog Fund.

Mr Godlewski was a member of the Supervisory Board at ABC Data SA and a member of the Nomination and Remuneration Committee. In 2007-2014, he was the President and CEO of Netia S.A. He also held executive positions with Opoczno S.A., Pepsi Cola General Bottlers-Polska Sp. z o.o., DEC Sp. z o.o. and MEMRB Polska.

Jörg Hessenmüller - Member of the Supervisory Board

Jörg Hessenmüller graduated from Hochschule für Bankwirtschaft in Frankfurt am Main in 1997 and was awarded the title of Master in Management (Diplom-Betriebswirt (FH)). From 1989 to 2009, he worked for Dresdner Bank, holding the position of, among others, Head of Financial Control responsible for London, New York, Moscow, Sao Paulo and Asia. In 2009, Mr Hessenmüller was appointed the Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance. From April 2012 to June 2016, he was the Member of the Management Board of mBank S.A., Chief Financial Officer.

From July 2016, Jörg Hessenmüller worked as was the Divisional Board Member for the Group division Digital Transformation and Strategy. On December 5, 2018, Jörg Hessenmüller has been appointed to the Board of Managing Directors of Commerzbank AG as the Chief Operating Officer with effect from January 15, 2019.

Gurjinder Singh Johal – Member of the Supervisory Board

Gurjinder Singh Johal graduated with a degree in Business & Finance from the University of East London (UEL) in 1994. In addition he completed managerial studies at Said Business School.

He started his career at Standard Bank London in 1995 before moving to Commerzbank in 2007. He initially assumed responsibility of the Emerging Markets & Credit Derivatives segment. From 2011 he headed the Global Credit Trading desk.

Between 2016-2018 Gurjinder Singh Johal was Divisional Board Member and Head of Group Market Risk Management at Commerzbank AG. In October 2018, Gurjinder Singh Johal was appointed the Divisional Board Member responsible for Group Treasury of Commerzbank AG.

Michael Mandel – Member of the Supervisory Board

He is a graduate of Business Administration at the University of Münster. Between 1986 and 2000, he worked for Dresdner Bank AG, where he was responsible for private banking. In the years 2000-2002, he was a consultant in McKinsey & Company consulting company.

Since 2002, he has worked for Commerzbank AG, first as the Head of Business Development for the Private Customer Segment, and then the Group Manager for Private and Business Customers. In 2008, he was appointed CEO of Comdirect Bank AG. Since 2010, he has served as the Divisional Board Member for Private Customers at Commerzbank AG. In May 2016, Michael Mandel was appointed the Member of the Board of Managing Directors at Commerzbank AG responsible for the segment of "Private and Business Customers".

Teresa Mokrysz - Member of the Supervisory Board

Teresa Mokrysz graduated from the Academy of Economics (now the University of Economics) in Katowice (1978). In 1990, she created the Mokate brand, one of the most recognisable Polish brands in the world. She transformed a small family-run company into an international business. As one of the owners, Teresa Mokrysz runs eight Mokate enterprises headquartered in Poland and in other countries of Central Europe. She built production plants in the Polish towns of Żory and Ustroń from scratch and expanded a production plant near Prague (producing coffee, tea and intermediate products for the food industry). She has successfully launched her products in several dozen countries on all the continents.

In 2000, the International Association of Women Entrepreneurs from Los Angeles awarded her the title of the "Most Entrepreneurial Woman in the World". Moreover, Teresa Mokrysz received a number of prestigious awards in Poland and abroad, including the "Leader of the Decade" title granted by *Gazeta Wyborcza*, and the "Success of the Decade" title granted by the *Businessman Magazine*. She funds scholarships for talented and underprivileged young people and provides financial support to health care institutions, nursing care homes, orphanages and schools.

Agnieszka Słomka-Gołębiowska - Member of the Supervisory Board

Agnieszka Słomka-Gołębiowska holds PhD in economics. She is a graduate of Warsaw School of Economics specializing in finance and banking and completed the MBA programme of the French Institute of Management (IFG). She obtained her PhD degree at Warsaw School of Economics (SGH). Agnieszka Słomka-Gołębiowska works as a lecturer at Warsaw School of Economics and she conducts research into corporate governance. She attended several Executive Education courses, e.g. the IESE-Harvard Business School programme.

From 2006 to 2009, she was the Director in the Industrial Development Agency responsible for corporate governance, and before that, a consultant for private and public companies at Arthur Andersen. Since 2006, she has been a member of supervisory boards. Agnieszka Słomka-Gołębiowska was a holder of the Alexander von Humboldt Fellowship at the University of Münster and the Polish-American Fulbright Fellowship at the University of California, Berkeley. She was also a visiting scholar at universities in Cambridge (MIT), Tucson (UOA), Münster, Copenhagen (CBS), Birmingham (BBS), Berlin (HSoG), Genoa (UoG - Law School), Vienna (WU) and Florence (UniFi). She is the author of many publications on corporate governance.

