

# **Management Board Report on the Activity of mBank Hipoteczny S.A. in 2024**

Official Financial Statements of mBank Hipoteczny S.A. for 2024 was prepared in accordance with the requirements of the ESEF. This document is not the official version of the Financial Statements of mBank Hipoteczny S.A. for 2024 but was prepared on the basis of the original prepared in the ESEF format and is a copy of it. This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.

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## **1. Introduction**

mBank Hipoteczny S.A. (Bank, mBH) is Poland's second largest specialist mortgage bank and a long-standing issuer of mortgage bonds. We have a reputation not only in the domestic market but also abroad.

We are part of the mBank Group, where companies and individual customers benefit from a wide range of financial products and services. We are also part of the Commerzbank Group, the second largest commercial bank in Germany.

As part of our cooperation agreement with mBank, we provide customer service using mBank's sales network. We maintain close relationships with investors and financial institutions both directly and in cooperation with mBank and Commerzbank.

The Bank started its operations by obtaining the first mortgage bank licence in Poland on 12 March 1999.

In connection with the implementation of the mBH Strategy 2023 - 2026, the Bank's activities in 2024 focused on the implementation of strategic initiatives around five pillars:

- (1) sourcing retail mortgage loans from mBank;
- (2) financing them with regular mortgage bond issues;
- (3) improving the IT platform and data security;
- (4) risk management;
- (5) fostering an organisational culture based on shared values, ensuring respect for diversity, professional development of employees and satisfactory working conditions.

An integral part of the mBank Hipoteczny S.A. Strategy is the ESG Strategy. The Bank has included environmental, social, and governance factors in the ESG Strategy.

Together with mBank, we are implementing the sustainability agenda for the Group as an integral part of our business. As a Group, we want to remain a leader in sustainable banking in Poland. We are aware of our responsibility for the climate, society, the financial health of our customers, and sustainability. In the second half of 2024, the mBank Group became the first financial institution in Poland to make a submission to the Science Based Targets initiative. Both operational and portfolio issues at mBH are part of the mBank Group's submission.

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## **Key projects**

In 2024, the Bank continued to implement the strategy through the following projects:

1) Implementation of the AIRB approach (Pillar: risk management)

The Bank, together with mBank, continued the project to obtain supervisory approval for the AIRB approach for the mBH retail mortgage loan portfolio. The retail portfolio is the core business of the Bank.

2) Decarbonisation (Pillar: mBH ESG)

Within the mBank Group, mBH participated in the preparation of the submission to the Science Based Targets initiative, which was made in H2 2024. This corresponds to our aspirations to integrate ESG factors into the Bank's business.

3) IBS – Integration of security services within the mBank group (Pillar: Technology and security)

The dynamically changing environment and the rapid development of technology are not only drivers for growth but also a source of cyber threats. The Bank is carrying out continuous and project-based activities and improving and enhancing the level of security. As an important part of these efforts, the Bank joined the Integration of Security Services (IBS) project. We will use mBank's experience and human and technological resources to further improve the level of data security.

4) DORA Project (Pillar: Technology and security)

The Bank carried out work adapting the organisation's operations to the requirements under Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 Digital Operational Resilience Act (DORA). The work took place in several streams, including in particular the adaptation of the Bank's internal regulations, the adaptation of our contracts with ICT providers, and the preparation of an information register.

5) New application architecture (Pillar: Technology and security)

The bank continues to work on modernising the application improving the technology and business usability. The project is ongoing and aims to align the application architecture's business usability and technology with the changes in mBH business, with a particular focus on synergies and maximising the use of mBank Group services.

6) BMR (Pillar: Pooling, covered bonds)

In 2024, as part of a joint mBank Group project, the Bank continued to implement the solutions arising 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... (BMR).

Work on WIBOR benchmark reform is carried out by the National Working Group on Benchmark Reform (NGR) set up by the Office of the Polish Financial Supervision Authority. On 3 March 2024, the Steering Committee of the National Working Group on Benchmark Reform published a communiqué on the decision to start the process of reviewing and analysing RFR-type benchmarks as an alternative to WIBOR. The review covered WIRON and other indices or benchmarks. The review was intended to verify the decision of the Steering Committee of the National Working Group taken in September 2022 based on a wider range of market information.

On 10 December 2024, the Steering Committee of the National Working Group decided to select an index from the WIRF family, technically named WIRF- (based on unsecured deposits of Credit Institutions and Financial Institutions), as the target interest rate benchmark to replace the WIBOR benchmark.

Therefore, changes to the milestones of the existing Roadmap for the process of replacing the WIBOR and WIBID benchmarks are possible but, as the Steering Committee of the National Working Group stressed, without changing the final deadline for the completion of the benchmark reform, i.e. the end of 2027.

The Bank is awaiting the new Roadmap and confirmation whether the recommendations for the WIRON benchmark will apply to the new benchmark.

7) Automating the pooling process (Pillar: Pooling)

In Q2 2023, together with mBank, mBH started work on the development of the pooling process. The new process is a response to the growing demand for a more accurate portfolio selection in line with current business requirements (e.g. from the range of loans granted by mBank for the purchase of real estate or the construction of a house with documented low energy consumption and including loans with a periodically fixed interest rate in pooling). At the same time, the bank introduced clear and readable electronic communication with clients. The planned automation work was completed in 2024. This project was part of the implementation of one of the strategic objectives, i.e. a modern, automated pooling process.

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### **Financial credibility assessment - rating**

The financial credibility of the Bank and the covered bonds it issues is assessed by the international rating agency Moody's Investors Service Ltd.

On 26 April 2024, Moody's Investors Service confirmed the long-term rating of mBank Hipoteczny S.A. at Baa2, the rating outlook was changed from negative to positive. The ratings of covered bonds remained unchanged.

As at the reporting date, the following ratings were in force:

	rating	outlook	date	decision
Long-term Issuer Rating	Baa2	positive	26.04.2024	outlook changed
Short-term Issuer Rating	Prime-2	-	26.04.2024	rating confirmed
Long-term Counterparty Risk Rating	A3	-	26.04.2024	rating confirmed
Short-term Counterparty Risk Rating	Prime-2	-	26.04.2024	rating confirmed
Long-term Counterparty Risk Assessment Rating	A3 (cr)	-	26.04.2024	rating confirmed
Short-term Counterparty Risk Assessment Rating	Prime-2	-	26.04.2024	rating confirmed
Covered bonds	Aa1	-	26.04.2024	rating confirmed

## **2. External conditions**

### **2.1. Macroeconomic and legal environment**

In assessing the macroeconomic environment, we use information obtained from mBank's Chief Economist.

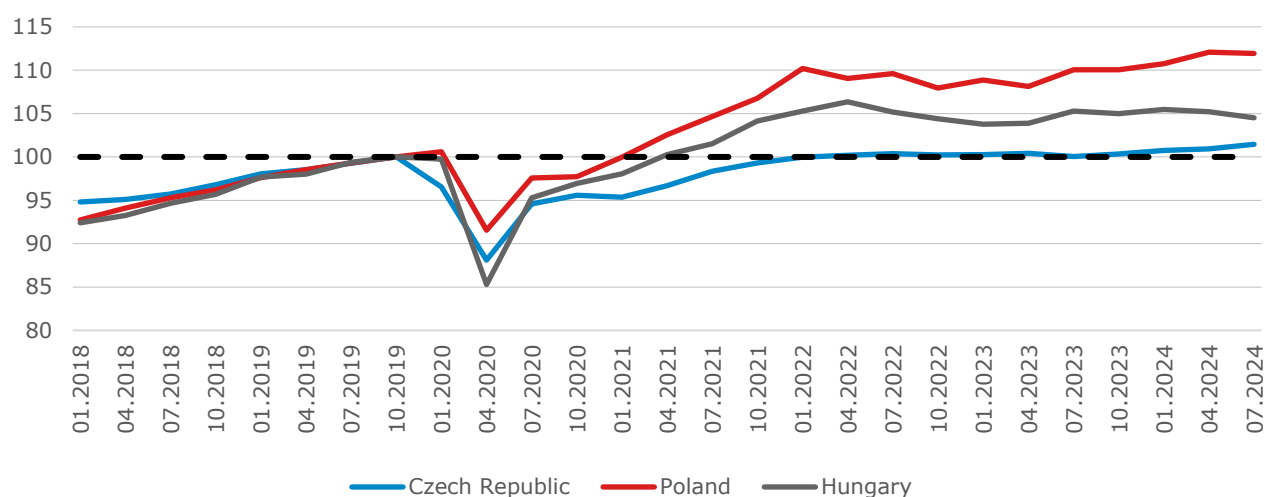
The national economy recorded significantly stronger GDP growth in 2024 than that recorded the year before. As a result, the final growth rate is estimated to be in the region of 3%. The main driver of growth over the past year was household consumption. The change in inventories

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(future consumption) also had a slightly positive impact. The contribution of investments is likely to be close to neutral. In contrast, the weakness of external demand, combined with relatively strong imports, resulted in a negative contribution from foreign trade. While foreign trade is likely to remain under pressure also in 2025, we expect a more pronounced acceleration in investments. It is worth noting that the Polish economy recorded a clearly better performance than the Czech Republic or Hungary last year.

**Comparison of the rate of recession and recovery in the region (Q4 2019 = 100)**



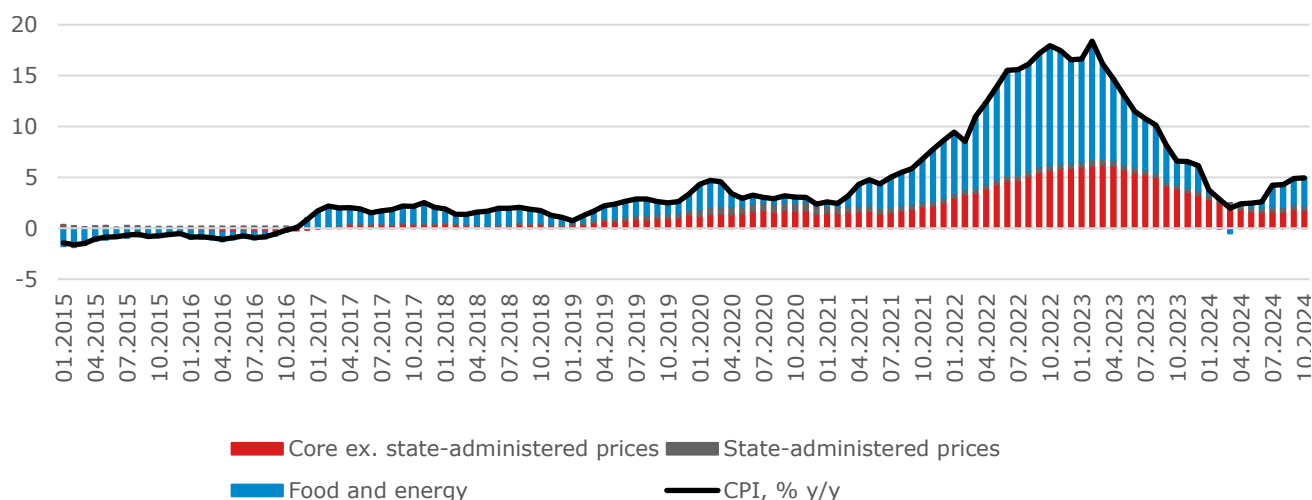
Source: Own elaboration based on Macrobond.

