

**Management Board Report
on the performance of mBank Hipoteczny S.A.
in the first half of 2022**

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1. Activity of mBank Hipoteczny S.A. in the first half of 2022

In July 2018, mBank Hipoteczny S.A. (hereinafter the "Bank") adopted objectives for its operating strategy for 2019–2022.

The strategy for 2019–2022 responds mainly to challenges resulting from the current and expected intensive development of the covered bond market in Poland as well as the strong demand for Polish covered bonds in the European Union. Simultaneously, the strategy continues the assumptions regarding the safe financial structure of mBank Group, and in the currently growing competitive pressure among mortgage banks, it stresses the importance of the cost-effectiveness of the Bank's business model.

The Bank's strategy assumes that the foundation of its operations will be to obtain long-term refinancing for mBank Capital Group (hereinafter referred to as "mBank Group"), i.e. to issue covered bonds in the most cost-effective business model possible. Such a direction requires primarily ensuring an appropriate scale of assets in the Bank's balance sheet that meet the criteria for securing covered bonds.

There are three business areas at the Bank:

- retail area, based on the transfer of mortgage loans for natural persons from mBank's portfolio (retail pooling);
- commercial area, based on the management of the existing portfolio of commercial real estate transactions (CRE);
- mortgage covered bonds issuance area, responsible for ensuring long-term financing of loans with covered bonds.

In the coming years, the Bank will develop the portfolio of retail mortgage loans in close cooperation with mBank, i.e. assuming that the sales will be executed by the forces of mBank, within the already functioning cooperation model.

From the end of 2012 the Bank does not finance local government units or other entities with a guarantee of local government units, which results from the risk profile of this segment and inadequate credit margins. This approach has been maintained in the update of the strategy for years 2019-2022. Nevertheless, the Bank owns a historically developed portfolio of credit transactions for this segment.

In 2021 the Bank did not increase the scale of transactions financing commercial real estate (CRE) or housing developers.

1.1. Key projects

Implementation of AIRB method

There are ongoing works at the Bank – initiated with the submission of the Prevalidation Application in the second half of 2016 – focusing on obtaining the consent of the Supervision Authority to apply the A-IRB approach to the retail portfolio acquired within the scope of cooperation with mBank S.A., based on the adaptation of the models applied in mBank S.A. In Q4 2017, the Bank obtained an official position from the Polish (PFSA) and the European (ECB) supervision authority, which is the result of the observations from the inspection carried out in Q4 2016, as well as of the answers of the Bank to the initial evaluation results, addressed at the beginning of 2017 by the PFSA.

A substantial part of the recommendations identified during the inspection was addressed by the Bank, among others by redesigning the LGD model. In order to bring the LGD model in line with the applicable requirements, mBank redesigned the model in 2018. This significant change was concluded with an inspection carried out in December 2018. In March 2021 mBank received approval of the model from ECB and PFSA. In June 2021 the model was implemented.

At the same time, in order to meet the expectations of the supervisory authorities, work is underway to ensure alignment to the new definition of default, including, among others, redesign of group models for the retail portfolio based on which the Bank applies for permission to use the AIRB approach. The application to apply the A-IRB approach to the retail portfolio acquired within the framework of cooperation with mBank S.A. is planned to be submitted upon the models' alignment with the New Definition of Default.

Definition of Default

The Bank prepared and implemented changes related to the entry into force of the European Commission regulation EU No 2018/171 issued pursuant to Article 178 of the Regulation No 575/2013 (CRR) on changes in the definition of default applied by banks. The works were conducted by a dedicated project team in close cooperation with a respective team appointed at mBank S.A.

In June 2020, a request was submitted to the ECB for a permit for a significant change in the applied IRB method, involving a change of the definition of default. The submission of the request was preceded by preparation of changes in the procedures, processes and information systems.

Currently, works are in progress on the implementation of the ECB recommendations, including the implementation of the calculation of the number of days past due at the level of mBank Group for the purposes of identifying an indicator of overdue payments and the automation of the cross default process.

IBOR

In the first half of 2022, as part of the joint project of the mBank Capital Group, the Bank continued its work on the implementation of solutions stemming from Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts, [...] the so-called fallback clauses. Based on the BCP and the Project schedule adopted by the Bank, the Bank proposed annexes to loan agreements to customers who have loans from own sales carried out by the Bank until 2019. At the next stage, the Bank plans to execute annexes to loan agreements with customers who have loans granted in the agency model or obtained in the pooling model in cooperation with mBank S.A.

Electronic Power of Attorney Flow

Works on the implementation of an application for electronic power of attorney flow are currently under way at the Bank.

Main objectives of the project:

- improvement of the power of attorney and authorisation flow process;
- enabling reporting;
- ensuring the process transparency.

The project is a continuation of works aimed at reducing the number of paper documents at the Bank. The new solution also includes the design of the path to purchase of electronic signatures for the Bank's employees.

Implementation of the amendment to the Act on Covered Bonds and Mortgage Banks

The Bank carried out works aimed at adapting to the requirements of the amended Act on Covered Bonds and Mortgage Banks. The Act will enter into force on 8 July 2022. The Act implements the provisions of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU ("Directive 2019/2162"), which together with Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 575/2013 as regards exposures in the form of covered bonds ("Regulation 2019/2160") forms a part of the regulatory packet on covered bonds. As part of the works, a gap analysis was conducted and the change implementation project team was appointed.

Works on testing the change in the system of RCB provided by the tool supplier are in progress and amendments to internal regulations are being developed. Production implementation is scheduled for 5 July 2022.

Division of mBank Hipoteczny S.A. — the mBH Ultra Light Project

In the first half of 2022, intensive activities were carried out to prepare the mBank Hipoteczny S.A. division plan. The Bank will be divided by transferring, to mBank S.A., a portion of property (assets and liabilities) as well as rights and obligations of the Bank in the form of an organised part of the enterprise, which is

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an organisationally and financially separated set of tangible and intangible components within the existing mBH enterprise, related to the activity of granting and servicing loans, including:

- mortgage-backed loans for the financing of commercial real estate;
- loans granted to local government units or guaranteed by them;
- mortgage-backed loans granted to natural persons for purposes unrelated to business activity, in respect of which the loan agreement with the customer was concluded by 25 July 2013, meeting certain criteria

together with information systems dedicated to servicing the aforementioned loans and employees necessary to carry out such activities and property, plant and equipment, rights and obligations related to conducting this activity, as well as other assets and liabilities necessary to carry out specific business tasks within the scope of such banking activity.

Carbon footprint and decarbonisation strategy of the mBank Group

In the first half of 2022, a project entitled "Carbon footprint and decarbonisation strategy of the mBank Group" was launched within the mBank Group. The project is carried out in cooperation with the Climate Strategies Poland Foundation. The aim of the project is to define the carbon footprint of the mBank Group within scopes 1, 2 and 3.

1.2. Financial credibility - ratings

Financial credibility of mBank Hipoteczny S.A. and covered bonds issued by the Bank is assessed by an international rating agency –Moody's Investors Service Ltd. As of the reporting date the following ratings applied:

	Rating by Moody's Agency	Outlook	Date of decision	Decision
Long-term Issuer Ratings	Baa1	Stable	13-07-2021	Upgrading
Short-term Issuer Ratings	Prime-2	-	13-07-2021	Affirming
Long-term Counterparty Risk Ratings	A2	-	13-07-2021	Upgrading
Short-term Counterparty Risk Ratings	Prime-1	-	13-07-2021	Upgrading
Long-term Counterparty Risk Assessment	A2(cr)	-	13-07-2021	Upgrading
Short-term Counterparty Risk Assessment	Prime-1	-	13-07-2021	Upgrading
Mortgage Covered Bonds	Aa1	-	13-07-2021	Upgrading

Moody's Investors Service Ltd. assigns ratings according to the following scale (descending):

long-term international, covered bonds ratings: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C

short-term international: Prime-1, Prime-2, Prime-3, Not Prime

numeric modifier: 1, 2, 3.

Moody's applies numerical modifiers 1, 2, and 3 in each global long-term rating classification from Aa through Caa. The modifier 1 indicates a ranking in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

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On 13 July 2021, Moody's Investors Service Ltd upgraded the long-term and short-term Counterparty Risk Assessment rating to A2(cr) and Prime-1(cr) from A3(cr) and Prime-2(cr) and the long-term and short-term Counterparty Risk Rating to A2 and Prime-1 from A3 and Prime-2, respectively.

Moody's Investors Service also upgraded the long-term issuer's rating of mBank Hipoteczny to Baa1 from Baa2 with a stable outlook and confirmed the short-term issuer's rating at Prime-2 level. At the same time, the agency upgraded the rating of covered bonds issued by mBank Hipoteczny from Aa2 to Aa1.

The rating upgrade resulted from the update of the methodology of assigning ratings to related companies in a single group.

On 9 December 2020, Moody's Investor Services rating agency upgraded the rating of the mortgage covered bonds issued by the Bank to Aa2 from Aa3. The rating upgrade resulted from an update to the 'Country Ceilings Methodology' that determines the maximum rating level for instruments issued in a given country published by Moody's Investor Services in December 2020.

On 28 May 2019, the Bank terminated the agreement with the Fitch Polska S.A. rating agency which concerned the covered bonds issued by the Bank.

On 28 September 2020, the Bank terminated its agreement with Fitch Ratings concerning the Bank's credit rating. Fitch Ratings thus revoked the credit ratings assigned to the Bank, including the Long-Term Issuer Default Ratings (IDR), which was at the BBB level with a stable perspective.

Besides its financial results, ratings assigned to the Bank are influenced by the assessment of mBank S.A and Commerzbank AG, including the support granted by these institutions.

The rating obtained by the Bank is a starting point for the rating assigned to the covered bonds issued by the Bank, which has an impact on the recognition of payments from covered bonds in case of the issuer's insolvency and the risk profile of the collateral of covered bonds.

1.3. Financial results

The financial statement of the Bank was prepared according to the International Financial Reporting Standards binding in the European Union (IFRS). The data presented in the Management Board Report are presented in the management view and they do not have to be consistent with the data included in the Financial Statement.

Due to the specific nature of the Bank, its assets primarily include loans secured by mortgage, and on the liabilities side - liabilities arising from the issue of covered bonds, as a main source of refinancing of credit operations.

Table 1. The dynamics of selected elements of the statement on financial situation (in PLN thousands)

Main balance sheet items	30.06.2022	31.12.2021	Dynamics
ASSETS	13 155 317	12,981,822	1,34%
Including			
Loans and advances to customers (at amortised cost)	11 916 667	11,608,275	2,66%
Loans and advances to customers (at fair value through profit or loss)	107 848	120,205	-10,28%
LIABILITIES AND EQUITY	13 155 317	12,981,822	1,34%
Including			
Debt securities in issue	7 438 302	7,603,677	-2,17%
Share capital	884 631	884,631	0,00%

In the first half of 2022 the Bank achieved a positive gross result in the amount of PLN 10,918 thousand. Due to a specialised activity profile in which the main source of the Bank's result is the interest income, the financial result was greatly influenced by decrease in the commercial portfolio and increased prepayments in the retail portfolio. Consequently, the Bank reported a decline in the net interest income compared to the first half of 2021 (by PLN 15,599 thousand or 22.13%).

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The total value of administrative expenses was higher by 7.53% compared to the first half of 2021. Despite this, due to higher total income, the cost to income ratio slightly decreased (to 49.18% from 50.76% at the end of 2021).

Due to the specialization and narrow range of the products offered, the Bank is unable to compensate the effects of the bank tax. Before the tax, the Bank's operating result amounted to PLN 26,641 thousand, as compared to 29,575 thousand in the first half of 2021.

In the first half of 2022 the income of the Bank, calculated as the sum of net interest income, net fee and commission income, net trading income, other operating income and other operating expenses, amounted to PLN 77,593 thousand (in the first half of 2021: PLN 67,615 thousand). This income pertains in whole to the activity conducted within the Republic of Poland.