The four independent members of the Supervisory Board are: Tomasz Bieske, Janusz Fiszer, Mirosław Godlewski and Agnieszka Słomka-Gołębiowska. Maciej Leśny and Teresa Mokrysz do not meet the independence criterion due to the fact that they have been sitting on the Supervisory Board for over twelve years.

Andre Carls, Marcus Chromik, Stephan Engels, Jörg Hessenmüller, Gurjinder Singh Johal and Michael Mandel are not independent members due to their relationship with the main shareholder of mBank.

Powers and procedures of the Supervisory Board

The responsibilities of the Supervisory Board include, in particular, the following matters:

- 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 means 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 to be decided in a resolution of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board prepares the justification for draft resolutions to be presented to the General Meeting for approval.
- 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;
- Authorizing 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 Internal Audit Department Director 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 the 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 the bank the 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.

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 Chairman of the Supervisory Board has the casting vote.

No resolution should be passed without the 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 associated with the bank to the Members of the Management Board;
- consent for the bank to enter into a significant agreement with an entity associated with the bank, a Member of the Supervisory Board or the Management Board, and entities associated with them.

The Supervisory Board has four committees: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, and the Remuneration Committee. In addition, the Supervisory Board has set up a Working Group for IT, which holds regular meetings.

Members of the Committees are presented below.

Executive and Nomination Committee	Risk Committee	Audit Committee	Remuneration Committee
<u>Maciej Leśny - Chairperson</u>	<u>Marcus Chromik - Chairperson</u>	<u>Tomasz Bieske - Chairperson</u>	<u>Andre Carls - Chairperson</u>
Andre Carls - Member	Mirosław Godlewski - Member	Andre Carls - Member	Tomasz Bieske - Member
Stephan Engels - Member	Gurjinder Singh Johal	Janusz Fiszer - Member	Stephan Engels - Member
Teresa Mokrysz - Member	Agnieszka Słomka-Gołębiowska - Member	Jörg Hessenmüller - Member	Maciej Leśny - Member
		Agnieszka Słomka-Gołębiowska - Member	

Executive and Nomination Committee

The tasks of the Executive and Nomination Committee involve, in particular, exercising regular 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 for the positions of Management Board and Supervisory Board Members of the mBank.

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 the 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, whereas one of the Audit Committee members has to possess knowledge and skills in the scope of accounting and financial statements audit. The Rules of the Supervisory Board stipulate that the majority of the Audit Committee members, including its Chairperson, have to be Independent Supervisory Board Members.

The Audit Committee is composed of five members. The members who have knowledge and skills in the scope of accounting and financial statements audit include: Tomasz Bieske – the Committee Chairman and Jörg Hessenmüller – the Committee Member.

The members who meet the independency criteria include: Tomasz Bieske, Janusz Fiszer and Agnieszka Słomka-Gołębiowska. The independency criteria are specified in Article 129 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

All the members of the Audit Committee have vast knowledge in the sphere of banking:

- Tomasz Bieske - a certified auditor for financial statements audit, a long-term employee of Arthur Andersen Polska and Ernst & Young Polska;

- Jörg Hessenmüller - a long-term member of mBank's Management Board, Chief Financial Officer (CFO), member of top management in Commerzbank AG;
- Andre Carls - PhD in economics, ex-member of mBank's Management Board, Chief Financial Officer (CFO), managing director of the medium corporate clients segment in West Germany;
- Janusz Fiszer - legal adviser and tax adviser, a co-founder and a member of the Supervisory Board of the Polish branch of the International Fiscal Association (IFA);
- Agnieszka Słomka-Gołębiowska - PhD in economics, a graduate of Warsaw School of Economics specialising in finance and banking and the MBA programme of the French Institute of Management (IFG). She is the author of many publications on corporate governance.

In 2018, the Audit Committee issued a recommendation for the Supervisory Board, advising it to recommend the Annual General Meeting to select an external auditor for audit of the financial statements of mBank S.A. for 2018/2019 and consolidated financial statements of mBank Group for 2018/2019. The recommendation regarding the selection of the auditor was made following an election procedure adopted by mBank, which meets the applicable criteria. In 2018, the Audit Committee approved the procedure for selecting an audit firm to audit mBank's financial statements, which meets the requirements of § 16 para. 2 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of financial statements of public-interest entities. The Audit Committee also approved the Report of the Evaluation Commission containing conclusions from the procedure of selecting an audit firm to audit mBank's financial statements and consolidated financial statements of the Group.