Inflation over the past year has followed a rather uneven trajectory. In the first part of the year, the annual CPI fell to 2%, for which base effects were partly responsible. The second half of the year was dominated by decidedly higher inflation, in the vicinity of 5%. However, this was not another inflationary wave resulting from strong demand or supply constraints. The reason inflation accelerated so markedly from July onwards was the government's decision to raise the fixed rate for the sale of electricity.

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**CPI inflation decomposition (% YoY)**



Source: Own elaboration based on GUS data.

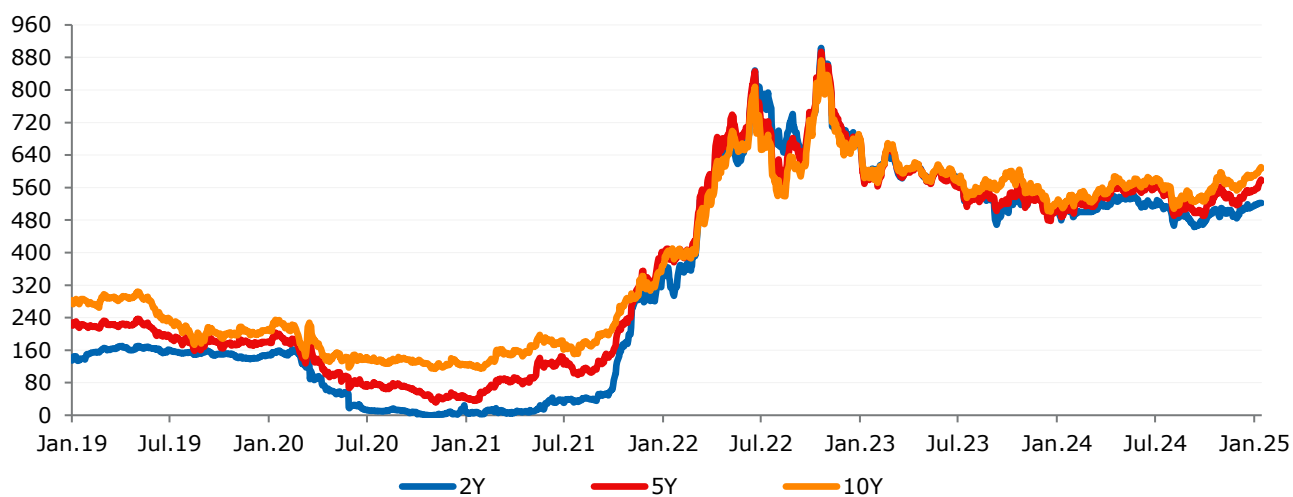
Last year saw an increase in yields on government securities, although the increase varied depending on the maturity of the security. The longer the maturity of the debt, the stronger the yield increases. At the same time, the Monetary Policy Council did not decide to make any changes to interest rates. As a result, the NBP reference rate remains at 5.75%. During the year, however, the MPC's communication changed quite significantly, which had an impact on the high volatility of the expected interest rate trajectory. In 2025, Poland is facing a record level of borrowing needs to be financed, which are expected to exceed PLN 550 billion in gross terms. However, such a large supply should be matched by adequate demand, given the expected growth in deposits, continued interest in treasury securities from foreign investors, relatively attractive valuations, and the possibility for the MoF to issue treasury bills.



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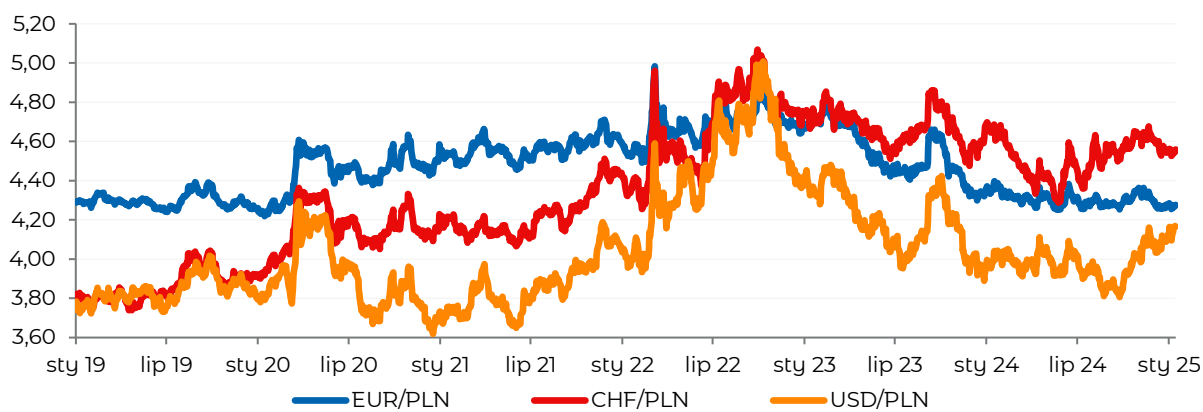


**Yields on Polish government bonds**



Source: Bloomberg

**Foreign exchange rates**

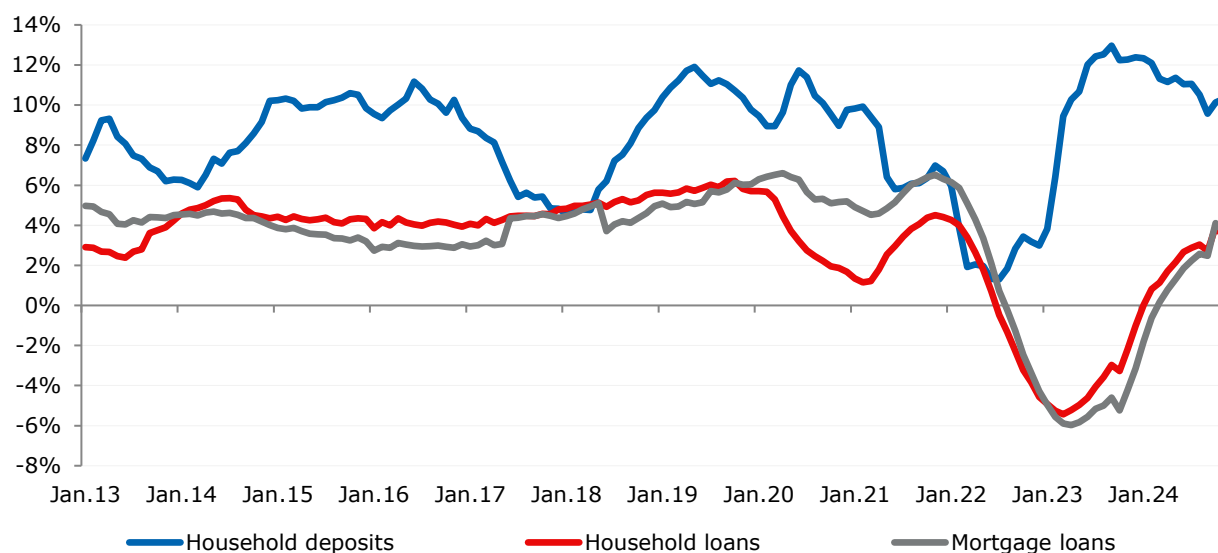


Source: Bloomberg

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**Poland: household loans and deposits (net of FX effects)**



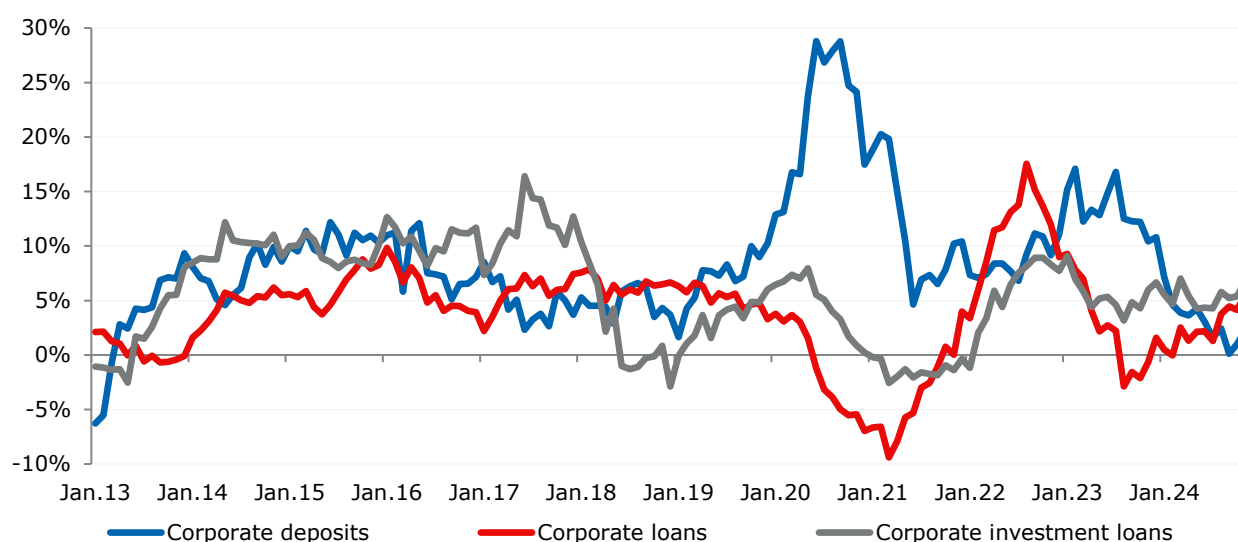
Source: Own elaboration based on NBP data.

Household deposits continued their strong growth in 2024, although the change followed a downward trajectory. At the same time, loans, including mortgage loans, are slowly coming to life. For the corporate sector, the rate of deposit growth was negative, spurred by the lagged effect of wage growth combined with weaker demand for goods and services.

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## Poland: corporate loans and deposits (net of FX effects)



Source: Own calculations based on NBP data.

## What will 2025 be like for the Polish economy?

Macroeconomic indicators	2023	2024	2025P
GDP growth (y/y)	0.2%	2.8%	3.8%
Domestic demand (y/y)	-3.2%	3.3%	4.7%
Private consumption (y/y)	-1.0%	3.0%	2.9%
Investments (y/y)	13.1%	2.7%	10.0%
Inflation (eop)	6.2%	4.8%	2.8%
NBP base rate (eop)	5.75%	5.75%	4.0%
CHF/PLN (eop)	4.68	4.55	4.68
EUR/PLN (eop)	4.34	4.28	4.45

Source: mBank estimates as of 24 January 2025. y/y – year on year, eop – end of period.

The economic outlook for the beginning of the year looks promising. In 2025, we expect GDP growth to accelerate to 3.8% against an estimated 2.8% growth in 2024. Importantly, the main driver of this year's growth will be a marked acceleration of investments. This forecast is based on a marked increase in spending from the National Recovery Programme. At the same time,

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private consumption should grow at a rate similar to that of the previous year. On the one hand, we expect wage growth to slow down, but on the other hand, households have recently rebuilt previously depleted savings. As a result, we still expect decent growth rates of consumption with an improving GDP growth outlook. Under such conditions, a falling inflation trajectory is expected, which should close the year near 3%. It should be noted that base effects should push inflation markedly lower from the beginning of the second half of 2025. In this scenario, we expect NBP to cut interest rate to 4%, which should result in a gradual depreciation of the Polish currency.