Table 2. The dynamics of selected elements of profit and loss account (in PLN thousand)

Profit and loss account	Period from 01.01.2022 to 30.06.2022	Period from 01.01.2021 to 30.06.2021	Dynamics
Net interest income	54,904	70,503	-22.13%
Net fee and commission income	(4,616)	(3,489)	32.30%
Net trading income	27,732	1,086	2453.59%
Net impairment write-downs on loans and advances	(12,206)	(543)	2147.88%
Overhead costs	(32,120)	(29,870)	7.53%
Amortisation and depreciation	(6,983)	(6,667)	4.74%
Operating result	26,641	29,575	-9.92%
Tax on the Bank's balance sheet items	(15,723)	(15,295)	2.80%
Gross profit	10,918	14,280	-23.54%
Income tax	(5,556)	(6,438)	-13.70%
Net profit	5,362	7,842	-31.62%
Weighted average number of ordinary shares / weighted average diluted number of ordinary shares	3,360,000	3,360,000	0.00%
Net profit per ordinary share / Diluted profit per ordinary share (in PLN)	1.60	2.33	-31.33%

Table 3. Effectiveness ratios

PERFORMANCE INDICATORS	30.06.2022	31.12.2021
ROA net ¹⁾	0.08%	0.15%
ROA gross ¹⁾	0.17%	0.23%
ROE net ³⁾	0.84%	1.48%
ROE gross ⁴⁾	1.71%	2.37%
Cost to income ratio (C/I) ⁵⁾	49.18%	50.76%
Net interest margin ⁶⁾	0.90%	1.08%
Cost of risk ⁷⁾	0.38%	0.17%
Total Capital Ratio	18.68%	18.73%
OTHER		
Employment	131 employees/120 FTE's	129 employees/121 FTE's
Average employment	131 employees	130 employees
Facilities	Headquarters	Headquarters

1) net result / average assets

2) gross result / average assets

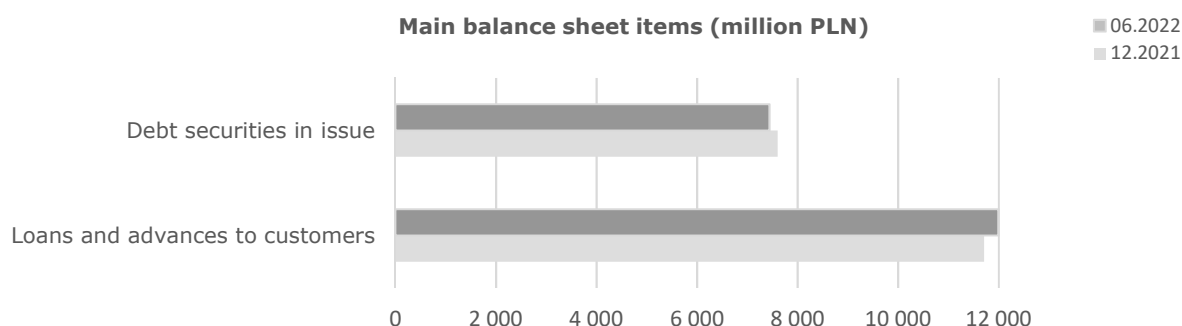
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- 3) net result / average equity
- 4) gross result / average equity
- 5) (overhead costs + amortisation and depreciation) / total income (defined as net interest income + net fee and commission income + net trading income + other operating income - other operating expenses + other income)
- 6) interest income / average earning assets
- 7) net write-downs for impairment of credit and loans (excluding impact of credit guarantee) / average balance of credits and loans granted to clients

Average balance sheet amounts were calculated based on monthly data considering the opening and closing balance of the reporting period.

Chart 1. Main balance sheet items (in PLN million)

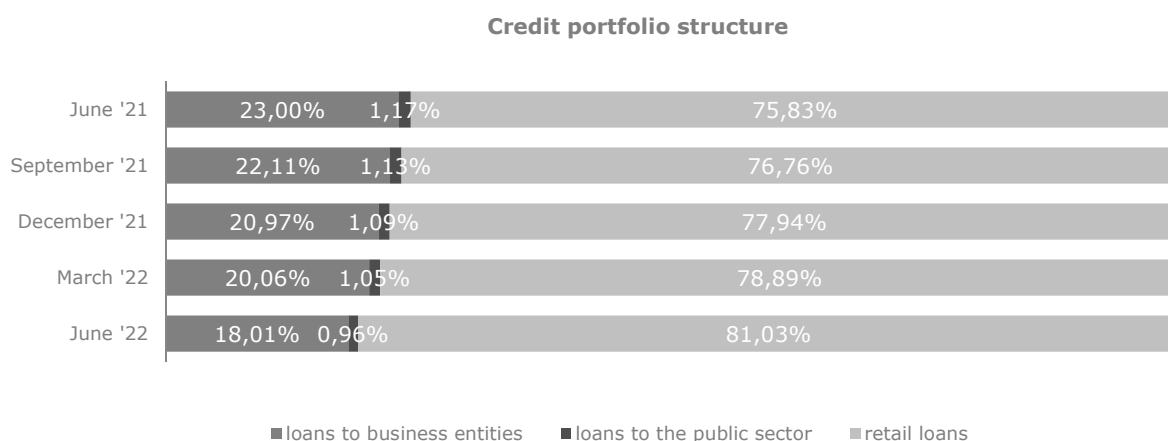


1.4. Lending

Following the transfer of the entire retail loan sales process to mBank on 22 July 2017, pooling transactions were the source of supply of retail assets to the Bank's loan portfolio. On 1 January 2019 also commercial loan sales process was transferred to mBank. Loans pooling from mBank is not performed in the area of commercial loans..

In the retail area, in line with the mBank Group's strategy, the Bank carried out 5 pooling transactions with a total amount of PLN 1.38 billion.

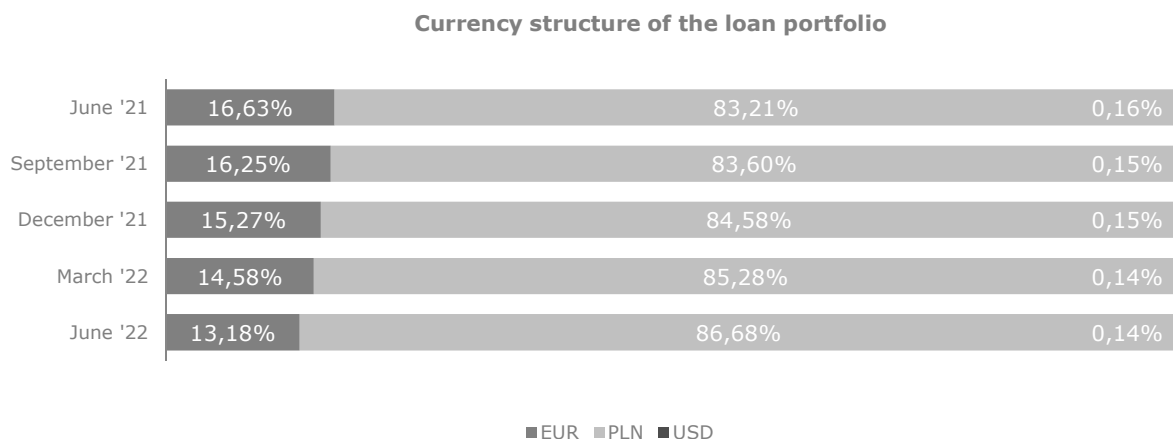
Chart 2. The structure of the loan portfolio



In the first half of 2022, the currency structure of the loan portfolio changed. Compared to the end of 2021, the share of loans in PLN rose by 2.1 percentage points and as at the end of June 2022 they accounted for 86.68% of the loan portfolio. The share of loans in EUR amounted to 13.18%.

The Bank was not involved in any activity outside the Republic of Poland.

Chart 3. The currency structure of the loan portfolio

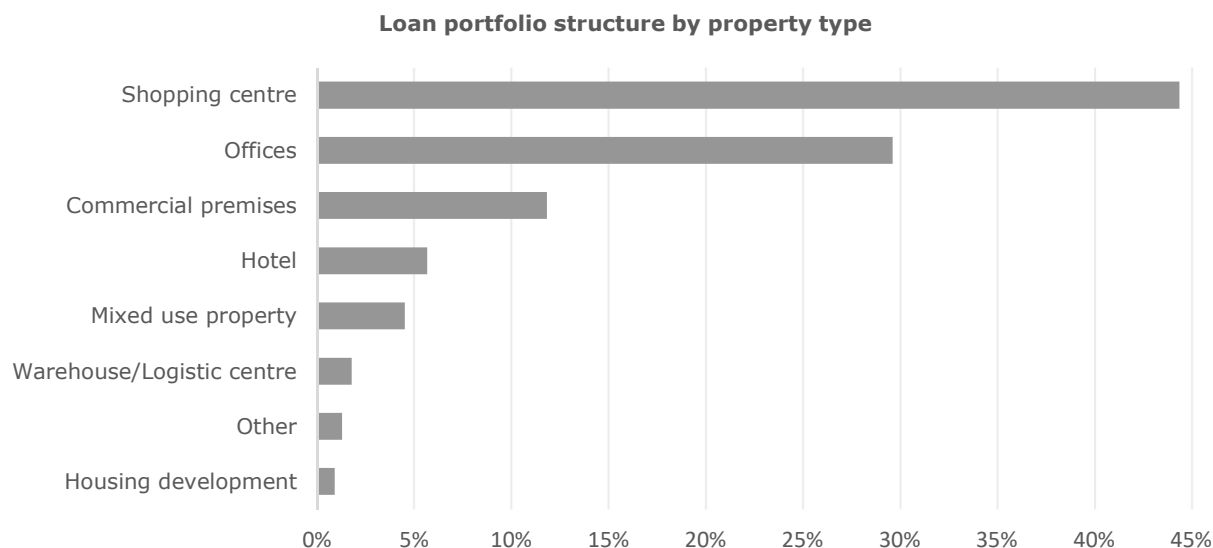


Corporate loans

As stated in the strategy, the Bank focuses on managing the existing portfolio, which is subject to regular reduction in connection with scheduled and early repayments.

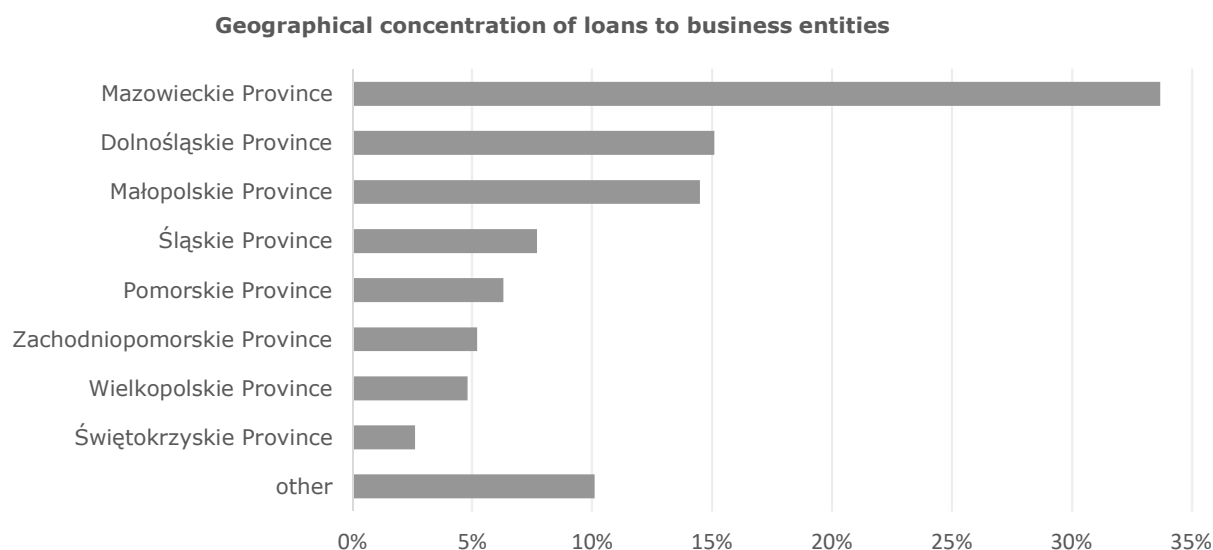
Net balance sheet exposure to business entities amounted to PLN 2,159.8 million. The dominant part (97.77%) accounted for refinancing of completed commercial facilities, the exposure in housing projects constituted 0.90%, and credits for financing of construction of commercial objects 1.34%.

Chart 4. Corporate loans by type of financed real estate



In the area of commercial real estates the Bank's portfolio consists of loans financing in particular shopping centres and office buildings.

Chart 5. Geographical concentration of loan portfolio for business entities



The largest number of financed projects is concentrated in Mazowieckie province, where 33.7% of all credit resources is involved. In Dolnośląskie, Małopolskie and Wielkopolskie province the total balance sheet exposure accounts for 37.3%.

As of the reporting date loans granted in EUR (72.8%) and PLN (26.4%) dominated the corporate loans portfolio.

Public sector loans

As stated in the strategy, this portfolio does not contain new agreements, which in connection with significant prepayments is reflected in a lower, as compared to 31 December 2021, balance sheet exposure to public sector. As at the reporting date the exposure was PLN 115 million (down by 10.2%).

Retail loans to natural persons

In 2022, the Bank's activities in the area of retail loans focused on acquiring new retail assets via the pooling model. The Bank actively cooperated with mBank with the aim to develop the product and maximise sales of retail loans at the side of mBank, meeting the requirements of transfer to the Bank. The pooling process currently in place allows assets to be transferred in monthly cycles.

1.5. Issuing of covered bonds and refinancing

mBank Hipoteczny is a mortgage bank with the longest history of issues of covered bonds on the Polish capital market. The value of outstanding mortgage covered bonds issued by the Bank as at the reporting date was PLN 6.06 billion, which accounts for 33.1% of the total market, which amounts to PLN 18 billion. In the first half of 2022, the Bank issued two series of covered bonds in a prospectus-free offer, with the total value of PLN 700 million.

The Bank covered bonds are instruments that carry low investment risk, resulting from the statutory requirement of multi-tiered security of their issue and trade. Ratings for the Bank and mortgage covered bonds are presented in item 1.2.