The Audit Committee approved the policy for the selection of an audit firm in mBank S.A., which meets the requirements of 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).

mBank's policy on the selection of an audit firm includes the principle of statutory auditor rotation. The duration of total uninterrupted statutory audit engagements referred to in Article 17 (1) paragraph 2 of Regulation (EU) No. 537/2014 carried out by the same 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 a statutory audit again in 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 the period not shorter than two years with an option to extend it for another two-year period.

The Audit Committee approved the policy on the performance of permitted non-audit services in mBank S.A. by the audit firm carrying out the audit, by entities related to the audit firm and by a member of an audit firm network. The policy meets the requirements of the Act on Statutory Auditors, Audit Firms and Public Oversight and Regulation No. 537/2014.

Pursuant to the policy on the performance of permitted non-audit services in mBank S.A. by the audit firm carrying out the audit, by entities related to the audit firm and by a member of an audit firm network, a statutory auditor or an audit firm carrying out the audit, or any member of the network to which the statutory auditor or the audit firm belongs, must 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. examination of historical financial information of the prospectus,
4. verification of consolidation packages,
5. confirmation of fulfilment of conditions of the concluded loan contracts on the basis of the 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 revealed by financial institutions and investment companies with the requirements for disclosing information concerning capital adequacy and variable remuneration,
8. certification concerning financial statements or other financial information for supervision bodies, the supervisory board or other 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 and safeguards for the independence.

The audit firm auditing the financial statements of mBank and mBank Group provided the 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.

In 2018, the Audit Committee held 6 meetings.

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 at the time. Moreover, the Risk Committee provides the Supervisory Board with recommendations for approval or rejection of transactions, provided for in the Banking Law, concluded between the bank and Members of the bank's authorities, 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 bank's Management Board and information on the strategy implementation submitted by the Management Board.

Remuneration Committee

The tasks of the Remuneration Committee include among others: reviewing issues related to the remuneration principles and amounts of remuneration paid to the Members of the Management Board, setting the remuneration levels, presenting opinions concerning approval for Members of the Management Board of mBank to engage in competing activity, issuing recommendations to the Supervisory Board regarding the general guidelines for the Management Board on the level and structure of remuneration for the bank's senior management and the policy on variable components of remuneration paid to persons holding managerial positions at the bank. In addition, the Committee monitors the level and structure of senior management remuneration, issues opinions and monitors the remuneration policy adopted by mBank and assists the bank's bodies in matters regarding development and implementation of this policy.

All standing committees of the Supervisory Board make reports on their activity in the past reporting year available to the shareholders. The aforesaid reports are appended to the set of materials for the Annual General Meeting and can be found on mBank's Internet website at <https://www.mbank.pl/en/investor-relations/general-meeting/>.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 50 regarding the remuneration rules for the Members of the Supervisory Board of mBank S.A. adopted by the 30th Annual General Meeting of mBank S.A. held on March 30, 2017. The Chairperson of the Supervisory Board earns PLN 17,000 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 committee and 25% for participating in another 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 the bank is entitled to additional remuneration equal to 80% of the sum of remuneration he or she is paid.

The remuneration of the Supervisory Board for 2017-2018 is presented in the table below.

	Remuneration paid in 2018 (in PLN)	Remuneration paid in 2017 (in PLN)
1. Maciej Leśny	367,235	367,235
2. Stephan Engels	-	-
3. Tomasz Bieske	429,025	319,656
4. Andre Carls	288,000	279,000
5. Marcus Chromik	-	-
6. Janusz Fiszer	216,000	162,000
7. Mirosław Godlewski	216,000	162,000
8. Joerg Hessenmueller	216,000	210,000
9. Gurjinder Singh Johal ¹	54,000	-
10. Michael Mandel	-	-
11. Teresa Mokrysz	220,225	220,225
12. Agnieszka Słomka-Gołębiowska	257,435	248,435
Thorsten Kanzler ¹	162,000	216,000
Wiesław Thor ²	-	37,812
Waldemar Stawski ²	-	55,812
Marek Wierzbowski ²	-	54,000
In total	2,425,920	2,332,175

¹ Thorsten Kanzler resigned from his function on September 23, 2018

² The term of office expired on March 30, 2017

Activity of the Supervisory Board in 2018

In 2018, the Supervisory Board held seven meetings and adopted 73 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, PFSA recommendations, corporate governance principles, and mBank's By-laws and the Rules of the Supervisory Board.

At its meetings in 2018, the Supervisory Board discussed and assessed the current results of mBank Group and individual business lines taking into account the financial plan. The Supervisory Board also discussed and accepted other detailed reports required by the law concerning different areas of the bank's activity, including, i.a., regular risk, compliance, audit, bancassurance and IT security reports. Moreover, the Supervisory Board monitored the implementation of mBank Group's Strategy for 2016-2020 on an ongoing basis.