## Banking sector and monetary aggregates

Banking sector - monetary aggregates	2023	2024	2025P
Corporate loans	-0.7%	4.8%	2.7%
Mortgage loans	-3.6%	3.1%	2.1%
Non-mortgage loans	3.0%	3.9%	4.2%
Corporate deposits	8.7%	2.1%	8.0%
Household deposits	11.3%	8.7%	8.5%

Source: mBank estimates as of 24 January 2025.

After a very weak 2023, last year brought a rebound in lending on the mortgage side. Loans to the corporate sector also increased, and other household loans grew at a good rates. Strong wage growth resulted in another year with solid growth in household deposits. At the same time, the growth rate of corporate deposits slowed down due to the normalisation of margins and the materialisation of the delayed impact of wage increases. In 2025, we expect growth in all monetary aggregates analysed, with the largest increases expected to occur in deposits. Factors holding back mortgage growth may include the prices of real estate, which have risen strongly in recent years.

## Legal environment

The law of 12 April 2024 introduced another edition of credit holidays. It allowed the suspension of the repayment of four loan instalments in 2024, however, it also established additional

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criteria to limit the number of cases eligible for the programme. Borrowers meeting the following requirements were eligible for the credit holidays:

- the value of the mortgage loan does not exceed PLN 1.2 million;
- the borrowers incurred expenses related to servicing the monthly principal and interest instalment of the loan (RdD - Instalment to Income) of more than 30% of their income or they supported at least three children (in this case the income criterion does not apply);
- the borrowers entered into a mortgage loan agreement before 1 July 2022;
- the period until the end of the loan agreement is not less than six months.

On 15 July 2024, the Polish Financial Supervision Authority adopted a resolution on the issuance of a Recommendation on the Long-Term Funding Ratio ("WFD Recommendation"). The aim of the WFD Recommendation is to mitigate the risks associated with the current mortgage financing structure and to change this structure by increasing the share of long-term debt instruments in banks' liabilities in relation to the value of mortgage loans granted. It is part of the Polish Financial Supervision Authority's efforts to reduce the liquidity and interest rate risks borne by banks. Another aim is to make banks' fixed-rate mortgage offerings more attractive, relieving borrowers from the interest rate risk on their loans. The current model of funding long-term mortgages through short-term retail deposits can raise concerns about the risk of unsustainable funding, particularly under stressed conditions. A sudden outflow of deposits (including deposits considered to be the most stable under normal conditions), which the bank would potentially not be able to stop by raising their interest rate, is a potential source of risk that needs to be managed. Covering a significant part of the mortgage loan portfolio with stable long-term funding will increase the banking sector's resilience to crisis shocks, which could lead to a massive and rapid withdrawal of short-term deposits. The Polish Financial Supervision Authority expects banks to maintain a ratio of at least 40% from 31 December 2026 onwards. The introduction of the Recommendation is expected to ensure an increase in the funding of long-term mortgages primarily with long-term debt instruments (including, in particular, covered bonds) that cannot be redeemed within a period of at least one year.

On 19 June 2024, the AML Package was officially adopted and published in the Official Journal of the EU. Much of the legislation will become effective in three years' time, but this transitional period should be used by obliged institutions to adapt their activities to the new or updated obligations. In addition to internal AML/CFT procedures or policies, processes and IT solutions will need to be reviewed, including in particular the identification of the beneficial owner and the filing of notifications to the beneficial owner register.

The AML package consists of four basic documents:

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- (1) AMLA Regulation - comes into force on 26 June 2024 and will generally apply from 1 July 2025;
- (2) AML Regulation - comes into force on 9 July 2024 and will start to apply on 10 July 2027 (the exception being the provisions relating to football agents and professional football clubs as obliged entities, to which the Regulation only applies from 10 July 2029);
- (3) AML Directive - comes into force on 9 July 2024 but the deadline for transposition by Member States is 10 July 2027;
- (4) Funds Transfer Regulation - came into force on 29 June 2023 but its application will start on 30 December 2024.

The AML Regulation creates a common anti-money laundering and counter-terrorist financing (AML/CFT) legal framework for the EU. In particular, it defines a catalogue of obliged institutions (i.e. entities that must comply with AML/CFT legislation), indicates the scope of procedures, policies and controls that must be adopted by obliged institutions, and describes the rules on the application of financial security measures, such as customer identification or verification. The AML Directive is specifically addressed to Member States and national supervisory authorities, setting out, inter alia, their obligations and rights. The AML Directive also regulates issues related to registers of beneficial owners, including obtaining access to such registers. The AMLA Regulation concerns the creation of an EU supervisory authority, the Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA), and sets out in particular the AMLA's rules of operation and its role, both vis-à-vis obliged institutions and vis-à-vis national supervisors. Among other things, the AMLA will be able to issue guidelines and recommendations in the field of AML/CFT.

The 2% safe credit programme, introduced by the law of 26 May 2023, came to an end in 2023. At the beginning of 2024, the acceptance of applications was stopped due to the exhaustion of the pool provided for this purpose in the state budget. Legislative work on the proposed programme to support first-time property buyers "housing loan #naStart" has been completed. According to the declarations of the Ministry of Development and Technology, the government's work on the draft new housing programme is underway and will be presented in the first quarter of 2025.

Due to the flooding that took place in Poland in 2024, the legislator introduced aid tools for affected borrowers by the Act of 1 October 2024 amending the Act on special solutions related to removing the effects of flooding and certain other acts. The implementation of the aid tools involved an agreement with BGK. Pursuant to the Act, an aggrieved person who is a borrower within the meaning of the Act of 9 October 2015 on support for borrowers who have taken out a

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housing loan and are in a difficult financial situation and whose single-family house or dwelling subject to the housing loan within the meaning of the Act on support for borrowers has been damaged or destroyed as a result of the flood, and who has lost, even if temporarily, the use of this house or part of it or this dwelling or who has completely lost his or her source of income as a result of the flood and was employed or carried out business activities in the area of the municipality or locality affected by the flood, may apply for non-repayable support from the Borrower Support Fund. Support from the Borrower Support Fund will consist of repayment of instalments:

- for a period of 12 months - in the case of a borrower (the equivalent of 12 months' expected capital and interest instalments on a home loan), or
- for a period of 3 months in the case of a borrower (equivalent to 3 months' expected principal and interest payments on a home loan).

In February 2024, the Polish Financial Supervision Authority adopted Recommendation G. It takes into account the current context of products generating interest rate risk and techniques for managing this risk. The provisions of Recommendation G should be regarded as complementary to the provisions of the laws and regulations and the EBA guidelines and should not be interpreted in a manner contrary to them. The revised recommendation is a fairly general implementation of the EBA guidelines on interest rate and credit spread risk management.

When analysing the legal environment, it is important to note the current litigation in the banking sector regarding the construction of the variable interest rate clause used in loan agreements. The lawsuits concern loans where the interest rate clause is based on the WIBOR reference rate. In the lawsuits, customers claim that they were not properly informed about the risks associated with the variable interest rate clause and raise doubts about the WIBOR reference rate. In connection with the regulated status of the WIBOR rate since the BMR came into force (2018), the WIBOR quoted prior to the implementation of the requirements of the BMR by the Financial Markets Association ACI Poland by mid-2017 is under particularly intense attack. Borrowers are seeking recognition of the ineffectiveness of the variable interest rate clause and, consequently, recognition of the loan at the bank's fixed margin only or no interest rate at all. Claims to declare the entire agreement invalid are, as a rule, alternative claims and not priority claims. In 2024, preliminary questions were referred to the CJEU on issues relevant to WIBOR litigation. The market is awaiting the CJEU's response as the resolution of the legal issues will determine the development of the case law in WIBOR cases in favour of either banks

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or borrowers. Judgments rendered in WIBOR cases so far have generally been in favour of banks.

The Bank monitors market practice as well as court judgments in this regard. According to the statistics of the ZBP as at the end of 2024, out of 123 judgments passed in the first instance, 117 ended positively for the banks. Out of 64 judgments passed in the second instance, only 1 judgment was negative for the bank, which was influenced by circumstances other than those relating to the WIBOR rate itself.

The lawsuits are accompanied by requests from clients for interim measures (suspending the obligation to pay principal or interest instalments) or, less frequently, full loan instalments plus interest. In most cases, the courts refuse to grant interim measures or the interim measures granted are waived following an appeal.

Regulation (EU) 2024/1183 of the European Parliament and of the Council of 11 April 2024 amending Regulation (EU) No 910/2014 as regards establishing the European Digital Identity Framework ("eIDAS2.0 Regulation") entered into force on 20 May 2024. Under the Regulation, a European Digital Identity Wallet was introduced to enable the secure authentication of a person's identification data and the creation of qualified electronic signatures or seals. While use remains voluntary, recognition of this method will be mandatory, including by entities in the financial services market. Two implementing acts on the technical requirements for means of identification and their certification are to be adopted by the European Commission by 21 November 2024, and use by banks will be mandatory at the latest 36 months after the entry into force of these implementing acts.

On 14 June 2024, the Law on the Protection of Whistleblowers was adopted, which implements Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law ("Whistleblowing Directive"). The Act entered into force three months after promulgation. The Act sets out the conditions, measures and rules for the protection of whistleblowers who report or publicly disclose information about infringements of the law. The Act clarifies the concept of a whistleblower, who is a natural persons and obtained the information about the violation in a work-related context. No retaliatory action may be taken against a whistleblower, an open catalogue of which is contained in the Act. The Act also contains provisions on internal reporting, which should be applied by legal entities such as a bank. According to the regulations, an internal procedure must be established for reporting violations of the law (to a specific entity or person) and taking follow-up action. The Bank has implemented the provisions of the Act in its internal regulations and trained its employees.



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In 2024, an important part of the changing regulatory environment and analysis conducted at mBH were the ESG regulations, in particular the reporting requirements under Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. It provides that any company subject to the obligation to publish non-financial information under Article 19a or Article 29a of Directive 2013/34/EU shall include in its non-financial statement or consolidated non-financial statement information on how and to what extent its activities are related to business activities that qualify as environmentally sustainable under Articles 3 and 9 of the Regulation. mBH carried out a regulatory analysis to determine how to bring the regulations into line with the applicable legislation and meet the regulatory requirements. The effective date of the Regulation at mBH is the date of entry into force of the Act amending the Accounting Act, the Act on Statutory Auditors, Audit Firms and Public Supervision and certain other Acts (1 January 2025).

The Act of 18 November 2020 on electronic delivery (Journal of Laws 2020, item 2320) was amended by the Act of 2 April 2022 amending certain acts in connection with the development of public ICT systems (Journal of Laws 2022, item 1002). In a communication of 12 July 2024, the Minister of Digital Affairs changed the effective date of the obligation to use e-Delivery by the entities indicated in the Electronic Delivery Act. This obligation comes into force on 1 January 2025. According to Article 151 of the e-Delivery Act, entrepreneurs registered in the KRS have an additional three months to fulfil the obligation to have an e-Delivery address. Thus, non-public entities registered in the KRS before 1 January 2025 are obliged to use e-Delivery from 1 April 2025 at the latest. The Bank is finalising the conclusion of an agreement for the establishment and operation of an e-Delivery inbox to be ready to implement the obligation on 1 April 2025.

In 2024, key elements of the legal environment that the Bank was analysing and adapting to were the IT and cyber security laws:

Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 (DORA) which covers:

- ICT risk management;
- ICT incident reporting;
- digital operational resilience testing;
- third party ICT risk management.