Issues of mortgage bonds of the Bank in the public offering

Issue date	Redemption date	Currency	Value	Rating Moody's Investor Service Ltd.
28.07.2014	28.07.2022	PLN	300,000,000	Aa1
04.08.2014	20.02.2023	PLN	200,000,000	Aa1
15.04.2015	16.10.2023	PLN	250,000,000	Aa1

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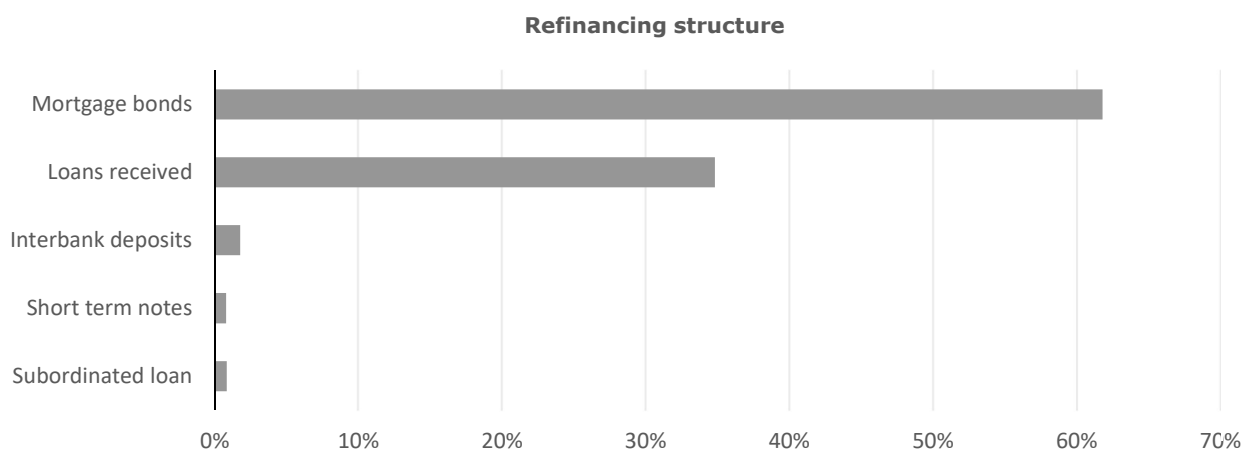
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29.09.2017	10.09.2022	PLN	500,000,000	Aa1
11.10.2017	15.09.2023	PLN	1,000,000,000	Aa1
22.06.2018	10.06.2024	PLN	310,000,000	Aa1
22.02.2019	20.12.2028	PLN	100,000,000	Aa1
TOTAL		PLN	2,660,000,000	
Issue date	Redemption date	Currency	Value	Rating Moody's Investor Service Ltd.
28.02.2014	28.02.2029	EUR	8,000,000	Aa1
17.03.2014	15.03.2029	EUR	15,000,000	Aa1
30.05.2014	30.05.2029	EUR	20,000,000	Aa1
24.04.2015	24.04.2025	EUR	11,000,000	Aa1
28.09.2016	20.09.2026	EUR	13,000,000	Aa1
26.10.2016	20.09.2026	EUR	35,000,000	Aa1
01.02.2017	01.02.2024	EUR	24,900,000	Aa1
26.04.2018	05.03.2025	EUR	300,000,000	Aa1
12.11.2019	15.09.2025	EUR	300,000,000	Aa1
TOTAL		EUR	726,900,000	

In the first half of 2022 the Bank issued unsecured bonds in the amount of PLN 35 million.

As of the reporting date, the Bank held 2 issued series for the total amount of PLN 95 million. The Bank's offer includes zero-coupon bonds and coupon bonds denominated in PLN with a maturity of over 1 year.

Chart 6. The structure of refinancing of the Bank activity



The loans and advances received relate to the territory of Poland, while the outstanding mortgage covered bonds issued are publicly traded and it is not possible to determine the territorial structure of the refinancing in this respect.

The following tables present information on the Bank's loan agreements entered into in 2022.

Contracts signed

Contract date	Repayment date	Interest rate	Currency	Amount
06.05.2022	31.12.2027	fixed	PLN	250,000,000
TOTAL				250,000,000

The basis for issuing of covered bonds

According to the Act on covered bonds and mortgage banks, the basis for the issuing of mortgage covered bonds are receivables entered into the cover register for mortgage bonds, secured by mortgages established on the right of perpetual usufruct or the right of ownership of the real estate entered into the land and mortgage registry as the first item.

As of the reporting date the collateral of mortgage covered bonds consisted of receivables of value PLN 9,118.9 million from total number of 32,062 loans.

Loans for commercial clients constituted 13.70% and for retail clients 86.30% of the total amount of receivables entered into the mortgage cover register. Loans granted in PLN (90.33%) dominated, loans in EUR (9.53%) and USD (0.14%) constituted the remaining part.

Additionally to the credit receivables, treasury bonds of nominal value of PLN 250 million and CIRS with nominal value of EUR 300 million were also entered into the mortgage cover register.

The level of over-collateralisation (including substitute cover) of mortgage covered bonds amounted to 27.1%.

The Bank raises funds for the lending activity predominantly through issuing of covered bonds and subsequently through issuing short-term bonds and received loans, mainly from the interbank market.

1.6. Legal environment

The Act of 7 April 2022 amending the Act on Covered Bonds and Mortgage Banks and certain other acts (Journal of Laws item 872) implemented Directive (EU) of the European Parliament and of the Council 2019/2162 of 27 November 2019 on the issue of bonds and public supervision and amending Directives 2009/65/EC and 2014/59/EU (CB Directive), pertaining to the principles of issuing covered bonds and the principles of activity of their issuers (mortgage banks). The Directive stipulated that Member States are to adopt and publish the laws, regulations and administrative provisions necessary to comply with it by 8 July 2021. The deadline for implementation of the CB Directive was not met by the majority of EU Member States. The more important date was 8 July 2022, when all laws and regulations implementing the CB Directive should have already been in force. The aforementioned Act established that the provisions implementing the Directive would enter into force on 8 July 2022. The Act will not cause a significant change in the model of operation of mortgage banks in Poland; it focuses in principle solely on the issues of necessary implementation of the provisions of the CB Directive and does not take into account the postulates of mortgage banks as regards improvement of their operations. However, in line with the postulates of the mortgage bank environment, the level of statutory overcollateralisation was reduced from 110% to 105%, adequately to the requirements of Article 129 of the CRR, and the portfolio limit for credit exposures in which LTV exceeds 60% was eliminated (deletion of Article 13 paragraph 1 of the Act). From the organisational point of view, an important change for the better is the deletion from the Act of the obligation to disclose, in the land and mortgage register of the real property constituting the collateral, information on entry of the secured receivables in the register of collaterals of covered bonds. Removing this obligation will significantly reduce the administrative burden on mortgage banks and remove the necessity to incur the costs of entries and deletions of the information specified in the land and mortgage register.

To the extent resulting from the necessary implementation of the CB Directive, the following solutions have been adopted, among other things:

- a change in the principles of maintaining the liquidity buffer (Article 18 paragraph 3a), which is to include the surplus created from assets meeting the conditions set out in Article 18 paragraph 3c of the Act, in the amount not lower than the maximum cumulative net liquidity outflow in the next 180 days. The net liquidity outflow comprises outflows of payments due on a given payment date, including payments of the nominal value of covered bonds and interest under these covered bonds as well as payments arising from derivative instruments under the covered bonds issue programme, after deducting the proceeds from payments due on the same date under assets constituting a collateral for covered bonds;
- regulation of the rules and terms of participation of derivatives hedging currency and interest rate risk in the register of collaterals for covered bonds, concerning the documentation of these

transactions, status and reliability of the counterparty, valuation of instruments as well as establishment of the requirement of non-termination of derivative instrument contracts in the event of bankruptcy or initiation of compulsory restructuring of a mortgage bank;

- introduction of definitions linking the terms contained in the Act on Covered Bonds and Mortgage Banks to those used in the CB Directive, such as the cover pool;
- rules for using the name "European Covered Bond" for those covered bonds which are fully compliant with the CB Directive and the "European Covered Bond (Premium)" for those that additionally meet the requirements imposed by Regulation 575/2013 (CRR). Introduction of the so-called "labelling" is intended to enable investors to quickly determine what standards a given security matches;
- the obligation for the trustee to submit annual reports on its activity to the PFSA;
- the obligation for the mortgage bank to submit the information specified in Article 33c of the Act to the PFSA on an annual basis, no later than by 31 March, as at the last day of the previous year;
- detailed definition of the principles of supervision by the PFSA over the issuers of covered bonds, issuing consents for the covered bond issue programme, as well as the obligations of the PFSA itself as the authority supervising the issuers of covered bonds;
- introduction of statutory disclosure requirements on the issuer's website (the Bank has so far performed disclosure on a voluntary basis based on the ECBC standard);
- implementation of regulations on the imposition of penalties by the PFSA on issuers and persons acting on their behalf;
- clarification of the position of creditors of collateral derivatives entered in the register of collaterals for covered bonds in bankruptcy proceedings as equal to that of covered bond holders.

On 21 June 2022, a new Regulation of the Minister of Finance on conducting a collateralisation analysis of covered bonds and coverage balance and liquidity tests was issued. It is of particular importance due to the need to adapt information systems to the new method of calculation.

On 1 January 2022, Recommendation Z of the Polish Financial Supervision Authority on principles of corporate governance at banks (hereinafter the "Recommendation") entered into force. The Recommendation is a set of good practices regarding the principles of internal governance of the bank, and its contents were developed taking into account the positions of European supervisory authorities from the banking sector and capital market. The provisions of the Recommendation supplement the documents developed so far by the PFSA in the area of internal governance in banks (including development and supplementation of Recommendation H and Recommendation M). The Bank has adjusted internal rules and procedures and processes to the requirements of Recommendation Z. In the second half of 2021, the Bank developed amendments to the aforementioned regulations in order to implement the requirements of Recommendation Z in a timely manner.

As of 1 January 2022, Recommendation R entered into force. In April 2021, the PFSA published an amended version of Recommendation R concerning the principles of credit exposure classification, estimation and recognition of expected credit losses and credit risk management. It is a set of principles and guidelines for the classification of credit exposures, estimation and recognition of expected credit losses in accordance with the accounting policy and credit risk management policy adopted and applicable at the bank. Principles and guidelines for the classification of credit exposures, estimation and recognition of expected credit losses and credit risk management do not include financial assets measured at fair value through profit or loss. Recommendation R includes provisions resulting from the entry into force, as of 1 January 2018, of International Financial Reporting Standard (IFRS) 9 Financial Instruments (in accordance with Commission Regulation (EU) 2016/2067 of 22 November 2016). Recommendation R constituted the basis for introducing changes to the principles of valuation of credit risk of credit exposures in the bank's internal regulations, including in the accounting policy, and its inclusion constitutes a change of estimates.

In the first half of 2022, as part of the joint project of the mBank S.A. Capital Group, the Bank continued implementation of solutions stemming from Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts [...] (hereinafter — the BMR Regulation), with a view to introducing the so-called fallback clauses into contractual relationships with customers. On the basis of the Business Continuity Plan adopted at the Bank

and the project schedule, the Bank started signing annexes to loan agreements for customers who had previously received offers of annexes until the end of 2021 (fallback clauses) and who have loans from own sales carried out by the Bank until 2013. In relation to customers who have loans granted under the agency model or acquired under the pooling model in cooperation with mBank S.A., the Bank coordinated further project activities with mBank S.A. in the face of a significant and likely change in the legal environment, concerning replacement of WIBOR with another reference indicator. The probability of the so-called national competent authority (within the meaning of the BMR Regulation) establishing a replacement of WIBOR in the form of an indicator determined on the basis of the percentage calculated as a result of fixing of the POLONIA Reference Rate results from Article 85 of the Act of 7 July 2022 on Social Financing for Business Ventures and Assistance to Borrowers. The planned entry into force of the aforementioned act and the risk of occurrence of an event involving WIBOR resulted in the necessity to adjust the Bank's Business Continuity Plan and adjust the draft annexes containing the fallback clauses to be offered to customers in 2022. The act has not entered into force yet and awaits signature by the President of the Republic of Poland.

The legal environment of the Bank's operations is still largely determined by the events related to the Covid-19 pandemic and the state of epidemic introduced in Poland. The special statutory solutions introduced in Poland allowed the Bank as an employer to issue the instruction regarding the performance of remote work. In the first half of 2022, the Bank, as the employer, in order to ensure the safety of the employees, did not cancel the remote work instructions issued in mid-March 2020. This concerned all employees, with the exception of those on duty at the seat of the Bank, as necessary. As of 16 May 2022, the state of epidemic was lifted in the territory of the Republic of Poland and was replaced with the state of epidemic threat, in which the remote work instructions may still apply. In view of the improvement of the epidemic situation, the Bank decided to introduce the requirement to perform work on site four times a month.

The second quarter of 2022 was dominated by the so-called "credit vacation" announced by the government, works on the draft act on this matter, the process of issuing opinions, including by the Polish Bank Association, which drew attention in particular to the serious financial consequences for banks and the prospect of their losses. On 7 July 2022, the Act on Social Financing for Business Ventures and Assistance to Borrowers was adopted, which in Article 73 introduced the possibility for the consumer to use the so-called credit vacation, i.e. suspension of payment of four loan instalments in 2022 and four instalments in 2023 in relation to a mortgage loan taken out to satisfy their own housing needs. In total, it means 8 instalments over a year and a half; the principal remains to be repaid, but no interest is charged during the suspension period. This means actual losses for the bank, which both loses the agreed remunerations and incurs refinancing costs. The Act was signed by the President of the Republic of Poland and entered into force.

2. Risk management

Risk management at the Bank is based in particular on the following principles:

- the risk management process is defined and regulated by strategies,
- policies and procedures adopted by the Management Board and approved by the Supervisory Board.

The Bank manages all identified types of banking risk and carries out ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, whereby:

- the risk management process is appropriate to the scale of operations and the materiality, scale and complexity of a given risk and is constantly adapted to new factors and sources of risk,
- risk management methods, models, their assumptions and systems are adjusted to the scale and complexity of the risk and are periodically verified and validated,
- the organizational structure of risk management ensures the independence of the risk area,
- the risk management process is integrated with planning and controlling processes and supports the implementation of the Bank's strategy, while maintaining compliance with the risk management strategy, in particular with regard to the level of risk tolerance,

- the risk management process is consistent with the mBank Group's risk management principles, including the use of group risk models adapted to the specific nature of the Bank's operations.

The Bank's risk management system consists of:

- risk identification,
- risk measurement or assessment,
- risk control,
- risk forecasting and monitoring,
- risk reporting,
- management activities.

Risk management is supervised by the Bank's Supervisory Board, which regularly receives information about the risk profile and the most important activities undertaken in the area of risk management.