During their regular meetings in 2018, 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.

Attendance of the Supervisory Board Members at Supervisory Board meetings in 2018 is presented in the table below.

	Attendance ¹
Tomasz Bieske	7/7
Andre Carls	7/7
Marcus Chromik	5/7
Jörg Hessenmüller	6/7
Stephan Engels	6/7
Mirosław Godlewski	7/7
Janusz Fiszer	5/7
Gurjinder Singh Johal (since September 24, 2018)	2/3
Thorsten Kanzler (until September 23, 2018)	4/4
Maciej Leśny	7/7
Michael Mandel	6/7
Teresa Mokrysz	5/7
Agnieszka Słomka-Gołębiowska	7/7

¹ Attendance at meetings/number of meetings during the term of office.

14.7. mBank's Diversity Policy

Being guided by the principle that diversity creates value added for the organisation, mBank has made use of the basic elements of the diversity policy in its HR policy for many years. Elements of the diversity policy are present in various regulations, procedures and processes.

Diversity arising from experience, knowledge, education, interests and a number of other things fosters creativity, innovation and effectiveness, and thus contributes to the company's competitive advantage, service quality and economic results.

mBank treats people equally regardless of their sex, age, material status, family background, physical abilities, nationality, country of origin, sexual orientation, and political and religious beliefs, that is all the factors that may give rise to direct or indirect discrimination. The bank offers a workplace that helps the management make use of and develop their unique features, skills and interests, for example, through participation in training activities and clubs that bring together people with similar interests. Diversity management contributes to creating an organisational culture based on openness and tolerance where everyone feels appreciated and respected, and is offered career development opportunities.

Pursuant to the sex equality policy, the bank tries to ensure that both men and women take part in external and internal recruitment and in the succession planning regarding the key functions at the bank, taking into account the principles of equal treatment in hiring new employees. mBank's recruitment process involves a selection method which ensures objective assessment of candidates' skills. Each employee of the bank can be promoted to a managerial position, if they have a relevant professional track record. Evaluation of job positions is based on objective criteria, which prevent discrimination.

The Management Board and the Supervisory Board apply the "Policy for the Assessment of Qualifications (Suitability) of Members of the Supervisory Body, Management Body and Key Function Holders in mBank S.A.". The policy aims at introducing principles which must be fulfilled so that key functions in the bank are held by individuals who have relevant qualifications, knowledge, skills, professional experience, predispositions and reputation that are suitable for the function. The Suitability Policy includes a separate chapter dedicated to the diversity policy.

When selecting and appointing Members of the Management Board and proposing candidates for Members of the Supervisory Board, mBank takes into account the diversity issue:

■ with respect to the Management Board

When deciding on the composition of the Management Board, the Supervisory Board makes every effort to ensure its diversity, especially in terms of age, education, professional experience and participation of women. The Supervisory Board pays attention to the diversity of educational background and professional experience of the Management Board Members;

■ with respect to the Supervisory Board

The age structure of the Supervisory Board Members should be diverse. Moreover, the Supervisory Board aims at ensuring that its members have diverse educational background and professional experience. The Supervisory Board also lays emphasis on the adequate participation of women.

The current 12-person composition of the Supervisory Board reflects the concepts underlying the diversity policy. The Supervisory Board is composed of representatives of mBank’s main shareholder, representatives of science and business, and persons having vast legal knowledge and banking expertise.

There are two women sitting on the twelve-person Supervisory Board.

Supervisory Board of mBank						
	31.12.2016		31.12.2017		31.12.2018	
	number of employees	%	number of employees	%	number of employees	%
Women	2	17%	2	17%	2	17%
Men	10	83%	10	83%	10	83%
Total	12	100%	12	100%	12	100%

There is one woman sitting on mBank’s seven-person Management Board.

Management Board of mBank						
	31.12.2016		31.12.2017		31.12.2018	
	number of employees	%	number of employees	%	number of employees	%
Women	1	14%	1	14%	1	14%
Men	6	86%	6	86%	6	86%
Total	7	100%	7	100%	7	100%

mBank’s managers graduated from different fields of study in Poland and abroad, including economics, technology, IT, law, and 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 for the work environment and takes part in training sessions based on recognising differences and deriving benefits from that. The Success Insights method is used to identify employees’ abilities and skills. The method helps to identify personality traits that can be used at work.

15. Glossary

ABB – Accelerated book building

AIRB – Advanced Internal Rating-Based

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

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).

EaR - Earnings at Risk - measure the amount that the net income, or earnings, changes when there is a change in interest rates

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

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

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

SoFFin – Sonderfonds Finanzmarktstabilisierung), Germany's Financial Market Stabilisation Fund

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

16. 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 2018 (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.