The following were also analysed:

- Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union (NIS2). The NIS2 implementation work was combined with the DORA implementation work (there is considerable overlap);
- Draft Act amending certain acts in connection with ensuring the digital operational resilience of the financial sector (UC11). The Act aims to bring national law into line with the requirements of DORA, by making them more specific and precise under Polish law.
- AI Act. It applies to entities that are providers or recipients of technical solutions based on AI. mBH is currently neither a provider nor a recipient of such solutions, but it cannot be excluded that the AI Act will also affect mBH due to the AI-based services provided by mBank.

One important element shaping the legal environment in 2024 was the Act of 26 April 2024 on ensuring that business entities meet the accessibility requirements for certain products and services. (Journal of Laws 2024, item 731). The Act sets out measures to ensure the accessibility of products and services for persons with special needs (in particular persons with disabilities) and the obligations of economic operators in this regard. Work was undertaken in 2024 to ensure compliance with the requirements of the Act, which comes into force at the end of June 2025. It will therefore, in practice, be an important part of the 2025 legal environment.

## **2.2. Mortgage Covered Bond Market**

Covered bonds are an instrument that supports financial institutions in obtaining long-term financing for their mortgage lending activities. They have been issued in nearly 30 different European countries for almost 200 years. The great popularity of this type of instrument in Europe has contributed to its popularisation outside Europe as well. It has become a global product, with issuers in countries such as Australia, Canada and New Zealand. Covered bonds are also issued in Latin American countries (e.g. Panama and Brazil), as well as Asian countries (e.g. Japan and South Korea).

Most jurisdictions have a specific legal or regulatory framework to facilitate and regulate the covered bond market. These frameworks may prescribe the segregation of the underlying assets, by law or contract, from the issuer's other assets. However, there are some countries,

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such as China, where covered bond issuance standards differ from international standards in key respects, including the lack of specific regulations and segregation of assets, the type of issuing entities, and the assets used to secure covered bonds.

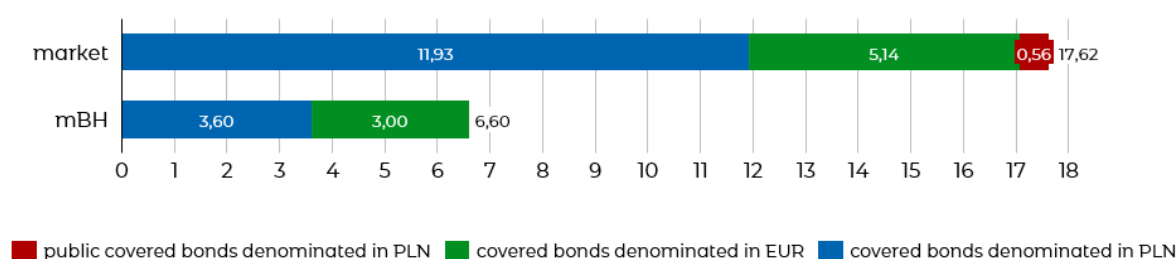
Denmark, France and Germany remain the largest issuers of covered bonds issued on an international standard basis. Their issues amount to €441 billion, €347 billion and €295 billion respectively, representing 14.9%, 11.7% and 10.0% of the European market (according to ECBC: European Covered Bond Fact Book 2024).

In Poland, the covered bond market has been operating for nearly 20 years, mainly due to the pioneering mBH issues. Polish mortgage banks have a reputation not only in the domestic market but also abroad. The Bank is one of the issuers whose covered bonds are listed on the Warsaw Stock Exchange and on the Luxembourg Stock Exchange. Buyers of covered bonds mainly include investment funds, pension funds and banks.

Pursuant to Article 2b of the Act of 29 August 1997 on covered bonds and mortgage banks, mortgage banks in Poland may issue mortgage covered bonds and public covered bonds.

mBank Hipoteczny S.A. focuses its activities on issuing mortgage covered bonds. Currently, only one mortgage bank, out of the five operating in Poland, issues public mortgage bonds, and their value at the end of December 2024 was PLN 559.4 million (EUR 130.9 million). The volume of Polish mortgage bonds outstanding at the end of December 2024 was approximately PLN 17.1 billion (€4.0 billion).

## Mortgage covered bonds traded domestically and internationally as at 31 December 2024 (in PLN billion)



Source: Financial statements of Polish mortgage banks and information on issues

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On 31 December 2024, the Bank had PLN 6.6 billion of outstanding covered bonds, representing a 38.7% market share.

The currently perceived limited demand for covered bonds in Poland is due to the lack of systemic incentives for investing in covered combined with high overliquidity of the financial sector. The WFD Recommendation adopted in July 2024 by KNF, described above and in section 2.1, provides an opportunity to change this situation.

Mortgage banks' support for the 17 UN Sustainable Development Goals is also a key issue. In the absence of regulation to date, the covered bond market has, in line with other debt market instruments, adopted the principles and standards set out by ICMA in the Green Bond Principles (GBP). This is the prevailing standard. The Principles are voluntary guidelines and are applied widely in the market.

In addition, ICMA has published framework documentation to help market participants translate their investment objectives into Sustainable Development Goals. Market analysis shows that the following categories are the most popular among green covered bond issuers:



The majority of issuers of green mortgage covered bonds, i.e. mortgage covered bonds which comply with *The Green Bond Principles*, focus primarily on the goals "Affordable and clean energy" (Goal 7), "Sustainable cities and communities" (Goal 11) and "Climate action" (Goal 13).

By 31 December 2024, only one of the five mortgage banks had issued green covered bonds under the ICMA standard.

The Bank is growing its issuance business based on the residential home loan portfolio that we are building in partnership with mBank. The mBank Group's objectives include, among others, reducing the greenhouse gas footprint of the loan portfolio, including mortgages, using SBTi-approved methods and offering mortgages for the purchase of property or the construction of a house with documented low energy consumption. Such loans can form the basis for the issuance of mBH green covered bonds.

Regulation (EU) 2023/2631 of the European Parliament and of the Council on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and sustainability-linked bonds entered into force on 22 November 2023. The Regulation provides harmonised requirements under which issuers of environmentally sustainable bonds could use the label “European Green Bond” or “EuGB”. The main requirement for green bonds is to align projects with the EU taxonomy. This would indicate which assets and projects are needed for the transition to a low-carbon economy. According to the Regulation, its provisions apply as of 21 December 2024.

## **2.3. Housing Property Market**

The situation in the housing property market in 2024 was determined primarily by market participants' expectations regarding the implementation of a new government programme to support housing in Poland in place of the “2% safe credit” programme, which ended in 2023. The announcement of the launch of the new programme “Kredyt na start” at the beginning of 2024 did not materialise, and at the end of the year the government announced work on another form of housing support. According to mBank analysts (Report "Housing market in Poland" for the second half of 2024), if the programme is introduced, it will probably not impact the market as strongly as the previous programme.

The uncertainty surrounding the implementation of the “Kredyt na start” programme in 2024 resulted in a slowdown in the growth rate of residential property transaction prices in the second half of the year.

According to the Central Statistical Office (GUS), 178,800 dwellings were completed in January-November 2024, i.e. 10.6% less than in the same period of 2023. Developers completed 110,400 dwellings, 10.3% less than the year before, while individual investors completed 63,000 dwellings, i.e. 13.5% less. These forms of construction completed a total of 97.0% of newly completed dwellings. The other forms of construction completed a total of 5,300 dwellings (4,000 in 2023).

In Q3 2024, demand for flats remained high, but high prices, limited creditworthiness of Poles with high financing costs and uncertainty regarding government support programmes for flat purchases blocked transactions. According to the Amron - Sarfin report, a double-digit increase in the transaction prices of flats in Poland's six largest cities was recorded in Q3 2024 compared

to the same period in 2023, with the highest increase in Kraków at 20.16% and the lowest increase in Łódź at 10.81%. The average transaction price of flats recorded in Q3 2024 was as follows: Warsaw - PLN 14,548 per sq. m, Wrocław - PLN 11,946 per sq. m, Gdańsk PLN 11,432 per sq. m, Kraków PLN 13,676 per sq. m, Poznań PLN 10,406 per sq. m, Łódź PLN 7,751 per sq. m. Data from the Polish Economic Institute shows that December 2024 was the second consecutive month without double-digit relative price increases in more than 18 months. Stabilisation of prices has been observed in the market for several months, which will continue in 2025 according to forecasts.

According to experts of the Polish Economic Institute, a stable price growth of no more than 5% is expected in 2025. The key factors influencing the situation in the residential property market will be the Monetary Policy Council's decisions on the level of interest rates, the supply of completed flats, the framework of the government's housing support programme in Poland.

## **2.4. Housing Loan Market**

According to a report by the Credit Information Bureau, housing loan sales in January-December 2024 amounted to PLN 87.1 billion, 36.1% higher than in 2023. In 2024, PLN 13.6 billion of lending originated from loan applications made under the “2% safe credit” programme, while loan sales based on applications made in 2024 alone stood at PLN 73.5 billion.

The Credit Information Bureau's forecasts for 2025 suggest an increase in the value of housing loan sales by around 1.2% to PLN 88.2 billion. The growth forecast is based on expectations of interest rate cuts and rising wage levels, which should consequently bring about an increase in creditworthiness and the availability of home loans.

## 3. Financial results

### 3.1. Key financial indicators

	31.12.2024	31.12.2023
Net ROA <sup>1)</sup>	-0.05%	0.21%
Gross ROA <sup>2)</sup>	0.01%	0.34%
Net ROE <sup>3)</sup>	-0.61%	2.59%
Gross ROE <sup>4)</sup>	0.07%	4.11%
C/I (cost/income ratio) <sup>5)</sup>	55.80%	50.32%
Net interest margin <sup>6)</sup>	1.06%	1.21%
Cost of risk <sup>7)</sup>	0.04%	0.11%
Total capital ratio	19.51%	20.14%

1) net profit / average assets, 2) gross profit / average assets, 3) net profit / average equity, 4) gross profit / average equity, 5) (general administrative expenses + depreciation) / total income (understood as net interest income excluding the impact of Credit Holidays + net fee and commission income + trading profit + other operating income - other operating expenses + other income), 6) net interest income / average interest earning assets, 7) net impairment losses on loans and advances (excluding loan guarantee valuation) / average loans and advances to customers

## 3.2. Statement of financial position

in PLN '000	31.12.2024	31.12.2023	Dynamics
<b>Assets</b>	<b>11 019 975</b>	<b>10 105 413</b>	<b>9.05%</b>
Loans and advances to customers measured at amortised cost	9 562 831	9 048 883	5.68%
Loans and advances to customers measured at fair value through profit or loss	0	0	0%
Financial assets at fair value through other comprehensive income	1 285 083	845 733	51.95%
Other assets	172 061	210 797	-18.38%
<b>LIABILITIES AND EQUITY</b>	<b>11 019 975</b>	<b>10 105 413</b>	<b>9.05%</b>
Liabilities from the issue of debt securities	6 614 785	5 874 096	12.61%
Liabilities to banks	3 511 970	3 359 288	4.55%
Share capital	727 362	727 362	0.00%
Other liabilities	165 858	144 667	14.65%

As at 31 December 2024, mBH's total assets amounted to PLN 11.02 billion, an increase of 9.05% compared to the end of 2023. This was mainly due to the completion of six pooling tranches totalling approximately PLN 1.7 billion and a 51.95% increase in the liquidity portfolio to meet the requirements under the LCR and NSFR standards due to the maturity of two issues totalling EUR 600 million. The net value of the loan portfolio as at 31 December 2024 was PLN 9.56 billion compared to PLN 9.04 billion as at 31 December 2023.