The Management Board of the Bank is responsible for risk management, including supervision and monitoring of activities undertaken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting the Bank's risk level and adopts internal regulations regarding risk management.

The Bank discloses in the Financial Statements and the Management Board's Report, on an individual basis, information in accordance with the provisions of the CRR Regulation and Recommendation M, in particular concerning:

- its own funds,
- compliance with capital requirements,
- use of credit risk mitigation techniques,
- capital buffers,
- financial leverage,
- use of credit risk adjustments,
- the current remuneration policy for persons having a material impact on the risk profile,
- operational risk,
- use of the IRB Approach to credit risk.
- Liquidity coverage ratio (LCR), liquidity buffers and net liquidity outflows.

Detailed information on the scope of information disclosed, the manner of its verification and publication is contained in the document Information Policy of mBank Hipoteczny on capital adequacy and other information to be disclosed, available on the Bank's website (<https://www.mhipoteczny.pl>).

2.1. Credit risk

Loan portfolio

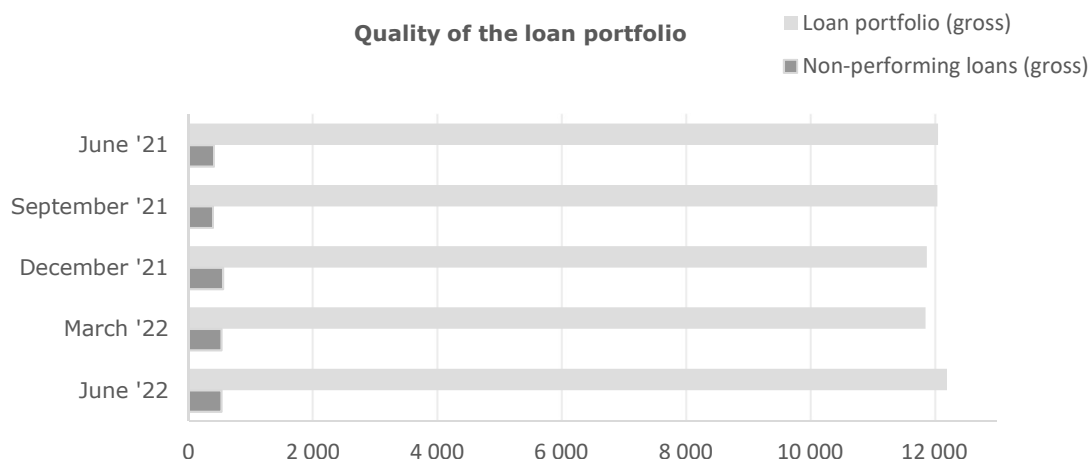
The principles for granting loans have been specified in the Bank's Credit Policy and the management of existing loan portfolio is done mainly through current monitoring of credit exposures.

The share of non-performing loans in the loan portfolio decreased in first half of 2022 from the level of 4.71% to 4.34%. Most of the loans are repaid in a timely manner, and the borrowers of higher risk profile are subjected to a more strict monitoring.

Impairment provisions (including the adjustment to the fair value and CEIR) reaching PLN 177.8 million together with mortgages on the financed real estates in the total amount of PLN 18 468 million constitute an appropriate security against potential losses resulting from credit risk.

The level of NPL coverage with provisions amounted to 29,4%.

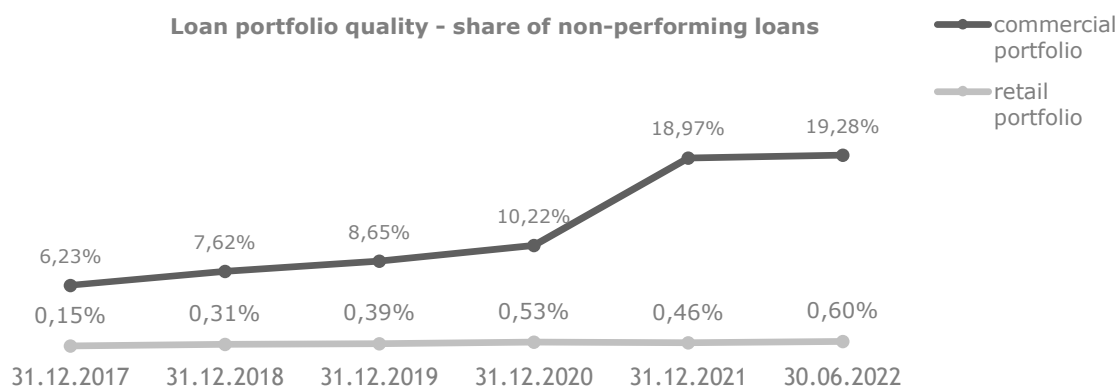
Chart 9. Non-performing loans* in the loan portfolio (gross value, in PLN million)



* non-performing loans – loans classified in basket 3 or POCI, in accordance with IFRS 9

The retail portfolio is characterised by very high quality, which results from the applied credit policy (until the moment of transferring the whole process of selling retail mortgage loans to mBank S.A.), the risk criteria that the Bank has defined for loans purchased through pooling from mBank S.A. as well as the fact that this portfolio is young (the average age of contracts in this portfolio is 5 years). As of the reporting date there were only 202 loans with reported loss of value. Loans for natural persons are monitored monthly for timely repayments and correctness in terms of established effective mortgage collaterals. Realisation of all contractual obligations of the client is verified in the same monitoring period (including insuring of the real estate and assignment of the rights under insurance policies).

Chart 10. Share of non-performing loans by portfolio



*retail portfolio – the portfolio of loans granted in cooperation with mBank S.A. (agency portfolio) and the portfolio acquired from mBank S.A. (the pooling portfolio)

The share of non-performing loans in the commercial portfolio remained high due to the discontinuation of acquisition of new commercial assets (and thus a decrease in the size of the commercial portfolio) and defaults of subsequent borrowers in the first half of 2022.

The cost of risk is a material indicator observed by the Bank. This value increased compared to 2021. The cost of risk in commercial portfolio is expected to remain high in 2022 due to cumulative impact of armed conflict in Ukraine, rising interest rates and delayed impact of the pandemic on the market for office facilities.

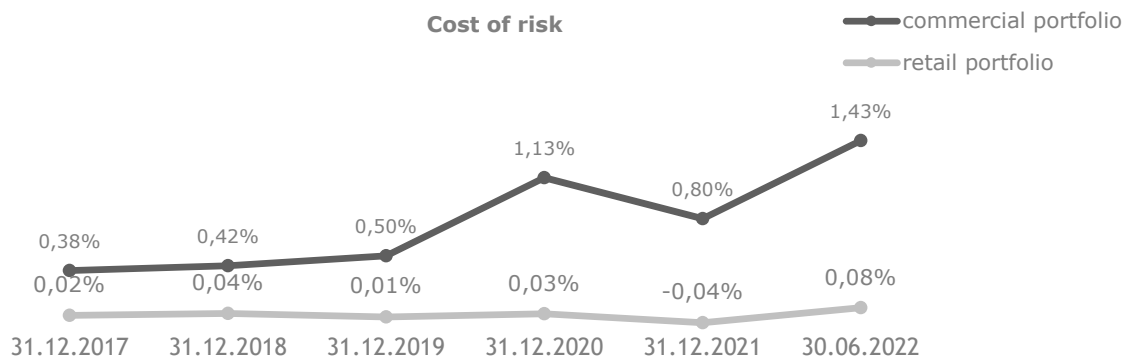
In the commercial portfolio, the increase in the cost of write-downs is a result of increased additional write-downs for loans in default due to changes in the value of collateral and the development of situations

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under enforcement/bankruptcy proceedings. In the case of the retail portfolio, in the first half of 2022, there was a cyclical increase in write-downs due to an increase in the LGD parameter (caused by increases in interest rates) and a systematic increase in the balance of portfolio with indication of impairment caused by a natural cycle of portfolio maturation.

Chart 11. Cost of risk by portfolio



*retail portfolio – the portfolio of loans granted in cooperation with mBank S.A. (agency portfolio) and the portfolio acquired from mBank S.A. (the pooling portfolio)

Impact of the COVID-19 pandemic on the Bank's operations

Assistance measures taken by the Bank following the COVID-19 pandemic

The Bank offers its customers support under the so-called "anti-crisis shield 4.0", in force since 23 June 2020, under which customers who lost their jobs or other main source of income after 13 March 2020 have the right to suspend for up to 3 months the loan repayment without charging interest during the suspension period. This facility is a statutory moratorium within the meaning of the European Banking Authority guidelines. The scale of applications for this form of assistance is insignificant at the moment. As of 30 June 2022, 3 applications for aid under this moratorium were submitted, of which aid was granted to 3 borrowers. The gross carrying amount of their liabilities as at 30 June 2022 was PLN 1.06 million. With regard to the creation of provisions for the portfolio of retail exposures the Bank applies the reclassification of exposures to stage 3 or (after meeting the borrower quality criteria developed) to stage 2. The approach is in line with the opinion of the expert panel created at KNF.

Credit risk management

The Bank assumes that the level of credit risk will be maintained in line with the risk appetite defined by the target level of capital adequacy and exposure limits. At the same time the objective of the credit risk management is ensuring the quality required by the Act on covered bonds and mortgage banks for individual exposures in order to utilise them to the greatest extent as a basis for issuing of covered bonds. Following a change in the model of the Bank's activity in the commercial area financing, the Bank concentrates exclusively on the management of the existing portfolio of commercial loans without developing it.

Rating system

Specialised financing portfolio

The Bank obtained permission to apply the IRB approach to the portfolio of specialised financing for commercial real estate (SPL). To analyse the credit portfolio, the Bank uses rating models that are annually updated and regularly reviewed by the validation unit and the internal audit. Currently, rating systems

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cover 99% of the total sum of the risk-weighted credit exposures in line with the standardised approach, taking into account portfolios covered by the phasing-in plan, and 35% without taking into account those portfolios. The difference results from the fact that 64% of the total sum of exposures weighted using the standardised approach are retail exposures acquired as part of the cooperation with mBank S.A., which are currently covered by the phasing-in plan for the IRB approach approved by the Polish Financial Supervision Authority (KNF), and in the future, the Bank intends to seek the consent of the competent supervisory authorities to use statistical methods to calculate regulatory capital requirements regarding this portfolio's credit risk.

The Bank uses one rating model to assess the credit quality of customers within the SPL portfolio. 2022 saw implementation of changes due to the necessity to ensure regulatory compliance by adapting the hitherto used SPL-FN AIRB model to supervisory requirements of the EBA, defined in the document entitled "Regulatory Technical Standards on Assigning Risk Weights to Specialised Lending Exposures under Article 153(9) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)".

The rating model for assessing the credit quality of customers within the SPL portfolio is used in the case of financing provided:

- using "project finance", where in principle, the borrower is a special purpose vehicle
- for various types of transactions related to financing or refinancing of construction/purchase of office, service and commercial buildings, commercial and service areas, warehouses, estates of single or multi-family houses for lease or sale, hotels and premises for commercial activities, offices or warehouses.

The rating model for assessing the credit quality of customers within the SPL portfolio takes into account various stages of transaction financing – construction financing or purchase financing/refinancing of finished real estate. The criteria include area related to:

- real estate: location, legal status, functional features of the facility;
- characteristics of the local market: relation of demand to supply of a given type of real estate, the rate of economic activity in the region;
- analysis of the cash flows generated by the real estate: amount, stability, currency adjustment, stress tests;
- quality assessment of the project's sponsor as well as their financial potential and willingness to support the project.

With regard to the SPL portfolio, the Bank uses the slotting approach that assigns exposures to appropriate risk categories specifying supervisory values of expected loss (EL) in line with Article 158(6) of CRR and risk weights in line with Article 153(5) of CRR.

The distribution of exposures by supervisory categories is presented in the table below.

KNF category	Gross exposure	Off-balance-sheet	Average CCF	EAD post-CRM and post-CCF	Number of contracts	RWA	Average RWA (%)	EL
1	6,918	0	0	6,918	3	4,843	70.00%	27.6726
2	1,604,125	1,607	0	1,604,125	129	1,397,376	87.11%	11,906
3	196,043	0	0	196,043	22	225,450	115.00%	5,489
4	33,822	0	0	33,822	2	84,555	250.00%	2,706
5	467,905	0	0	467,905	32	0	0.00%	233,953

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Total	2,308,814	1,6075,172	0	2,308,814	188	1,712,223	74.16%	254,082
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With regard to the portfolio covered by the IRB approach, the rating model used in the SPL area is subject to a monitoring process conducted at least annually by model Owners who are independent of model Users. The monitoring includes analyses at the level of individual cases as well as portfolio analyses. More frequent verification of the rating system by model Owners depends on the occurrence of factors (internal and/or external) that may have a significant impact on the value of the model's component parameters. The efficiency of elements of the rating system is also assessed on a current basis by model Owners with regard to loans for which default has occurred.

The rating model for the SPL portfolio is also subject to annual validation that is executed by the Validation Unit, which is independent of the units responsible for creation, modification and use of rating models at the Bank. The validation of the rating system for the specialised lending area is qualitative and quantitative. The qualitative validation includes, among other things, assessment of principles of model creation, examination of theoretical correctness and appropriateness of implementation of rating models, analysis of the quality of the data used for model creation. Within the quantitative validation, the functioning of the model in terms of the discriminatory power of the model and the stability of the model are primarily assessed.

The rating system of the SPL area is also subject to annual reviews of the Bank's rating systems. As part of the review, the Internal Audit Department assesses corporate governance, the segmentation rules and the correctness of determining the capital requirement, the stress tests used in the capital adequacy assessment, the integrity of the rating process, the credit risk mitigation methods and the data quality management process.

Retail portfolio acquired in cooperation with mBank S.A.

For the purpose of assessing the credibility of a retail customer who has a mortgage-backed credit product as well as of monitoring/reporting credit risk for this portfolio, group credit risk models are used, of which the Bank is a local user. Detailed terms and conditions as well as the scope of cooperation between the Banks with regard to group risk models are stipulated in provisions of a separate agreement on risk management cooperation. The capital requirement for credit risk for this part of the portfolio is calculated using the standardised approach because as at 30 June 2022 it is included in the phasing-in plan.

The following models being part of the rating system are used in the retail banking area:

- the Loss Given Default (LGD) model. In this model, loss is defined as a function depending on the level of recovery from the customer's own repayments and the possible value of the collateral on the real estate, realised during the enforcement proceedings,
- the Credit Conversion Factor (CCF) model. This factor is an integral element of the EAD model (CCF as the degree to which off-balance-sheet liabilities have been met by the customer on the date of the default),
- the Probability of Default (PD) model, which is a model integrating the models functioning in the retail banking area – application, behavioural and models based on the external data from the Credit Information Bureau (BIK).

Description of the factors that influenced the expected losses in the previous period

In the commercial portfolio the amount of expected losses was lower than in the corresponding period of the previous year.

As part of setting up provisions for the corporate portfolio in 2022, the Bank regularly updated the PD parameter and responded on an ongoing basis to any symptoms of deterioration in the financial situation of borrowers under baskets 1 and 2. Similarly, within the portfolio of restructured loans and loans under debt collection, the level of allowances was updated due to changes in the value of collateral and developments under enforcement/bankruptcy proceedings. The increase in the cost of allowances, as compared to the first half of 2021, results from higher additional allowances for commercial loans in default situations.

As regards the retail portfolio acquired in cooperation with mBank S.A., in the first half of 2022 there were changes in the applied group models of credit risk (changes implemented by the Model Competence Centre). The change that had a significant impact on the level of estimated write-offs was the implementation of a new behavioral card under the PD model, which resulted in a decrease in the amount of estimated allowances in April by PLN 610 thousand.

The changes of the key values in the models used for the purposes of calculation of credit risk losses were due to the update of macro-economic indicators. In the first half of 2022, the Bank carried out the following significant changes in the models used to determine the expected credit risk losses:

- implementation of a new behavioural card as part of the PD 12M model, the associated PD LT and TL calibrations for the indications of this model. The estimated impact of the change on the level of expected loss was -0.61 million (positive impact on the result),
- update of macroeconomic indicators used in models, taking into account changes in macroeconomic scenarios in the ratio of non-linearity of projections. The estimated impact of these changes on the level of expected credit loss will amount to approx. PLN +2.3 million (negative impact on the result).

Lawsuits brought by the Bank, insolvency proceedings

Two bankruptcy petitions, concerning two loans of two companies related by the person of the partner and the president of the management board, were filed with the court on 20 December 2018. In both cases, the court declared bankruptcy on 26 April 2019. The court has appointed a different receiver for each case. In the course of bankruptcy, the Receivers sold the real property. In the first case, the receiver sold 4 residential units for PLN 12 million. An agreement with the buyer was signed and the price paid. In this case, as a result of the partial plan of distribution of funds, the Bank obtained part of the funds due in the amount of PLN 11,172,800.37. The Bank expects to receive a further amount of PLN 349,696.36 as a result of interest repayment due to the implementation of a mortgage encumbering the real estate owned by another company in respect of which bankruptcy proceedings are conducted with the Bank's participation. In another case, in June this year, a division plan providing for the payment of PLN 1,226,073.82 to the Bank was laid out. The Bank is awaiting payment from the receiver.

On 29 January 2019, the Bank filed a petition for bankruptcy in a commercial case where the collateral for the loan consists of residential units in Plewiska near Poznań. On 17 April 2019, the court declared bankruptcy in the case in question and appointed a receiver. In the second half of 2020, the Creditors' Council was established, of which the Bank is a member. In the first half of 2021 the Official Receiver conducted the first tender, which did not result in bids being submitted. The Receiver took steps to organise a tender for the sale of the organised part of the company. In the second half of 2021, an expert valuation of an organised part of enterprise was drafted, and a valuation report was submitted to court. Another tender has been announced, the settlement of which will take place at the end of July 2022.

On 9 January 2020, the Bank filed a petition for bankruptcy in a case that was at the restructuring stage. The court declared bankruptcy on 21 April 2020. The decision is final. In June 2022 the receiver the receiver made the payment in the amount of PLN 5,796,471.66 which finishes the bankruptcy process economically

In one of the cases, in December 2020, the Bank filed a petition to initiate enforcement under the enforcement title. Currently, enforcement is still suspended as a result of a complaint by the debtor. The enforcement title obtained by the Bank was challenged by the debtor in court.

In response to the debtor's actions, the Bank sent to the Court a reply to the debtor's complaint and a complaint regarding the suspension of enforcement proceedings. The Court, in its decision of 5 November 2021, made the enforcement title non-enforceable. On 23 November 2021, the Bank submitted a request for justification, and subsequently letters and requests to expedite the procedure. The case is pending. In the process of sale of receivables to Securitisation Funds, an offer of purchase of the receivable in question was submitted, which received the Bank's approval. The sale of receivables is currently being processed.

One of the Clients subject to restructuring has filed a petition to open simplified covid composition proceedings (under Shield 4.0). On 25 August 2020, the Client announced the opening of the proceedings in question in the Court and Commercial Gazette. In view of the non-acceptance of the composition, the

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proceedings were discontinued. Subsequently, in December 2020, the Client filed two petitions with the Court - for the opening of recovery proceedings and for bankruptcy. On 8 January 2021, the Bank also filed a petition for bankruptcy of the Client. On 27 May 2021 the Court declared bankruptcy. The decision is final. The receiver took over the real property and made a valuation on which the bank complained in January 2022. On June 20 2022 the Court issued a decision on accepting some of the charges against the description and assessment submitted by the Bank.

On 2 February 2021 the Bank filed a bankruptcy petition for another commercial Client under restructuring. The case is at a preliminary stage of the procedure. The Bankruptcy Court in Warsaw transferred the case to the Bankruptcy Court in Gdańsk. The debtor challenges the existence of conditions for declaration of bankruptcy. By virtue of a decision of 12 April 2022, the Court dismissed the Bank's request for declaration of the debtor's bankruptcy. The Bank submitted a complaint about this decision. As at the date of preparation of the report, the complaint has not been considered. At the same time, taking into account the status of bankruptcy proceedings, on 6 April 2022, the Bank filed a request for initiation of enforcement proceedings under an enforcement title. By virtue of a decision of 24 May 2022, the Court granted a collateral in favour of the debtor by suspending the enforcement proceedings. On 3 June 2022, a request for justification of the decision on the collateral was submitted. On 15 June 2022, the Bank responded to the debtor's lawsuit. The cases are pending. In the process of sale of receivables to Securitisation Funds, an offer of purchase of the receivable in question was submitted, which received the Bank's approval. The sale of receivables is currently being processed.

On 16 December 2020 the company (owner of a shopping mall) published a declaration in the Court and Commercial Gazette on the opening of the covid simplified composition proceedings (under Shield 4.0). The company submitted composition proposals to the Court on 15 April 2021. On 13.10.2021, the court issued an order approving the arrangement, which became final on 21.11.2021. In December 2021, the arrangement was implemented in the Bank system. On 31.12.2021, the company paid the first instalment according to the arrangement. The court case is pending.

In one of the cases, the Reprivatisation Commission issued a decision which resulted in the closing of the land and mortgage registers kept for five real estates encumbered with mortgage in favour of the Bank.

The Bank complained against the decisions of the Reprivatisation Commission which resulted in the borrower losing the ownership of the premises mortgaged in favour of the Bank (credited), which puts loan repayment at risk (rent for the lease of premises constituted the source of loan repayment), as well as the mortgage itself (loan collateral).

Both decisions challenged by the Bank were annulled with the judgments of the Regional Administrative Court in Warsaw of 17 March 2021, while the Bank's complaints were dismissed on the grounds of lack of legal interest. The Reprivatisation Commission and the Bank submitted cassation appeals in respect of both judgments; currently, there is no information on the date of hearings before the Supreme Administrative Court.

The Bank's complaints regarding the notification on the closure of the land and mortgage registers of the mortgaged real property were dismissed, following which the judgments in question were annulled. After a referral of the case to the Court of 1st Instance, the complaints were dismissed again, following which the judgments in question were annulled again. Currently, the Bank has received judgments regarding the third dismissal of all five complaints against the notifications concerning the closure of the land and mortgage registers in question, following which the Bank challenged four out of the five judgments served on it and awaits the service of the rationale for the last judgment in order to challenge it. At the same time, one procedure was temporarily suspended. Notwithstanding the above, the Bank challenged the new notifications on the deletion of all entries in the land and mortgage registers, and appealed against those judgments of the District Court for Warsaw-Mokotów in Warsaw upholding the decisions concerning the deletion of the entries in the land and mortgage registers of mortgaged real property. At present, the Bank is waiting for resolution of the aforementioned appeals, save that one procedure has been temporarily suspended.

Notwithstanding the above, the Bank has requested an entry of mortgage on the primary property from which individual units were separated (there was no reason for the mortgage to expire, and therefore, the primary land and mortgage register should still contain relevant entries if the land and mortgage registers for individual units were closed). So far, the request has not been considered.

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So far, no order has been issued regarding submission of cassation appeals filed by the Reprivatisation Commission and the Bank against the aforementioned judgement of the Regional Administrative Court in Warsaw of 17 March 2021, Case file No I SA/Wa 1448/18. Proceedings concerning cassation appeals against the judgement of the Regional Administrative Court in Warsaw of 17 March 2021, Case file No I SA/Wa 1454/18, are conducted before the Supreme Administrative Court under Case file No I OSK 989/22.

On 31 May 2022, the Bank filed a petition for bankruptcy of the debtor in relation to a commercial case, in which two commercial premises located in Warsaw constitute the collateral. The case has been at the restructuring stage so far. The notice of the petition was published in the National Register of Debtors on 23 June 2022.

On 25 May 2022, the Bank filed bankruptcy petitions for three companies with personal ties. Two companies are Bank's borrowers, the third one — a limited debtor due to accession to the Bank's borrower's debt. On 31 May this year, the National Register of Debtors recorded bankruptcy petitions of these entities. The cases are pending. At the same time, on 6 June 2002, the Bank filed petitions making notarial declarations of submission to enforcement procedure enforceable pursuant to Article 777 of the Code of Civil Procedure. The cases are pending.

In the first half of 2022, 9 lawsuits were filed in the area of retail loans for a total amount of PLN 916,067.06. The cases are pending. There were 2 full repayments in the area of retail loans in the first half of the year.

In the first half of 2022 in the commercial area the Bank did not file any new lawsuits or petitions for declaration of bankruptcy of commercial debtors to the Courts, except from those indicated above. One of the bankruptcies ended economically in the first half of the year. Currently, the Bank is awaiting the issuance of a court order on the end of bankruptcy proceedings in this case.

Sale of receivables to the Securitisation Fund

A transaction of sale of two commercial receivables to the Securitisation Fund is planned in July this year. Currently, the sale is at the stage after acceptance of the offer by the Bank, but prior to signing the contract and payment of the price by the Fund. The value of credit exposures subject to the sale process as at 30 June 2022 amounts to PLN 26.5 million.

2.2. Market risk

The risk of loss resulting from adverse changes of market parameters from the point of view of the term structure of items in the portfolio of the Bank is maintained as low as possible, which results from the nature of the Bank's activity, properly functioning system of risk limitation and managing of the risk at the operational level.

In order to limit the market risk, the Bank adjusts the currency and term structure of acquired sources of financing to the structure of loans, uses linear plain vanilla derivatives and concludes spot or forward currency transactions and FX SWAP transactions.

The amount of market risk the Bank is exposed to in the day horizon is determined using Value at Risk (VaR) method at the confidence level of 97.5%. As of the reporting date VaR amounted to PLN 4,909.18 thousand. The currency risk was PLN 413,77 thousand, the interest rate risk was PLN 4,157.03 thousand and the credit spread risk was PLN 2,871.30 thousand.

The interest rate risk results from exposure of the financial result and the Bank's capital to adverse effect of interest rates changes. The Bank manages the interest rate gap through matching the repricing dates of assets and liabilities. The sensitivity of the Bank's portfolio to interest rates fluctuations is determined on the basis of results of stress tests and scenario analyses. According to data as at the reporting date, the decrease in the economic value of the bank's equity (EVE) in relation to the bank's own funds was 2,85%. Interest rate risk is also measured in relation to the bank's net interest income. Earnings at Risk (EaR) and Net Interest Income (NII) ratios reached 3.01% (EaR) and 9,35% (NII), respectively. The bank portfolio items exposed to interest rate risk are hedged with linear interest rate derivatives.

The currency risk is limited through immediate closing the foreign exchange position. The measurement of scale and structure of currency risk is done on the basis of the current foreign exchange position taking into account anticipated repayments and disbursements of loans. The currency risk is limited using foreign exchange position limits for each currency.

2.3. Liquidity risk

When organising liquidity risk management processes, the Bank complies with legal requirements and includes supervisory recommendations, in particular PFSA Recommendations and EBA Guidelines on liquidity risk management.

The Bank has a set of procedures, adapted to the scale and profile of the Bank's operations, defining the process and setting a framework for managing the liquidity risk. The roles and responsibilities in the liquidity risk management process, the manner of measuring, monitoring, limiting, managing and controlling liquidity risk, and the principles of setting and updating the limits are all defined. In order to secure the Bank's liquidity, in the event of stress conditions of an internal, external nature or their combination, a surplus of high quality unencumbered liquid assets is maintained in case the negative scenarios materialise (Liquidity reserve).