On the liabilities side, the carrying amount of debt securities outstanding as at 31 December 2024 was 12.61% higher than in December 2023. During this period, the Bank issued 3 series of covered bonds with a total value of PLN 1.2 billion.



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### 3.3. Profit and loss account

in PLN'000	Period from 01.01.2024 to 31.12.2024	Period from 01.01.2023 to 31.12.2023	Dynamics
Net interest income	109 131	132 559	↓ -17.67%
Net fee and commission income	(5 889)	(6 257)	↓ -5.88%
Trading income	3 112	760	↑ +/-
Result from non-material modification	(28 604)	5 180	↓ +/-
Net impairment losses on loans and advances	(3 253)	(12 167)	↓ -73.26%
General administrative costs	(55 214)	(55 291)	↓ -0.14%
Depreciation	(12 538)	(12 975)	↓ -3.37%
<b>Operating profit</b>	<b>22 126</b>	<b>61 472</b>	↓ -64.01%
Tax on the Bank's balance sheet items	(21 507)	(23 901)	↓ -10.02%
<b>Gross profit / loss</b>	<b>619</b>	<b>37 571</b>	↓ -98.35%
Income tax	(5 791)	(13 854)	↓ -58.20%
<b>Net profit / loss</b>	<b>(5 172)</b>	<b>23 717</b>	↓ -121.81%
Weighted average number of ordinary shares / diluted weighted average number of ordinary shares	2 200 000	2 635 397	↓ -16.52%
Net earnings per ordinary share / Diluted earnings per ordinary share (in PLN)	(2,35)	9,00	↓ -126.11%

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In 2024, the Bank's results were primarily influenced by:

- (1) negative result from non-material modification due to provisioning against the Credit Holidays;
- (2) lower interest income compared to 2023 due to the absence of the corporate segment, which was transferred to mBank S.A. as part of the demerger transaction;
- (3) compensation for the reduced Retail Pooling under the "Pooling Assurance Agreement" concluded with mBank in 2022, which added PLN 18.2 million to the operating profit;
- (4) reduced commission expenses relative to 2023;
- (5) increased trading income compared to 2023;
- (6) impairment charges on loans and advances reduced relative to 2023 due to the impact of implemented model recalibrations and improved macroeconomic forecasts;
- (7) reduced contribution to the Forced Restructuring Fund (BFG) relative to 2023.

In 2024, the Bank's income, calculated as the sum of net interest income, net fee and commission income, trading income, other operating income and other operating expenses, amounted to PLN 121,413 thousand (2023: PLN 135,490 thousand). This income is derived entirely from operations in the Republic of Poland.

## **4. Business of mBH**

### **4.1. Lending business**

The Bank's lending business focused exclusively on the retail lending area in 2024. The business model of mBH, consistently implemented since 2013, is largely based on the outsourcing of activities to external entities, mainly mBank, on the basis of outsourcing agreements.

The most important agreement relating to the Bank's core business segment, i.e. the retail loans portfolio, was concluded in 2018. It regulates the process of acquiring retail loans and the rules for after-sales service, support of the credit risk management process and provision of IT systems.

In 2024, the Bank continued to work actively with mBank to develop products and maximise the sales of retail loans on the mBank side meeting the transfer criteria to mBH: statutory

criteria, risk criteria, and business criteria. The pooling process currently in place ensures that retail assets can be transferred on a monthly basis.

The Bank monitors the level of home loan sales in the market, including mBank's share, as this is a key factor in building pooling potential. The market is currently waiting for a decision on the launch of the government's housing construction support programme.

In 2024, mBH carried out six retail loan pooling transactions amounting to approximately PLN 1.7 billion. The scheduling of the transactions carried out in 2024 was driven by constraints arising from statutory credit holidays. These affected the volume of assets available for subsequent pooling transactions. The Bank took this restriction into account as one of the portfolio selection criteria due to their temporary tax inefficiency of acquiring these receivables in the Group.

## 4.2. Issuance of covered bonds and refinancing

mBank Hipoteczny S.A. is the only entity in the Group with the authority to issue covered bonds, which it successfully places on both the domestic and foreign capital markets. As a result, it provides stable and long-term financing for loans secured by real estate.

The value of mortgage bonds issued by the Bank outstanding at the reporting date was PLN 6.6 billion, representing 38.7% of the total market.

Bank's outstanding mortgage covered bond issues:

Date of issue	Redemption date	Currency	Value	Moody's rating
22.02.2019	20.12.2028	PLN	100 000 000	Aa1
<b>TOTAL</b>		<b>PLN</b>	<b>100 000 000</b>	
Date of issue	Redemption date	Currency	Value	Moody's rating
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

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28.09.2016	20.09.2026	EUR	13 000 000	Aa1
26.10.2016	20.09.2026	EUR	35 000 000	Aa1
26.04.2018	05.03.2025	EUR	300 000 000	Aa1
12.11.2019	15.09.2025	EUR	300 000 000	Aa1
<b>TOTAL</b>		<b>EUR</b>	<b>702 000 000</b>	

Bank's mortgage covered bonds issued in an offering without prospectus:

Date of issue	Redemption date	Currency	Value	Moody's rating
03.09.2021	03.09.2026	PLN	100 000 000	n/a
10.09.2021	10.12.2026	PLN	500 000 000	n/a
24.02.2022	10.09.2027	PLN	500 000 000	n/a
22.06.2022	22.06.2027	PLN	200 000 000	n/a
15.09.2023	12.09.2028	PLN	1 000 000 000	n/a
05.03.2024	05.09.2029	PLN	500 000 000	n/a
10.06.2024	21.09.2026	PLN	200 000 000	n/a
13.09.2024	13.09.2029	PLN	500 000 000	n/a
<b>TOTAL</b>		<b>PLN</b>	<b>3 500 000 000</b>	

As at the reporting date, the Bank had no outstanding series of unsecured bonds.

In 2024, mBank Hipoteczny S.A. issued three series of mortgage covered bonds in an offering without prospectus worth PLN 1.2 billion in total. The Bank did not issue any bonds in 2024. This was a conscious policy, resulting from the mBank Group's high over-liquidity and strategy focusing on intra-group financing.

Historically, the Bank has proven its ability to place covered bonds on the European market. The Bank's strategy continues to be to arrange issues of this type.

The Bank analyses changes in the legal and market environment and maintains issue readiness, therefore it:

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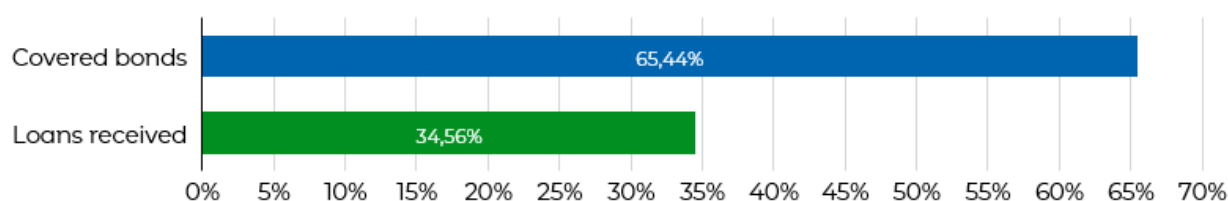


(1) sustains relationships with institutional investors, relevant market players (rating agencies, dealers, exchanges), in particular thanks to the support and visibility of mBank and Commerzbank;

(2) maintains the financial, organisational infrastructure;

(3) has an adequate level of collateral in the form of adequate credit quality.

### Refinancing structure of the Bank's business



Source: own elaboration based on data as at 31 December 2024

### Agreements signed and repaid

On 7 February 2024, the Bank signed an annex to the PLN 510 million loan agreement of 19 September 2016, thereby shortening the term of the agreement.

On 7 February 2024, the Bank signed a loan agreement with mBank for PLN 510 million at a floating interest rate, subject to an application to KNF to include the loan amount as liquidity inflows in the LCR.

On 3 April 2024, KNF issued a positive decision in the above case.

On 13 December 2024, the Bank signed an annex to the loan agreement with mBank dated 6 May 2022 for PLN 600 million, adjusting the parameters for drawing tranches to the Bank's liquidity position and extending the term of the agreement to 31 December 2030.

### Basis for the issue of covered bonds

Pursuant to the Act on Covered Bonds and Mortgage Banks, the basis for the issuance of mortgage covered bonds are claims registered in the covered bond collateral register, secured

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by mortgages established on the right of perpetual usufruct or the right of ownership of real estate, registered in the land and mortgage registers in the first place.

Covered bonds (in PLN'000)	31.12.2024	31.12.2023
1. Trading covered bonds	6 599 646	5 870 561
2. Underlying assets from the collateral pool	8 250 312	8 058 268
3. Replacement assets from the collateral pool	300 000	240 000
4. Derivatives from the pool of assets pledged as collateral	2 970	25 470
5. Level of collateralisation of covered bonds with underlying assets from the pool of assets pledged as collateral (2/1)	125,01%	137,27%
6. Total collateralisation of covered bonds (2+3+4) / 1	129,60%	141,79%
7. The value of receivables pledged as collateral for the issue of mortgage bonds in a proportion not exceeding 60% of the mortgage-bank value of the property in the case of commercial property	-	-
8. The value of claims pledged as collateral for the issue of mortgage bonds in a proportion not exceeding 80% of the mortgage-bank value of the property in the case of residential property	8 031 848	7 795 910

Acceptable amount of collateral in the form of alternative assets (in PLN'000)	31.12.2024	31.12.2023
1. Funds listed in Art. 18(3) of the Act entered in the mortgage bond collateral register (at nominal value)	300 000	240 000
2. Maximum cumulative net liquidity outflow over a consecutive 180-day period in accordance with section 18(3a) of the Act (Surplus)	-	-
3. Permissible substitute security (1-2)	300 000	240 000

As at the reporting date, the collateral for the issue of mortgage covered bonds comprised receivables to the value of PLN 8.25 billion from a total of 33,617 mortgage loans in PLN. All loans forming the basis of the covered bond issue were Retail Loans, secured on real estate.

In addition to the credit claims, government bonds with a nominal value of PLN 300 million and a CIRS hedging transaction with a nominal value of EUR 300 million were entered in the covered bond collateral register.

The level of overcollateralisation of mortgage bonds was 129.6% (including substitute collateral), which was sufficient to maintain the covered bond rating at Aa1, the highest available for Polish issuers (issued by Moody's).

### **4.3. Risk of investing in covered bonds**

In 2024, the risk profile of investments in covered bonds issued by mBH relative to 2023 did not change.

In the absence of EUR-denominated loans, it is necessary to hedge the currency position in connection with EUR covered bond issues.

In addition to the Bank's compliance with a number of statutory requirements, the Bank's conservative policy of valuing the properties used as collateral for covered bonds, which has been in place for many years, also contributes to the high security of investment in covered bonds. In accordance with the Covered Bonds and Mortgage Banks Act, the minimum level of overcollateralisation of mortgage and public covered bonds as at the reporting date was 5%.