In the rules of conducting stress tests, the Bank took into account the rules for the development of liquidity stress tests scenarios. By conducting the stress tests, the Bank assesses the potential change in liquidity risk exposure in particular time frames of the liquidity gaps and the ability to cover the refinancing source demand for particular test scenarios.

In carrying out the stress tests, it takes into account the impact on the Bank's economic standing of unfavourable events or fluctuations in macroeconomic and financial parameters and takes into account the loan factor.

Based on the outcome of the stress tests, the Bank may revise its liquidity risk management policy. The outcome of the stress tests may be the basis for a decision of the Bank's Management Board to modify the liquidity management policies specified in the Contingency Plan in the event of a liquidity crisis.

The outcome of the stress tests is the basis for determining the required liquidity reserve and internal limits.

Liquidity risk management is conducted at the level of intraday, short-, medium- and long-term liquidity, the lack of which means inability to finance assets and timely settle liabilities in the normal course of business of the Bank.

At the reporting date, the liquidity reserve amounted to approx. 6.27% of the balance sheet total.

The long-term situation of the Bank in terms of liquidity is stable. Loans obtained from mBank S.A. have significant share in financing of long-term receivables.

Due to necessity to maintain liquidity indicators on an appropriate level, the needs to bridge the mismatch of the assets structure to the liabilities that finance them as well as increasing the stability of financing sources, mBank Hipoteczny S.A. will continue actions aimed at replacing short-term financing with financing in a form of new issues of covered bonds with maturity period of 5 years or more.

Net outflows coverage ratio, determining the relation of the liquidity buffer to the net liquidity outflows under stressed conditions lasting 30 calendar days (LCR) amounted to 389.1%.

The ratio of the Bank's own funds and stable liabilities that provide stable funding to illiquid assets and receivables that require stable funding (NSFR) was 113,7%.

The liabilities limit, resulting from Art. 15.2 of the "Act on covered bonds and mortgage banks", was used in 61,2%. In 2022 this limit was not exceeded.

As at the reporting date average maturity of issued mortgage covered bonds was 2.7 of a year while average maturity of loans obtained from other banks was 5,4 of a year.

The Bank has a management information system based on banking systems and applications supporting the measurement and monitoring of liquidity risk. This system ensures that information on liquidity risk is received, enables impact assessment as regards management decisions, and is used to monitor risk and control the limits. The Bank prepares reports on liquidity risk on a daily, monthly and quarterly basis.

Liquidity risk reports, containing information on liquidity risk exposure and information on the use of limits for this risk, are presented to the ALCO committee at least once every two months and to the Management Board of the Bank and the Supervisory Board on a quarterly basis. In order to better manage liquidity risk and supervise this process, the Management Board of the Bank and persons responsible for liquidity risk management have on-going access to daily reports.

At least once a year, the Bank reviews the liquidity risk management system within the ILAAP process, including review and assessment of the individual elements of the liquidity risk management process in accordance with the Rules for internal liquidity adequacy assessment process (ILAAP) at mBank Hipoteczny S.A.

2.4. Operational risk

The Bank has a simplified organisational structure, and the products offered are consistent with the nature of the mortgage bank's activity.

In the first half 2022 the Bank maintained the business model in which it based the development of its loan portfolio on a formula of close cooperation with mBank, i.e. assuming that the sales will be executed by the forces of mBank, thus limiting the operational risk connected with the loan sale stage. It had an impact on reducing the level of the operational risk of the Bank, nevertheless it increased the significance of the tasks entrusted in the outsourced processes, relating to the processes of loan acquisition by pooling and maintenance of the loan portfolio. The outsourcing processes are subject to continuous monitoring.

In the first half of 2022, the main direction of activities in the area of business continuity management was based on monitoring the situation relating to the threat of COVID epidemic as well as analysis of threats and potential scenarios related to Russia's invasion on Ukraine.

In the first quarter of 2022, remote work was maintained, with the aim of observing the health and safety rules in order to limit the spread of the coronavirus. In areas where remote work was not possible, on-call office duty was in place while maintaining all recommended security measures. At the end of the first quarter, due to the reduced number of cases in Poland, safety rules at the Bank were adjusted to the decision of the Crisis Staff of the mBank Group.

The following measures were carried out as part of the emergency situation related to the war in Ukraine:

- monitoring of the situation and conduct scenarios;
- meeting of the crisis staff at the Bank and verification of findings of the mBank Group's staff;
- responding to cases of lack of access to critical systems of the bank on an ongoing basis;
- recommendations related to work during a blackout and cybersecurity;
- issue of replacement SIM cards.

Due to the increased materiality of operational risk in the activity of banks in 2022 due to factors such as: currency depreciation, international conflict, hybrid attacks, increased demand of customers for cash, the Management Board of the Bank analysed risk factors and their impact on the Bank's operations.

Due to simplified nature of the activities of a mortgage bank, one can claim that some of the indicated risk factors do not have a direct impact on the Bank's activity. However, the Management Board of the Bank is aware that in the case of their materialisation, they may indirectly affect the activities of the Bank as an institution which is a part of the financial market or the Capital Group. In such a case, all actions of the Bank will be coordinated and taken within the framework of the mBank group.

The factors influencing the increase of Bank's level of exposure to operational risk:

- increasing risk of cyber attacks, due to maintaining remote working mode,
- dynamic changes in the external environment, including legal environment,
- changes in the organisational structure,
- IT projects and undertakings,
- turnover of employees,

- the profile of operational activity, related to the transfer of the sales process of retail and commercial loans to mBank S.A.

The factors that stabilise the Bank's level of exposure to operational risk:

- control and operational risk management system at each level of the organisational hierarchy,
- simple organisational structure, no subsidiaries,
- small scale and the degree of complexity resulting from the specificity characteristic for mortgage banks,
- no electronic banking services,
- procedures governing the process of making decisions on entrusting of activities (analysis of benefits, risks and means of their limitation, business continuity plans and insourcer's financial situation as well as the ability to implement services in a timely and qualitative manner).
- Bank's Business Continuity Plan,
- highly qualified staff,
- efficient internal control system,
- monitoring of the quality of the outsourced tasks (periodic control of the insourcer with monitoring of post-control recommendations; monitoring of the quality and timeliness of service performance, also for the purpose of calculation of the remuneration level).

The Bank monitors and analyses any changes affecting its operational risk profile.

The Bank focuses its efforts on deepening operational risk awareness and building an organisational culture that enables it to develop appropriate risk mitigation mechanisms.

2.5. Model risk

The Bank has a Model Management Policy (MMP), which is subject to periodic review to ensure that it is up-to-date with current conditions and the organisation of processes in the Bank. Responsibility for periodic reviews of this policy and supervision over the correctness of this policy shall rest with a unit responsible for organisation of the model management process at the Bank.

The Management Board of the Bank is responsible for approving the MMP which introduces uniform principles concerning the process of model management at the Bank, as well as for specifying in the strategy and operational plans of intentions regarding the scope of use of the models, taking into account model risk and the characteristics of the mechanisms used in risk management. The Management Board supervises the process of model risk control and the correctness of their functioning, delegating the decision-making powers with regard to the key aspects of model functioning to the Model Risk Committee. This Committee functions as a dedicated body responsible for the supervision over the process of model risk management, whose detailed responsibilities, composition and decision-making procedure are defined in the relevant internal documents.

The Bank also has other regulations in place that allow it to actively manage and effectively mitigate model risk so that the aggregate level of model risk does not exceed the applicable tolerance level.

Currently, all of the Bank's models assume a low risk exposure, which, combined with the materiality criterion of the models, means a low level of risk for each model, and a low aggregated level of model risk. The model risk tolerance is maintained. Compared to the previous year, there is no change in the aggregated level of model risk.

2.6. Covered bonds investment risk

In 2022 the investment risk profile associated with covered bonds issued by mBank Hipoteczny S.A. did not change. Those securities are a financial instrument of a low investment risk, resulting from the requirements of multi-stage collateralisation of their issuing and trade by the issuer, accordant with the

Act on covered bonds and mortgage banks. In addition to compliance with a number of statutory requirements during economic slowdown, high safety of investing in covered bonds is also a result of the Bank's conservative policy of valuation of real estates constitute their collateral, which has been applied for many years. According to the Act on covered bonds and mortgage banks, the minimum level of over-collateralisation of mortgage and public sector covered bonds as at the reporting date was 10%.

The increase of investment attractiveness of such securities also results from the fact that covered bonds issued in PLN by mortgage banks may constitute a collateral for a lombard loan as well as repurchase transactions conducted with other banks.

2.7. Internal control system

An internal control system has been implemented at the Bank that takes into account the requirements of the law and supervisory recommendations as well as the profile and scale of operations.

The internal control system was defined in the Rules of the internal control system approved by the Supervisory Board.

The internal control system is organised at the Bank at three lines of defense, where:

- 1) the first line of defense comprises risk management in operating activities of the Bank, performed by organisational units of the Bank/autonomous positions;
- 2) the second line of defense comprises:
 - a) risk management by designated organisational units/designated employees of organisational units, irrespectively of risk management at the first line of defense;
 - b) the operation of the compliance unit performed by the Compliance Department;
- 3) the third line of defense comprises the operation of the internal audit unit performed by the employees of Internal Audit Position.

As part of its internal control system, the Bank has established the following functions:

- 1) **control function** – which comprises all controls put in place in the processes executed in the Bank, independent monitoring of the compliance with these controls and reporting within the function.

Internal controls are an integral part of the Bank's day-to-day operations and comprise:

- a) internal procedures on the Bank's operations,
- b) reviews of reports by the Management Board of the Bank,
- c) inspections conducted by the directors of departments and offices/autonomous positions,
- d) physical security,
- e) a system of limits and rules for controlling them,
- f) rules for taking credit decisions and the system of authorisations,
- g) principles of verifying the transaction details and activities, and results of risk management models,
- h) activities aimed at controlling the quality and accuracy of the implemented tasks.

The control of accurate operation of the internal controls is made on an ongoing basis by each employee as part of their functions, and periodically, as part of horizontal and vertical testing, by heads of organisational units or their appointees.

- 2) **Compliance Department (CD)** - compliance cell with the following responsibilities:

- it manages compliance risk (construed as the risk of effects of non-compliance with legal regulations, internal regulations and market standards) through identification, assessment, controlling, monitoring and reporting on compliance risk regarding the law, internal regulations and market standards;

- it performs horizontal monitoring within the compliance unit and vertical monitoring tasks within the so-called second line of defence, assigned to the compliance unit to assure compliance of the Bank's operations with legal regulations, internal regulations and market standards. Moreover, CD performs other tasks, provided that it does not undermine its effectiveness and independence.

The Compliance Department is responsible for implementation of the standards of the mBank S.A. Group and, indirectly, of Commerzbank AG in areas regarded as "compliance areas" in accordance with the Group standards, which include in particular:

- anti-money laundering and counter-terrorist financing
- application of the sanctions policy
- protection of personal data
- outsourcing
- preventing conflicts of interest, fraud and corruption
- supervision over the process of handling of client's complaints
- Inside information according to Market Abuse Regulation.

- 3) **Internal Audit Position** - independent internal audit department whose task is to independently and objectively examine and assess the adequacy of the risk management system and the internal audit system. Internal audit supports the Bank in achieving objectives through systematic and disciplined approach to examination, assessment and improvement of effectiveness of risk management, audit and organisational governance processes.

Within the scope of its activity the internal audit provides services:

- providing - covering objective assessment of evidence, performed by internal auditors in order to provide independent opinion and proposals related to a process, system or other issues,
- consulting - covering advisory and related service activities, which nature and scope are arranged in detail with principal, and which purpose is to add value to and improve organisational governance, risk management and internal audit processes.

Internal Audit Position, within the scope of implemented function, is subject to periodical assessment of independent competent entity from outside the Bank. The entity is selected by the Bank's Management Board and approved by the Audit Committee. The work assessment covers compliance of the internal audit with IIA Standards, Recommendation H and best market practices.

2.8. Remuneration policy

The Bank runs a remuneration scheme for the Bank's Management Board and employees with significant influence on Bank's risk profile, based on phantom shares settled in cash; the scheme is further referred to as the "Policy". These benefits are accounted for in accordance with IAS 19 "Employee benefits". Phantom share valuation is debited to relevant period expenses with a credit to liabilities. Costs are recognised over time during the period of the right to benefits and included in "General administrative expenses". Allocation of phantom shares results from their valuation for the assessment period. Phantom shares valuation is calculated always as at the end of a reporting period by dividing Bank's book value over the number of ordinary shares. The payout under phantom shares depends on the average valuation of these shares obtained on the basis of two values: the phantom share value at the end of the annual period preceding the payment date and the phantom share value at the end of the first half of the year in which the payment is due in a given reporting period. The aforementioned average value is multiplied by the number of phantom shares to be executed in a given period, and the outcome determines the amount of the cash payment resulting from phantom shares held. The final value of the premium, which is a product of the number of shares and their estimated value as at the balance sheet date preceding the

realisation of each of the deferred tranches is subject to actuarial discounting. The discounted amount is reduced by amounts of allocations to the relevant provision, which are subject to annual actuarial discounting at the same date. The actuarial discount is the product of the financial discount and the probability of each of the participants individually reaching the moment of obtaining full entitlement to each of the deferred tranches. Annual allocations are calculated according to the Projected Unit Credit Method. The aforementioned probability was determined using the Multiple Decrement Model, where the following three risks were taken into account: the possibility of dismissal, the risk of total incapacity for work, the risk of death.

3. Directions of development and key elements of the Bank strategy

Mission statement

With regard to the real estate market, the mission of mBank Hipoteczny is to support the development of an effective mechanism for financing the real estate market in Poland by issuing long-term debt securities (covered bonds), which are an instrument that makes it possible to refinance attractive forms of real estate financing based on strong competences, the longest market experience and the highest standard of service.

With regard to mBank Group, the mission of mBank Hipoteczny is to provide stable, long-term and safe refinancing.

From the investors' point of view, the mission of mBank Hipoteczny is to ensure a high level of long-term covered bonds with a high level of security.

The vision

mBank Hipoteczny will be focused on issuing covered bonds in Poland and on the international market within the most cost-effective business model possible, i.e. aimed at maximising synergies within mBank Group, in particular on using the available resources of each bank, primarily mBank, in accordance with their economic purpose, as well as the knowledge and experience within mBank Group.

In view of the development of the covered bond market in Poland, and in particular in view of the expected establishment of new mortgage banks, the Bank's ambition is to maintain its current position among the leading issuers of such instruments in Poland.

The Bank's strategic objectives for 2020–2022 are the following:

- Maximum utilisation of covered bonds as a tool for refinancing the portfolio of long-term mortgage loans.
- Dynamic development of the portfolio of real estate loan assets (housing loans) under the applicable risk management strategy, compliant with the covered bond collateral criteria.
- Optimal use of resources and competencies in both banks as well as other entities of mBank Group, making it possible to achieve synergy in order to ensure an effective issuance process while maintaining the principles of safe and prudent management of the Bank so that the Bank is a safe, efficient and effective issuer of covered bonds on the market.

Strengthening mBank Group's independence with regard to the financing of its operations and better matching the time horizon of financing with assets is a key element of the financing strategy. The issuance of covered bonds is a factor supporting the financing of operations on the real estate market.

mBank Group assumes a dynamic growth of the issuance operations of the Bank in the coming years. The issuance of covered bonds allows the Bank to generate stable and long-term financing on affordable terms.

The Bank assumes issuance of covered bonds secured by both residential and CRE mortgage loans – residential loans will be acquired in cooperation with mBank.

Housing mortgage loans will be the main driver of the increase in the covered pool for the issuance of covered bonds at the Bank. Covered bonds will be issued both in PLN and in EUR, and their maturity will vary between 5 and 10 years.

4. Bank Authorities

Shareholders

As at the reporting date, the total number of ordinary shares was 3,360,000 shares with a nominal value of PLN 100 per share.

The Bank did not issue preferred shares, there are no limitations of rights associated with shares. All shares participate equally in the dividend distribution. All issued shares are fully paid. The Bank does not possess own shares.

As of the reporting date the ownership structure of registered share capital of the Bank is as follows:

Name of shareholder	Registered share capital in PLN	Shares		Votes at the General Meeting of Shareholders	
		Amount	%	Amount	%
mBank S.A.	336,000,000	3,360,000	100.00	3,360,000	100.00
Total	336,000,000	3,360,000	100.00	3,360,000	100.00

The Bank does not collaborate with international public institutions.

Management Board

The Management Board of mBank Hipoteczny S.A. included the following members:

- Piotr Cyburt – President of the Management Board
- Krzysztof Dubejko – Member of the Management Board
- Andrzej Kulik – Member of the Management Board.

On April 8, 2022, the Supervisory Board elected the Management Board for a new term of office (which began on April 29, 2022) composed of:

- Krzysztof Dubejko - Member of the Management Board (awaits approval of the Polish Financial Supervision Authority for the appointment of the President of the Management Board)
- Katarzyna Dubaniewicz – Member of the Management Board
- Andrzej Kulik – Member of the Management Board.

On July 1, 2022, Jolanta Pankiewicz was appointed to the Management Board.

Appointment and dismissal of members of the Management Board and their rights:

The Supervisory Board appoints and dismisses members of the Management Board of the Bank, including the President of the Management Board.

Appointing of two members of the Management Board, including the President of the Management Board and a member of the Management Board responsible for risk takes place upon Financial Supervision Authority approval. A request for approval is submitted by the Supervisory Board.

The Management Board of the Bank manages the Bank's operations and represents it. The Management Board adopts annual financial plans and operating strategy which are approved by the Supervisory Board. In these plans, the Management Boards specifies the maximum volume of mortgage bond and bond issues for a given year. The scope of activities of the Bank's Management Board includes all matters not reserved for the competence of other Bank's bodies based on its Articles of Association or the provisions of the law.

Rules on amending articles of association

In accordance with Art. 430 § 1 of the CCC the change of articles of association requires resolution of the general meeting and entry into register.

Pursuant to art. 34 par. 2 Banking Law the change of bank's articles of association requires approval of the Financial Supervision Authority.

Supervisory Board

Composition of mBank Hipoteczny S.A. Supervisory Board:

- Andreas Boeger – Supervisory Board Chairman
- Marek Lusztyn - Supervisory Board Vice-Chairman
- Frank Bock – Supervisory Board Member
- Aleksandra Buczkowska – Supervisory Board Member
- Paweł Graniewski – Independent Supervisory Board Member
- Grzegorz Ostrowski – Supervisory Board Member – appointed on 31 August
- Michał Popiołek - Supervisory Board Member
- Mikołaj Tatarkiewicz - Supervisory Board Member
- Mariusz Tokarski – Independent Supervisory Board Member.

According to the wording of paragraph 14 clause 1 point 5 of the Articles of Association of mBank Hipoteczny S.A., the General Meeting, in a form of resolution, makes a decision regarding appointment or dismissal of the Supervisory Board members and determination of principles of their remuneration. Members of the Supervisory Board meet the suitability requirements defined according to the Bank's Policy on the assessment of qualifications (suitability), appointment and dismissal of members of the supervisory and management body at mBank Hipoteczny S.A.

According to the wording of paragraph 3 clause 1 point 9 and 10 of the Rules and Regulations of the Supervisory Board of mBank Hipoteczny S.A., powers of the Supervisory Board include appointing and removing from office the President and other members of the Management Board, as well as assigning the functions of Vice President of the Management Board and member of the Management Board responsible for oversight over the management of risks material to the Bank's operations, as well as determining the terms and conditions of the contracts and remuneration for the members of the Bank's Management Board and representing the Bank at the execution of contracts with the Management Board members.

Four Committees operate within the Supervisory Board: Audit Committee, Nominating Committee, Remuneration Committee and Risk Committee.

Audit Committee

The Audit Committee included the following members:

- Paweł Graniewski - Committee Chairman
- Andreas Boeger - Committee Member
- Mariusz Tokarski - Committee Member

In the first half of 2022 the Audit Committee held meeting on 7 March and 8 April.

Nominating Committee

The Nomination Committee was composed of:

- Andreas Boeger - Chairman of the Committee
- Paweł Graniewski - Member of the Committee
- Marek Lusztyn - Member of the Committee.

In the first half of 2022, the Nominating Committee met on 6 April and 29 June.

Remuneration Committee

The Remuneration Committee included the following members:

- Andreas Boeger – Committee Chairman appointed by Resolution of the Supervisory Board of 15 February 2021
- Frank Bock - Committee Vice-Chairman
- Marek Lusztyn – Committee Member.

In the first half of 2022 the Remuneration Committee held meetings on 6 April and 29 June.

Risk Committee

The Risk Committee included the following members:

- Marek Lusztyn - Committee Chairman
- Michał Popiołek – Committee Member
- Mikołaj Tatarkiewicz – Committee Member.

The tasks of the Risk Committee include:

- expressing opinions about the comprehensive risk appetite of the Bank at present and in the future,
- expressing opinions about the strategy of risk management in Bank's activities developed by the Bank's Management Board and about the information on implementing this strategy submitted by the Management Board,
- supporting the Bank's Supervisory Board in monitoring the implementation of the strategy of risk management in Bank's activities by top management,
- verifying whether the prices of liabilities and assets offered to customers fully comply with the Bank's business model and its risk strategy, and if these prices do not reflect appropriately the types of risks in accordance with this model and this strategy, providing the Bank's Management Board with proposals aiming at ensuring the adequacy of liabilities and assets prices to these risks,
- recommending approval or rejection of the Bank's operational strategy and principles of prudent and stable management of the Bank to the Supervisory Board,
- supervision over risk management in the Bank,
- supporting the Bank's Supervisory Board in the task of supervision over risk management activities in the Bank,
- supporting the Supervisory Board in the task of supervision over the compliance of changes implemented in the credit policy with the strategy and financial plan of the Bank/mBank Group,
- verifying the quality of assets,
- supporting the Bank's Supervisory Board in the task of supervision over cooperation of the Bank with the Commerzbank AG group with respect to consolidated supervision over risk and information exchange.

In the first half 2022 the Risk Committee held meeting on 14 March.

The procedure for convening and powers of the General Meeting of Shareholders

General Meeting of Shareholders is convened as ordinary (annual) and extraordinary meeting, in accordance with the Bank's Articles of Association and the provisions of the commercial companies' code.

Key competencies of the General Meeting of Shareholders include decision making through resolutions on the following matters:

- review and approval of the Management Board's report on Bank's activities and financial statements for the previous financial year,
- acknowledgement of the fulfilment of duties by the Bank's authorities (vote of confidence),
- Bank's profit distribution or loss coverage,
- amendments to articles of association,
- appointment and dismissal of members of the Supervisory Board and determination of their remuneration,
- increasing or decreasing Bank's share capital,
- liquidation, disposal of the entire Bank's enterprise or merger (combination) with another bank,
- appointment of receivers and determination of their remuneration,
- any decisions relating to claims for rectification of damages caused during the establishment of the company or during its management or supervision,
- decision on dividend payment date,
- disposal or establishing lien on Bank's real property being the location of Bank's authorities,

- matters submitted by the Supervisory Board,
- matters submitted by shareholders under the procedure provided for by the articles of association,
- granting consent for the Bank to purchase or sell shares or other equity interests, or to establish or join other business organisations; such consent not being required if the purchase of shares or equity interests in other companies takes place under enforcement, insolvency or restructuring proceedings or other arrangement with the Bank's debtors, or if the Bank sells shares or equity interests purchased in the manner just described; in such a case, the Bank's Management Board shall inform the Supervisory Board of the above actions,
- other matters reserved under the law or the provisions of the Articles of Association.

5. Other information

Loans and interest rates

Variable interest rates applied in the Bank are based on LIBOR or EURIBOR interest rates for foreign currency loans and WIBOR for loans in PLN. The loan interest rate in a given day is equal to the sum of margins of the Bank established in the agreement as well as the base rate.

In accordance with Recommendation S, the Bank's offer now includes the possibility of conversion of variable rates into periodically fixed rates for the period of 5 years.

Transactions with affiliated entities

The direct parent entity of mBank Hipoteczny S.A. is mBank S.A. The direct parent entity of mBank S.A. is Commerzbank AG.

All transactions between the Bank and affiliated entities were typical and routine transactions, according to the Management board concluded on conditions that did not vary from the market conditions, and their nature and conditions resulted from current operational activity conducted by the Bank. Transactions with affiliated entities concluded in the scope of ordinary operational activity cover loans, deposits, liabilities arising from the issue of debt securities and derivative transactions.

Information on meeting of requirements specified in Art. 22aa of the Banking Law Act by members of the Supervisory Board

On 26 May 2021, the Annual General Meeting of mBank Hipoteczny S.A. appointed the Supervisory Board of the next term of office, composed as above. The General Meeting verified the candidates for the Supervisory Board members and decided that they fulfilled the requirements set forth in Article 22a of the Banking Law.

When appointing the current Management Board, the Supervisory Board verified the persons being appointed as Members of the Management Board and decided that they fulfilled the requirements set forth in Article 22a of the Banking Law.

On 8 April 2022, the Supervisory Board appointed the Management Board for a new term of office, after prior assessment of suitability of candidates for Management Board members, and concluded that all candidates meet the requirements set out in Article 22a of the Banking Law.

Proceedings before a court, arbitration body or public administration authority

Information on pending proceedings is provided in section 25 of the Selected Explanatory Information section of the Condensed Financial Statements.

Public aid

In 2022, the Bank did not receive any public subsidies, in particular on the basis of the Act on the Government support for the financial institutions dated February 12, 2009 (Journal of Laws of 2014 item 158).

Guarantees and sureties granted by the Bank

No guarantees or sureties were granted by the Bank in 2022.

Events after the balance sheet date

■ Split plan

According to the spin-off plan published on May 31, 2022, in 2023, some of the loans serviced at mBank Mortgage will be taken over by mBank. Most of these are mortgages for commercial real estate financing. The acquisition will take place through the demerger of mBank Mortgage by spinning off part of its business and transferring it to mBank. The spin-off is to be carried out by universal succession, which means that on the day the spin-off is registered with the National Court Register, mBank will acquire all the rights and obligations of mBank Hipoteczny that arise from the acquired business, including the concluded loan agreements.

The spin-off will be carried out subject to obtaining the Financial Supervision Authority's approval of the spin-off in accordance with Article 124c(2) of the Banking Law and the Financial Supervision Authority's approval of amendments to mBH's Articles of Association related to the reduction of share capital in connection with the Spin-off in accordance with Article 34(2) of the Banking Law. As of the date of signing of the stand-alone semi-annual financial statements, the Bank has not yet received information on the issuance of the Financial Supervision Commission's approval of the transaction. Implementation of the Spin-off will not affect the assumption of mBank Hipoteczny's going concern.

■ Credit holidays

In connection with the entry into force of the Act on crowdfunding for business ventures and helping borrowers negative impact of the suspension of the performance of mortgage loan agreements granted in the Polish currency the so-called "credit vacation" mBank Hipoteczny's gross result is expected to be in the range of PLN 300 million to PLN 400 million. The range given above is based on an estimated participation between 60% and 80% of the currently recognized eligible borrowers. Due to the above, the Bank expects the net result achieved by mBank Hipoteczny in 2022 to be negative. The Bank's capital ratios are above the minimum capital requirements.