## **5. Risk management**

Risk management at mBH is defined and governed by the strategy, policies and procedures adopted by the Management Board and approved by the Bank's Supervisory Board.

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The Bank manages all identified banking risks and carries out ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) where:

- (1) risk management process is appropriate to the scale of the business and to the materiality, scale and complexity of the risks involved, and is continuously adapted to new risk factors and sources,
- (2) risk management methods, models and their assumptions and systems are adapted to the scale and complexity of the risks and periodically reviewed and validated,
- (3) organisational structure of risk management ensures the independence of the risk area,
- (4) risk management process is integrated into the planning and controlling processes and supports the implementation of the Bank's strategy, while complying with the risk management strategy, in particular with regard to the level of risk tolerance,
- (5) risk management process is consistent with the risk management principles of the mBank Group, including the use of group risk models adapted to the specifics of the Bank's operations.

The risk management system consists of:

- (1) risk identification,
- (2) risk measurement or assessment,
- (3) risk control,
- (4) risk forecasting and monitoring,
- (5) risk reporting,
- (6) management actions.

Risk management is overseen by the Bank's Supervisory Board, which receives regular updates on the risk profile and key risk management actions taken.

The Management Board is responsible for risk management, including overseeing and monitoring the Bank's risk management activities. The Management Board takes the most important decisions affecting the Bank's risk level and adopts internal regulations on risk management.

Risk management at the Bank is consistent with the mBank Group in terms of measures and methods.



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

- (1) own funds,
- (2) compliance with capital requirements,
- (3) credit risk mitigation techniques used,
- (4) capital buffers,
- (5) leverage,
- (6) credit risk adjustments applied,
- (7) existing remuneration policy for those with significant influence on the risk profile,
- (8) operational risks,
- (9) net outflow coverage ratio (LCR), liquidity buffers and net liquidity outflows.

For details on the scope of disclosures, how they are verified and how they are published, please refer to mBH's Disclosure Policy. Regarding capital adequacy and other information to be published, the document is available on the Bank's website (<https://www.mhipoteczny.pl>).

## **5.1. Credit risk**

Credit risk is the most significant risk due to the nature of the Bank's business.

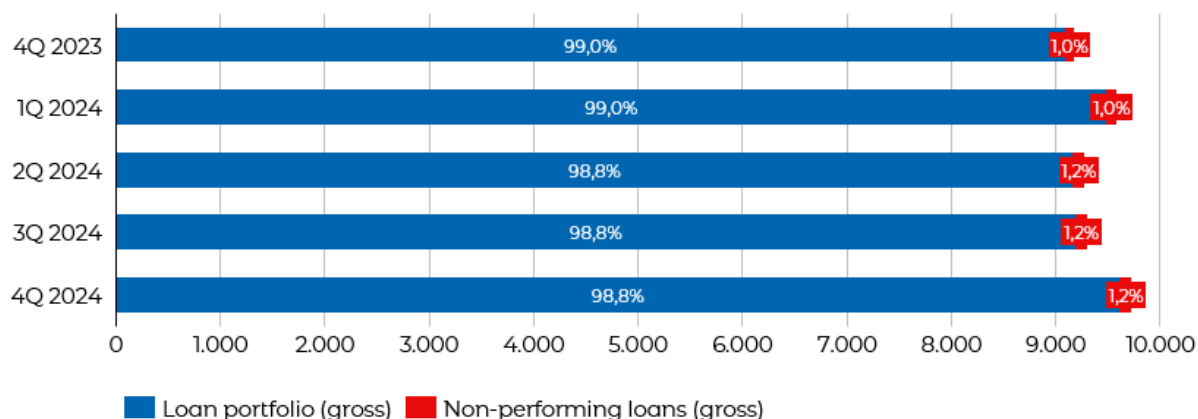
### **Loan portfolio**

Lending rules are set out in the Bank's Credit Policy and the existing loan portfolio is managed mainly through the ongoing monitoring of credit exposures.

The share of non-performing loans in the Bank's loan portfolio increased from 1.02% to 1.21% in 2024. The majority of liabilities are repaid on time. The level of NPLs is adequate for the Bank's business profile. In contrast, the share of forborne exposures in the portfolio fell from 1.69% to 1.43% in 2024.

The level of provisioning coverage of non-performing receivables was 24%. The median LTV ratio of the entire exposure portfolio was 42% with is a noticeable downward trend over time, mainly due to the cyclical mass revaluation of collateral.

### Quality of the loan portfolio



The Retail Loan portfolio is characterised by very good quality. As at the reporting date, there were 387 recorded impairments. Retail Loans are monitored on a monthly basis in terms of the timeliness of repayments and the regularity of the effective mortgage collateral provided. The fulfilment of all the customer's contractual obligations (including property insurance and assignment of policy rights) is also monitored over the same period.

Write-downs and provisions for the Retail Loans portfolio increased in 2024 compared to the end of 2023 due to the systematic increase in the impaired portfolio balance caused by the natural life cycle of the portfolio, the updating of macroeconomic forecasts, the recalibration of risk models, and the mass revaluation of collateral.

## 5.2. Market risk

The risk of incurring a loss due to unfavourable changes in market parameters from the point of view of the maturity structure of the Bank's portfolio positions is kept as low as possible due to the nature of the Bank's business, the efficient risk mitigation and management system in place at the operational level. Market risk is the Bank's second largest risk after credit risk.

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In order to mitigate market risk, mBH aligns the currency structure and repricing structure of its funding sources with the structure of its loan receivables, uses linear derivative instruments, makes spot and forward FX buy/sell transactions and FX SWAP transactions.

The amount of market risk to which the Bank is exposed over a daily horizon is determined using the Value at Risk (VaR) method at a confidence level of 97.5%. As at the reporting date, VaR amounted to PLN 1.792 million. Other risks calculated by this measure amounted to: interest rate risk PLN 1.607 million, credit spread risk PLN 1.236 million, and foreign exchange risk PLN 0.038 million.

An additional measure of market risk, supplementing the measurement of value at risk, is a stress test which shows a hypothetical change in the current valuation of the Bank's portfolio, that would take place as a result of risk factors (foreign exchange rates, interest rates, credit spreads) assuming the defined extreme values within a one-day time horizon. The Bank makes use of standard and expanded scenarios of big changes in the values of risk factors. Standard scenarios include changes in interest rates and exchange rates, extended scenarios additionally include scenarios of changes in credit spreads for securities.

As at December 31, 2024, the amount of risk resulting from the extended scenario was PLN 24 335 thousand, (as at December 31, 2023: PLN 35 257 thousand), while the average amount of risk for this scenario in the period from January 1, 2024 to December 31, 2024 was PLN 29 973 thousand (as at December 31, 2023: PLN 33 119 thousand).

The level of risk measures is lower than in the previous period, mainly due to lower exposure to interest rate risk.

Interest rate risk arises from the exposure of the Bank's earnings and capital to the adverse impact of changes in interest rates. The Bank manages the interest rate gap by adjusting the repricing dates of assets and liabilities. The sensitivity of the Bank's portfolio to interest rate disruptions is determined by the results of stress tests and scenario analyses. The decrease in the bank's economic value of equity as a result of the materialisation of a worst-case scenario (Supervisory Outlier Test - SOT EVE) in relation to the bank's own funds, as at the reporting date, was 1.2%. Interest rate risk is also measured in relation to the bank's net interest income. Earnings at Risk (EaR) and Net Interest Income (NII) were 4% (EaR) and 13.6% (NII) of the net interest income planned for 2024, respectively, higher than in the previous period. The bank's portfolio positions exposed to interest rate risk are hedged with linear interest rate derivatives.

Foreign exchange risk is mitigated by closing the foreign exchange position on an ongoing basis. The scale and structure of foreign exchange risk is measured on the basis of the Bank's

current foreign exchange position. The foreign exchange position, which takes into account expected loan repayments and disbursements, is also monitored. Foreign exchange risk is mitigated by foreign exchange position limits for each currency.

### **5.3. Liquidity risk**

In organising its liquidity risk management processes, the Bank complies with regulatory requirements and takes into account supervisory recommendations, in particular the KNF Recommendations and the EBA Guidelines, which relate to liquidity risk management.

mBH has a set of procedures, adapted to the scale and profile of the Bank's business, which defines the process and sets the framework for liquidity risk management. It defines the roles and responsibilities in the liquidity risk management process, and how liquidity risk is measured, monitored, capped, managed and controlled, and sets out the principles for setting and updating limits. In order to safeguard the Bank's liquidity, a surplus of unencumbered, high quality liquid assets is maintained as a buffer in the event of stress conditions of an internal or external nature, or a combination of the above.

The Bank has included principles for developing liquidity stress scenarios in its stress testing (ST) rules. When conducting ST, the Bank assesses the potential change in liquidity risk exposure in the different time bands of the liquidity gap and the ability to cover the need for refinancing sources for each test scenario. In conducting stress tests, the Bank takes into account the impact on the Bank's economic situation of adverse events or fluctuations in macroeconomic and financial parameters and considers the credit factor. The results of the ST form the basis for determining the required liquidity reserve and internal limits.

Liquidity risk management is carried out at the level of intraday, short-, medium- and long-term payment liquidity, the lack of which implies the inability to finance assets and meet obligations in a timely manner in the course of the Bank's normal operations.

As at the reporting date, the liquidity provision represented approximately 9.6% of total assets.

The Bank's long-term liquidity position is stable. A significant share of the funding of long-term credit claims is made up of borrowings received from mBank.

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Due to the need to maintain liquidity ratios at an appropriate level, the need to address the mismatch between the structure of assets and the liabilities that finance them and to increase the stability of funding sources, mBH will continue its efforts to convert short-term funding into funding in the form of new mortgage bond issues with a maturity of 5 years or more.

The coverage ratio of net outflows with liquid assets over a stress period of 30 days (LCR) was 1945.2%. As mentioned above, this is due to preparations for the redemption of maturing covered bond issues.

The ratio of the bank's own funds and stable liabilities that provide stable funding to non-liquid assets and receivables that require stable funding (NSFR) was 107.6%.

The utilisation level of the commitment limit under Article 15.2 of the Covered Bonds and Mortgage Banks Act as at the date of the report was 42%. In 2024, this limit was not exceeded.

The average residual maturity of mortgage covered bonds issued was 2.2 years, while the average maturity of loans received from other banks was 2.6 years.

The Bank has a management information system based on banking systems and applications to support the measurement and monitoring of liquidity risk. This system ensures the receipt of information on liquidity risk, enables the assessment of the impact of management decisions and serves to monitor risks and control limits. Liquidity risk reports are prepared at the Bank on a daily, monthly and quarterly basis. The liquidity risk reports, which include information on liquidity risk exposure and information on the use of limits for this risk, are presented to the Assets and Liabilities Management Committee at least once every two months and to the Bank's Management Board and Supervisory Board on a quarterly basis. In order to better manage and supervise liquidity risk, the Bank's Management Board and those responsible for liquidity risk management have ongoing access to daily reports.

At least once a year, the Bank conducts a review of the liquidity risk management system as part of the ILAAP process, which includes a review and assessment of the various elements of the liquidity risk management process in accordance with the Principles for Assessing the Adequacy of Liquidity Resources (ILAAP) at mBH.

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## **5.4. Operational risk**

The Bank has a simplified organisational structure and the products offered are in line with the specifics of a mortgage bank.