- On 28 July 2022 covered bonds in the amount of PLN 300 million were redeemed in accordance with the terms of the issue.
- On 28 July 2022 the loan was disbursed in accordance with the agreement signed on 26 July 2022 with mBank for PLN 300 million.

6. Statements of the Management Board

Corporate governance

In its activity the Bank is guided by the rules of corporate governance and best banking practices which set high standards based on transparency of operations, ethics in business and maintaining the balance between interests of all entities involved in the functioning of the Company.

On 16 December 2014 the Management Board, and on 19 January 2015 the Supervisory Board accepted the application of the Principles of Corporate Governance for Supervised Institutions ("Principles"), adopted by the Financial Supervision Authority on 22 July 2014, with the exclusion of Principles indicated in § 8 para. 4, §25 para.1, § 29 , §53-57. The principles addressed to shareholders were presented by the Management Board on the Annual General Meeting of mBank Hipoteczny S.A. on 22 April 2015. On the same day, the General Meeting adopted resolution No 15 on the application of Principles of Corporate Governance for Supervised Institutions, in which it adopted these Principles for application within the scope in which they relate to the general meeting, excluding the principle set forth in § 29 of the Principles (remuneration for holding the position of a Member of the Supervisory Board is awarded by the General Meeting only to an independent member). The resolution came into force on the date of adoption.

The Principles are available at:

https://www.knf.gov.pl/dla_rynku/regulacje_i_praktyka/zasady_ladu_korporacyjnego

mBank Hipoteczny S.A.

Management Board Report on the Performance of mBank Hipoteczny S.A. in the first half of 2022

Principles of Corporate Governance for Supervised Institutions is the only set of corporate governance rules followed by the Bank. The Bank did not adopt any other voluntary rules of corporate governance to be followed, nor does it apply any corporate governance practices which go beyond the requirements provided for in the national law.

The Bank has excluded the application of the Principles of Corporate Governance for Supervised Institutions as regards the rules set out in §8(4), §25(1), §29, §53-57. The justification of waiver of said Principles is presented in an Appendix to the Management Board's Resolution No 247 of 16.12.2014.

§8 (4): The Bank does not apply the following Principles: If it is justified by the number of shareholders, the supervised institution should strive to facilitate the participation of all shareholders in the meeting of the decision-making body of the supervised institution by, without limitation, enabling active participation in the meetings of the decision-making body using electronic means.

Shares of mBank Hipoteczny S.A. are acquired indirectly or directly by the sole shareholder i.e. mBank S.A. The General Meetings are held without a formal convocation, and 100% of the share capital shall always be represented at the General Meetings. Accordingly, the number of shareholders does not justify the need for organizing meetings by the use of electronic devices.

§25(1): The Bank does not follow the Principle: Supervision exercised by the supervisory body should be of permanent nature, and the supervisory body meetings should be held as needed. If an audit committee or other committees operate in the supervised institution, and they have been entrusted with specific matters of the supervised institution's activity, meetings of the supervisory body should be held at least four times a year, and otherwise at least every two months.

Deviation from the above Principle is dictated by the close cooperation with the shareholder, in particular as regards consolidated supervision, large exposure risk management, application of statistical methods, risk area, compliance, internal audit, and elaborate regular reporting. The above cooperation results in particular from the obligation defined in Resolution of the Polish Financial Supervision Authority No 258/2011 on detailed principles of operation of the risk management system and the internal control system, and detailed conditions for estimation of internal capital by banks and for reviews of the internal capital retention and estimation process and the principles of determining the policy of variable components of the remunerations of persons in managerial positions at banks, concerning the obligation of risk management by the shareholder (mBank) in subsidiaries. In view of the above, the Supervisory Board's meetings held 3 times a year are sufficient to ensure security of the Bank.

§29: The Bank does not apply the Principle: 1. Remuneration of members of the supervisory body shall be established adequately to the function they hold and to the scale of operations of the supervised institution. Members of the supervisory body appointed to work on committees, including the audit committee, should be remunerated adequately to the additional tasks performed on the committee.

2. Remuneration of members of the supervisory body, unless payment of such remuneration is prohibited by the law, should be established by the decision-making body.

3. The rules for remunerating members of the supervisory body should be transparent and included in the relevant internal regulation of the supervised institution.

Remuneration for holding the position of a member of the Supervisory Board is awarded by the General Meeting to an independent member. The other Board Members do not receive remuneration.

The Bank does not apply the Principles:

§ 53.

The supervised institution which manages assets at a client's risk should efficiently manage the assets so as to provide the required protection of the clients' interests.

§ 54.

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1. The supervised institution should employ the available corporate supervision measures over entities – issuers of securities under management, in particular when the level of involvement in the securities is considerable or when it is required for protection of the clients' interests.

2. The supervised institution which manages assets at the client's risk should introduce transparent rules of cooperation with other financial institutions when executing corporate supervision over entities – issuers of securities under management.

3. The supervised institution which manages assets at the client's risk shall create and communicate to clients the policy of corporate supervision measure used, which includes the procedures of participation and voting at meetings of the decision-making bodies.

§ 55. In its operations, the supervised institution which manages assets at the client's risk should avoid situations which might cause a conflict of interests, and if a conflict of interests arises, the institution should be guided by the client's interest, and notify the client thereof.

§ 56. The supervised institution which manages assets at the client's risk should introduce transparent rules for cooperation with other supervised institutions with respect to transactions executed at the client's risk.

§ 57. The supervised institution, when acquiring assets at the client's risk, should act in the client's interest. The decision-making process should be duly documented.

Deviation from the above Principles is dictated by the fact that the Bank, as a specialized institution, does not engage in the activity of asset management at the client's risk.

The Bank does not use any restrictions concerning the exercise of the voting right afforded by the securities. As regards the transfer of ownership of the securities, the only restriction is that issuances of covered bonds in the primary market are not addressed to individual (retail) investors and in the case of issuances introduced abroad – additionally that they are not addressed to Polish residents.

Rules for appointment and dismissal of the management:

The Supervisory Board shall appoint and dismiss members of the Management Board of the Bank, including the President of the Management Board, taking into account the assessment of fulfilment of the requirements, referred to in Article 22aa of the Banking Law. The President of the Management Board and the Management Board Member supervising the management of material risk in the Bank's operations shall be appointed and the function of the member of the Management Board supervising the management of material risk in the Bank's operations shall be entrusted to the appointed member of the Management Board with the consent of the Polish Financial Supervision Authority. The application for such consent shall be submitted by the Supervisory Board. Promptly after appointing the Management Board and changing the composition thereof, the Supervisory Board shall notify the Polish Financial Supervision Authority of the composition of the Management Board and changes in the composition thereof, and shall provide the information resulting from the assessment referred to in (1) on fulfilment by the members of the Management Board of the requirements referred to in Article 22aa of the Banking Law. The assessment is carried out on the basis of the Bank's Policy on the assessment of qualifications (suitability), appointment and dismissal of members of the Bank's Body at mBank Hipoteczny S.A. (Suitability Policy). Additionally, the Supervisory Board shall notify the Polish Financial Supervision Authority of the approval of and changes in the internal division of competence in the Management Board of the Bank. The Management Board shall be composed of the President of the Management Board and other members of the Management Board. The internal division of competence in the Management Board of the Bank shall be established by the Management Board and approved by the Supervisory Board. The President and other members of the Management Board shall be appointed for a joint 3-year term of office. Mandates of the Management Board members shall expire on the day of the General Meeting that approves the financial statements for the last full financial year of the term of office of the Management Board members at the latest. Furthermore, the mandate of a Management Board member shall also expire in case of death, resignation or dismissal of the member from the Management Board, as of the date of the event which causes the expiry, unless the resolution on dismissal provides for a different expiry date. Members of the Bank's Management Board

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may be dismissed at any time before their term of office expires. The Management Board of the Bank shall manage the Bank's affairs and shall represent the Bank. The Management Board shall accept the annual financial plans and the business strategy, which shall be approved by the Supervisory Board. The Management Board defines the maximum size of covered bond and bond issues in a given year in annual financial plans and business strategies.

The Bank also adopted the Policy of identification of key functions in the bank, appointment and dismissal of employees performing these functions and assessment of their qualifications (suitability) in accordance with Recommendation Z.

Audit Committee

The Bank complies with the regulations governing the appointment, composition and operation of the audit committee, including those which apply to fulfilment by the audit committee members of the independence criteria and the requirements of knowledge and skills in banking and in accounting and financial statements auditing.

The Audit Committee of the Supervisory Board of mBank Hipoteczny S.A. operates in accordance with the Rules of the Audit Committee introduced upon Resolution of the Supervisory Board No 36/2017 of 28 December 2017. In 2018 the Audit Committee's members were appointed upon Resolution of the Supervisory Board No 26/2017 of 17 August 2017. All members of the Audit Committee satisfy the requirements of knowledge and skills in banking and in accounting and financial statements auditing, which they acquired through education and professional experience.

The basic tasks of the Audit Committee result from the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, the Bank's Articles of Association, the Regulations of the Supervisory Board, "Recommendations regarding the operation of the Audit Committee" adopted by the Polish Financial Supervision Authority.

The Audit Committee performs the tasks of the audit committee provided for in the mandatory legal regulations by way of performing ongoing supervision, based on the information provided by the Management Board of mBank Hipoteczny, the certified auditor, the Internal Audit Department, the Compliance Department, the Accounting and Clearance Department and by way of meetings.

The Audit Committee with Resolution No. 6/2017 of December 14, 2017 adopted the "Policy regarding the selection of an audit firm and the audit company conducting the audit by entities related to this auditing company and by a member of the auditing company's network of permitted services that are not auditing the financial statements at mBank Hipoteczny SA together with the attachment " Procedure for selecting the Audit Company in mBank Hipoteczny SA". The policy meets the requirements of the Act on statutory auditors, auditing companies and public supervision as well as the Regulation of the European Parliament and the Council of the European Union of 16/04/2014 No. 537/2014.

mBank Hipoteczny'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.

Pursuant to the policy on the performance of permitted non-audit services in mBank Hipoteczny 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;

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- 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.

The audit firm auditing the financial statements of mBank and mBank Group provided the permitted non-audit services to mBank Hipoteczny S.A. Therefore, the Audit Committee each time assessed the independence of the audit firm and granted its consent to the provision of the services.

Diversity policy

When selecting and appointing Members of the Management Board and proposing candidates for Members of the Supervisory Board, mBank Hipoteczny S.A. takes into account the diversity issue. 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. 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. By 2028, the total participation of women in the Management Board and the Supervisory Board will have amounted to no less than 30% of all members. The recommended number of women in the Management Board is minimum one.

True and fair picture in the presented reports

The Management Board of mBank S.A. declares that according to their best knowledge:

the 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 Hipoteczny S.A. as well as its financial performance,

The report of the Management Board on activities presents a true picture of the situation of mBank Hipoteczny S.A., including a description of the main risks and threats.

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The process of preparation of the financial data for the purpose of reporting is automated and based on the Bank's accounting data. Preparation of the data in the source systems is subject to formalized operational and acceptance procedures. The set of accounting balances based on the main ledger system of the Bank is created in a process which includes the relevant internal controls. Manual adjustments are subject to special control.

The Bank continuously monitors changes in legislation and internal bylaws governing the preparation of financial reports and updates the internal bylaws on an ongoing basis, adjusting the IT systems if necessary.

Preparation of the financial statements of mBank Hipoteczny S.A. is the responsibility of the Financial Reporting Unit of the Accounting and Clearance Department. Keeping of the financial books and administration of the model chart of accounts is the responsibility of the Accounting and Clearance Department.

The Bank prepares annual and condensed semi-annual financial statements which are submitted to the Management Board of mBank Hipoteczny S.A. for approval. At the same time the statements are submitted to the members of the Audit Committee of the Supervisory Board. Following consultations with an external auditor and members of the Management Board, the Audit Committee recommends adoption or rejection of the annual financial statements to the Supervisory Board.

The annual and condensed semi-annual financial statements of mBank Hipoteczny S.A. are subject to an independent audit and review by a certified auditor. The certified auditor for the Bank is selected upon a resolution of the Supervisory Board of mBank Hipoteczny S.A. The recommendation concerning the certified auditor selection is issued by the Audit Committee of the Supervisory Board.

mBank Hipoteczny S.A. complies with the rules of rotation of the certified auditor. On 2 March 2018 the Supervisory Board of mBank Hipoteczny S.A. selected Ernst & Young Audyt Polska sp. z o.o. spółka komandytowa to be the auditor and to audit the financial statements of mBank Hipoteczny S.A. for the years 2018-2019. On 26 March 2020 the Supervisory Board renewed the commission for the audit of the Bank's financial statements for 2020-2022. Previously, this company was authorized to audit the financial statements of mBank Hipoteczny S.A. in the period 2013-2015. In the period of 2016-2017, the Bank's financial statements were audited by PricewaterhouseCoopers sp. z o.o. On 7 March 2022 the Supervisory Board selected KPMG Audyt Sp. z o.o. sp. k. as the audit firm to provide audit services related to statutory audits and reviews of the financial statements of mBank Hipoteczny S.A. for the years 2022 and 2023. On 28 October 2021 an agreement was concluded concerning partial termination of the agreement that the Bank had concluded with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., with its registered office in Warsaw, in the part concerning the audit of the Bank's financial statements and the review of the Bank's condensed financial statements for 2022 and the verification of the consolidation packages for 2022. Details of the audit firm's remuneration can be found in note 43 to the Bank's Financial Statements, published on 8 March 2022.