The Bank has maintained a business model in which it bases the development of its portfolio exclusively on retail mortgage loans in close cooperation with mBank, which reduces the operational risk associated with the loan sales stage. This has the effect of reducing the level of the Bank's operational risk, but nevertheless increases the materiality of the activities outsourced in the outsourced processes related to the loan acquisition processes through pooling and the maintenance of the loan portfolio. Outsourced processes are subject to constant monitoring.

The Bank organises its operational risk management process in accordance with the principles and requirements contained in external regulations, in particular, Recommendations M, H and D issued by the KNF, the CRR and the Regulation of the Minister of Finance and Economic Development (on the risk management system and internal control system and remuneration policy in banks), which provide the starting point for the framework of the Bank's internal control and operational risk management system.

Operational risk is complex in nature, which can have a significant impact on the Bank's operations and position. In addition to the environment and external events, its source is the Bank itself. External and internal factors affecting operational risk are changing rapidly. We observe, among other things:

- (1) increasing regulatory requirements, both at EU and national level, for which the bank should be prepared;
- (2) increasing risks of cyber threats, including those related to information security;
- (3) the level and increasing scale of regulatory burden with limited resources increases the risk of process errors;
- (4) increased importance of outsourcing of process operations;
- (5) corporate governance in the face of a changing socio-economic environment;
- (6) continued geopolitical uncertainty in the region.

Consequently, the importance of operational risk in the Bank is growing.

Due to the dynamics of changes in the factors influencing operational risk, the key elements of the process of managing operational risk are: identification, assessment, control and monitoring, prevention of risk materialisation, and reporting.

We take measures to protect the Bank from the effects of the materialisation of operational risk. Consequently:

- (1) we have established a proactive operational risk control and management system in the Bank at each level of the organisational hierarchy;
- (2) we proactively use tools, techniques to manage and control operational risk in the Bank's organisational units;
- (3) a designated department coordinates the methods and tools for operational risk control and management.

### **Tools and measures**

Due to the dynamics of changes in the factors influencing operational risk, the key elements of the process of managing operational risk are: identification, assessment, control and monitoring, prevention of risk materialisation, and reporting.

To effectively manage operational risk, the bank uses quantitative and qualitative methods and tools. The Bank deploys them in connection with the control function, which is part of the internal control system.

The operational risk management process is implemented on the basis of a group of tools, which include:

- (1) self-Assessment of Operational Risk Management Effectiveness. This process aims to identify and assess risk and implement adequate risk mitigation actions;
- (2) Operational Loss Register which is a database of losses resulting from operational events. Analysis of the recorded data takes place in the Analysis and Risk Management Department and allows for the ongoing assessment of the risk profile;
- (3) Key Risk Indicators (KRI) and Risk Indicators (RI) which support ongoing risk monitoring. Thanks to a system of warning and alert thresholds, the KRIs and RIs make it possible to determine the level of risk tolerance;
- (4) operational risk scenarios, which analyse the risks associated with the occurrence of rare but potentially serious operational events;

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- (5) issuing opinions on new products or their modifications before their implementation and risk assessment of outsourcing contracts.

With operational risk tools, the Bank monitors and improves the working methods in the tasks performed by employees in hybrid mode.

### Operational losses

The Bank was particularly faced with losses related to legal risks associated with the retail loan portfolio and credit holiday costs. All mBH operating losses recorded in 2024 were in the retail banking line.

The table below shows the distribution of gross actual losses incurred by the Bank in 2024 and 2023 by operational risk category.

Operational event category	Total gross loss (PLN'000)	
	31.12.2024	31.12.2023
Crimes committed by outsiders	0	5.5
Customers, products and business practices for banking products	1 215.9	145.1
Process execution, delivery and management	60.4	43.2
<b>Total</b>	<b>1 276.3</b>	<b>193.8</b>

The high share of losses in the category "Customers, products and business practices for banking products" in 2024 was mainly due to the costs of legal risk provisions incurred in connection with foreign currency loans (this relates to the period of lending at mBank, before currency conversion and transfer to mBH under pooling).

The level of operational risk losses is monitored on an ongoing basis and reported to the Management Board of the Bank and the Supervisory Board. When operational loss thresholds



are exceeded, escalation mechanisms are in place. These ensure that operational events are analysed appropriately and trigger corrective actions. In the situation of events in the categories: Process execution, delivery and management, corrective actions focus on improving the control function by designing a control mechanism or increasing the effectiveness of existing controls. In the category: Customers, products and business practices for banking products, which includes incidents involving disputes, the WIBOR-based floating interest rate clause has become the subject of litigation in addition to the foreign exchange clause challenged by consumers. The Bank responds on an ongoing basis and submits replies to the lawsuits. The operational loss register includes lawsuits for which litigation provisions have been set up due to the increased likelihood of a judgment unfavourable to the Bank.

The table presenting the distribution of losses does not include events related to:

- (1) the government credit holiday programme – as at 31 December 2024, the Bank recognised a negative impact of credit holidays totalling PLN 28.8 million.;
- (2) the CJEU judgment of 11 September 2019 in the case concerning consumer credit repaid in full early – as at 31 December 2024, the Bank recognised an impact of the CJEU judgment in the amount of PLN 8.8 million (as at 31 December 2023: PLN 7.887 million).

For detailed information on credit holidays and the CJEU judgment, please refer to the section "Significant estimates and judgements made in connection with the application of accounting policies" in the Bank's 2024 Financial Statements.

We stress that we observe and analyse any changes affecting the operational risk profile.

## **5.5. 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 the current conditions and organisation of the Bank's processes. The unit responsible for organising the model management process at the Bank is responsible for carrying out periodic reviews of this Policy and for supervising the correctness of this Policy.

The Bank's Management Board is responsible for approving the MMP which introduces uniform rules for the Bank's model management process, as well as for setting out in the strategy and operational plans the intentions for the scope of the models, taking into account the risk of the models and the nature of the mechanisms used in risk management. The Management Board

oversees the process of controlling the risk of models and the correctness of their operation, delegating decision-making powers on key aspects of the operation of models to the Models Risk Committee. This Committee functions as a dedicated body responsible for overseeing the models risk management process, and its detailed responsibilities, composition and decision-making procedure are set out in the relevant internal documents.

The Bank also has other regulations in place 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 models in the Bank have a low risk exposure, which, combined with the materiality criterion of the models, means a low risk level of each model and a low aggregate risk level. The risk tolerance of the models has been maintained. Compared to the previous year, there is no change in the aggregate risk level of the models.

## **5.6. Capital adequacy**

The total amount of risk exposure of the Bank consists of:

- (1) risk-weighted exposure amount for credit risk, counterparty credit risk, calculated using the IRB slotting approach and a standardized approach for exposures permanently excluded from the IRB approach as well as exposures subject to temporary exclusion;
- (2) operational risk exposure amount.

There is no trading portfolio in the Bank, therefore, the Bank does not calculate risk-weighted exposure amounts in relation to other types of risks.

As at 31 December 2024, the Bank's total risk exposure amount was PLN 4 231 104 thousand, including the credit risk exposure amount at PLN 3 960 531 thousand (including other noncredit obligations assets – PLN 36 352 thousand).

Standard method:

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31.12.2024	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs
Categories exposure	On-Balance -shet amount	Off-Balance -shet amount	On-Balance -shet amount	Off-Balance -shet amount	
Central governments or central banks	1 357 517	-	1 357 517	-	22 514
Institutions	134 877	-	134 877	-	27 554
Retail	1 166 366	-	1 166 366	-	874 775
Secured by mortgages on immovable property	8 317 812	-	8 317 812	-	2 913 127
Exposures in default	85 021	-	85 021	-	86 201
Equity	8	-	8	-	8
Total	11 061 601	-	11 061 601	-	3 924 179

31.12.2023	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs
Categories exposure	On-Balance -shet amount	Off-Balance -shet amount	On-Balance -shet amount	Off-Balance -shet amount	
Central governments or central banks	943 239	-	943 239	-	36 281
Institutions	182 466	-	182 466	-	32 045
Retail	852 804	217	852 804	109	639 684
Secured by mortgages on immovable property	8 123 972	2 912	8 123 972	1 456	2 846 112
Exposures in default	68 752	-	68 752	-	7 062
Equity	8	-	8	-	8
Total	10 171 241	3 129	10 171 241	1 565	3 624 192

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### Internal capital

The purpose of the ICAAP process (Internal Capital Adequacy Assessment Process), implemented in the Bank, is to keep own funds at the level adequate to the risk profile and the risk level stemming from the Bank's operations.

Due to the fact that the total capital requirement of Bank, calculated according to the CRR Regulation and internal capital assessed for the Bank according to the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimation of internal capital in banks, are lower than the value of the Bank's own funds, as at 31 December 2024, the Bank maintained own funds at a level consistent with the CRR.

The internal capital of the Bank as at 31 December 2024 amounted to PLN 143 311 thousand (per day On December 31, 2023, it amounted to PLN 253 881 thousand).

The table below presents the values of Own Funds:

	31.12.2024	31.12.2023
<b>Common Equity Tier 1 Capital</b>	<b>825 392</b>	<b>820 262</b>
<b>Own funds</b>	<b>825 392</b>	<b>820 262</b>
Risk weighted exposure amounts for credit risk, counterparty credit risk, dilution risk and deliveries with deferred settlement date:	3 960 531	3 661 586
-using internal rating method	-	-
- using standard method	3 960 531	3 661 586
Total operational risk exposure amount	260 174	273 867
Total CVA exposure amount	10 399	19 431
<b>The total amount of risk exposure</b>	<b>4 231 104</b>	<b>3 954 884</b>
<b>Common Equity Tier 1 capital ratio</b>	<b>19,51%</b>	<b>20,74%</b>
<b>Total capital ratio</b>	<b>19,51%</b>	<b>20,74%</b>
<b>Leverage ratio</b>	<b>7,48%</b>	<b>8,10%</b>
<b>Internal capital</b>	<b>143 311</b>	<b>253 881</b>

Own funds	31.12.2024	31.12.2023
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<b>Own funds</b>	<b>825 392</b>	<b>820 262</b>
<b>TIER I CAPITAL</b>	<b>825 392</b>	<b>820 262</b>
<b>Common Equity Tier I Capital</b>	<b>825 392</b>	<b>820 262</b>
Capital instruments eligible as CETI Capital	727 362	727 362
Paid up capital instruments	220 000	220 000
Share premium	507 362	507 362
Retained earnings	(284 833)	(279 661)
Retained earnings from previous years	(279 661)	(303 378)
Profit or loss eligible	(5 172)	23 717
Other accumulated comprehensive income	(24 085)	(61 199)
Other reserves	361 713	361 713
General banking risks founds	44 800	44 800
(-) Value adjustments due to the requirements for prudent valuation	(1 347)	(968)
(-) Intangible assets	(18 251)	(20 880)
(-) Other intangible assets gross amount	(19 209)	(21 529)
Deferred tax liabilities related to other intangible assets	959	649
(-) IRB shortfall of credit risk adjustments to expected losses	-	-
Cash flow hedging instruments adjustments	20 033	49 096
Other transitional adjustments to CETI Capital	-	-

\*) data include profits included in own funds taking into account the FSC decision and the applicable EBA guidelines

## **5.7. Carbon footprint of mBank Hipoteczny**

### **5.7.1. Operational emissions**

We calculated operational emissions using The GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol).

The calculation of the Scope 1 carbon footprint included emissions resulting from fuel consumption in mBank Hipoteczny's S.A. vehicles.

The calculated Scope 2 carbon footprint included emissions resulting from purchased electricity and heat. The carbon footprint was calculated using both market-based and location-based approaches.

Scope 3 operational emissions were calculated in six categories, including for the first time calculations for Categories 5 and 6:

- (1) Category 1 - purchased goods and services, emissions from office and marketing paper consumption, car fleet cards;
- (2) Category 2 - capital goods, issues arising from purchased IT equipment;
- (3) Category 3 - WTT (Well to Tank) emissions generated at the fuel production stage, which are directly dependent on the amount of fuel consumed and electricity and heat purchased in Scopes 1 and 2;
- (4) Category 5 – waste;
- (5) Category 6 – business travel;
- (6) Category 7 - emissions resulting from commuting of mBank Hipoteczny S.A. employees.

Data on electricity and heat consumption, solid fuels, data on purchased goods, services and capital goods, and other data for the calculations were sourced from the company's internal records and from manufacturers and suppliers. In calculating the emissions from business travel, we used data from our business travel record system, DELGO. We calculated commuting emissions on the basis of questionnaires completed by the bank's employees containing information on the means of transport used, distance travelled and frequency of commuting.

Calculation results for operational emissions:

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Operational emissions (t CO <sub>2</sub> )	2021	2022	2023	2024
Scope 1	72	33	32	31
Scope 2 market-based	197	116	39	31
Scope 2 location-based	461	337	309	280
Scope 3 category 1	0.2	0.7	0.3	1.2
Scope 3 category 2	7	8	1	8
Scope 3 category 3	135	94	84	73
Scope 3 category 5				1.3
Scope 3 category 6				11
Scope 3 category 7		43	28	32

We note the continued downward trend in the Scope 2 carbon footprint in the market-based approach resulting from the transition to renewable electricity supply. This follows from the mBank Group policy. The lower emissivity in Scopes 1 and 2 translates into a decrease in Scope 3 Category 3.

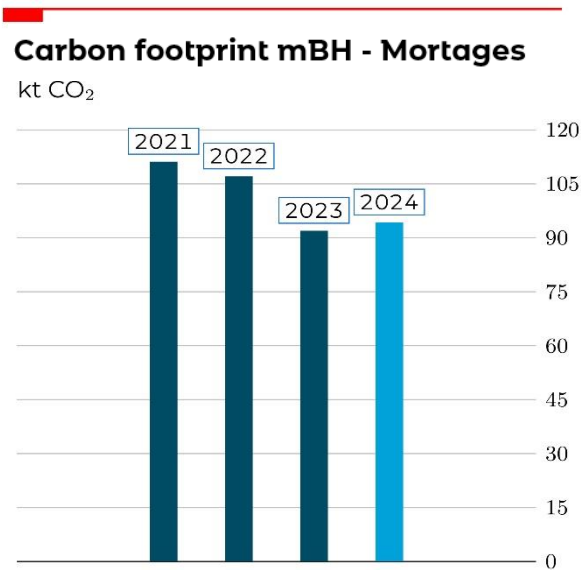
## 5.7.2 Portfolio emissions

For the calculation of portfolio emissions, we use the Partnership for Carbon Accounting Financials (PCAF) methodology. The presented calculations are based on the indicators provided by the PCAF. It should be noted that the PCAF methodology is based on the GHG Protocol methodology and includes emissions of all greenhouse gases. mBank Hipoteczny S.A. has a homogeneous portfolio of secured mortgage loans, and we have used the following assumptions when calculating the carbon footprint:

- (1) Emissions are calculated for all financed properties;
- (2) For all properties, we have information on their square footage;
- (3) Collateral that is not occupied (plots of land) is excluded from the emission calculations;

- (4) We only take into account on-balance sheet exposures;
- (5) In the calculation, we use either the value of the property at the time the loan was granted or the oldest available property appraisal value as the initial value of the property;
- (6) For loans which are secured by more than one property, the loan amount is distributed among the collateral items in proportion to their value.

As we do not have detailed information on the energy intensity/emissivity of the properties, the emissivity was estimated on the basis of CO<sub>2</sub> emission factors per m<sup>2</sup> available for Poland (PCAF data quality score 4). The results of the calculations are presented in the table below and illustrated in the figure. The slight increase in 2024 is due to an increase in the balance sheet total.



Financed emissions (kt CO <sub>2</sub> )	2021	2022	2023	2024
Housing mortgage loans	111	107	93	94



### 5.7.3 Portfolio emissions - emissions of the portfolio of treasury securities

In line with the PCAF methodology, last year was the first time we calculated emissions related to our exposure to sovereign debt. mBank Hipoteczny S.A. holds only Polish treasury securities. The data used to calculate emissions comes from the PCAF database, which uses data from the United Nations Framework Convention on Climate Change (domestic emissions) and the World Bank (gross national income including purchasing power parity). Poland's carbon footprint data includes emissions excluding as well as including emissions from land use, land-use change, and forestry (LULUCF). The results of the calculations are presented in the table below.

Emissions from bonds (kt CO <sub>2</sub> )	2023	2024
Excluding LULUCF	58.0	64.2
Including LULUCF	55.0	61.1

The amount of emissions is directly proportional to the size of the treasury securities portfolio. The increase relative to 2023 is due to a larger portfolio of treasury securities. Note the high value of the carbon footprint associated with treasury securities held compared to the size of the portfolio emissions, which is related to Poland's high carbon footprint.

### 5.7.4 Greenhouse gas emissions

Summary of mBank Hipoteczny's S.A. 2024 emissions in kt CO<sub>2</sub>:

- Scope 1: 0.031
- Scope 2 (market-based): 0.031
- Scope 3 category 1, 2, 3, 5,6,7: 0.126
- Scope 3 category 15: 158
  - Loan portfolio: 94

- Debt: 64

Operational emissions play a marginal role in the Bank's carbon footprint. This is typical for financial institutions.

Greenhouse gas intensity indicators

- Operational emissions (including market-based) in tonnes of CO<sub>2</sub> per FTE: 1.94
- Loan portfolio emissions in tonnes of CO<sub>2</sub> per million in loans: 10.5

## **6. Internal control system**

The Bank has implemented an internal control system to support the organisation in the effective and efficient operation of its business processes. It covers all the mBH's organisational units, defining the principles of cooperation between them, and the principles of information flow and monitoring of activities within the Bank. The principles and objectives of the internal control system derive from the Banking Law, the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system and remuneration policy in banks, and KNF Recommendation H concerning the internal control system in banks. The internal control system is organised in the Bank in three lines of defence, where:

- (1) the first line of defence consists of the risk management of the Bank's operational activities, carried out by the Bank's organisational units/independent work posts;
- (2) the second line of defence consists of:
  - a. risk management by designated organisational units/designated staff of organisational units, independent of the first line of defence risk management;
  - b. activities of the security function carried out by the IT and Security Department;
  - c. activities of the compliance function carried out by the Compliance Department;
- (3) the third line of defence consists of the activities of the internal audit function carried out by the staff of the Internal Audit function.

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As part of the internal control system, the Bank distinguishes:

- (1) **control function** - the control function consists of all controls in the processes operating in the Bank, independent monitoring of compliance with these controls and reporting as part of this function.

Internal control mechanisms are an integral part of the Bank's daily operations and include:

- a. internal procedures relating to the Bank's business,
- b. reviews of the reports by the Bank's Management Board,
- c. reviews by heads of departments/independent posts,
- d. physical security,
- e. system of limits and rules for controlling them,
- f. credit decision rules and the proxy system,
- g. rules for verifying the details of transactions and activities and the results of risk management models,
- h. activities aimed at checking the quality and correctness of the execution of tasks.

The correct operation of the controls is checked on an ongoing basis by each employee as part of his or her functions and periodically as part of horizontal and vertical testing by heads of organisational units or their designated employees.

**Compliance Department (DC)** - the compliance function which performs the following tasks:

- a. manages compliance risk (understood as the risk of the consequences of non-compliance with laws, internal regulations and market standards) by identifying, assessing, controlling, monitoring and reporting on the risk of non-compliance with laws, internal regulations and market standards;
- b. performs horizontal monitoring within the compliance function and vertical monitoring within the second line of defence. It ensures the Bank's compliance with laws, internal regulations and market standards. In addition, DC performs other tasks insofar as this does not compromise the operational efficiency and independence of the unit.

The Compliance Department is responsible for the implementation of the mBank Group's and indirectly Commerzbank AG's standards in the areas recognised as "compliance areas" according to the Group's standards, which include in particular:

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- a. Anti-Money Laundering and Countering the Financing of Terrorism,
- b. application of the sanctions policy,
- c. protection of personal data,
- d. outsourcing,
- e. prevention of conflicts of interest, fraud and corruption,
- f. overseeing the process of handling customer complaints and grievances,
- g. inside information within the meaning of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

- (2) **Internal Audit Position** - an independent internal audit function to examine and assess, in an independent and objective manner, the adequacy of the risk management and internal control system. Internal Audit supports the Bank in achieving its objectives through a systematic and disciplined approach to examining, evaluating and improving the effectiveness of its risk management, control and governance processes.

As part of its activities, internal audit provides the following services:

- a. assurance - involving the objective evaluation of evidence by internal auditors to provide an independent opinion and conclusions on a process, system or other matter,
- b. advisory - comprising consultancy and related service activities, the nature and scope of which are agreed in detail with the principal, and which are intended to add value and improve organisational governance, risk management and internal control processes.

The Internal Audit position, in respect of the functions performed, is subject to periodic evaluation by an independent competent entity from outside the Bank. The selection of the entity is made by the Bank's Management Board and approved by the Audit Committee. The assessment of the work includes internal audit's compliance with the IIA Standards, Recommendation H and best market practices.

An assessment of the adequacy and effectiveness of the internal control system is made on the basis of:

- a. annual report on the activities of the Internal Audit function, including, inter alia, an assessment of the adequacy and effectiveness of the internal control and risk management system,

- b. annual report of the Analysis and Risk Management Department, including an assessment of the effectiveness of the control function and taking into account the critical and significant deficiencies identified,
- c. annual report of the Compliance Department on the management of compliance risk at the Bank,
- d. information from the Bank's Management Board on the implementation of the tasks assigned to this body within the framework of the internal control system,
- e. information obtained from the parent company, relevant from the point of view of the adequacy and effectiveness of the internal control system,
- f. findings of the auditor,
- g. KNF's annual supervisory review and examination process (SREP),
- h. findings arising from the activities of the inspection bodies,
- i. evaluations and opinions made by entities outside the Bank, relevant to the adequacy and effectiveness of the internal control system.

## **7. Remuneration policy**

The Bank operates a remuneration programme for the Bank's Management Board and employees with a significant impact on the Bank's risk profile based on cash-settled phantom shares.

In accordance with IAS 19, the projected unit credit method was used to determine the present value of employee benefit obligations. The provision for the deferred portion of variable remuneration for eligible employees of the Bank is calculated on the basis of the amount of the bonus that the Bank undertakes to pay under the Remuneration Policy for employees with a material impact on the Bank's risk profile.

Phantom shares are granted in the number resulting from the valuation of these shares for the assessment period. The valuation of phantom shares is calculated each time at the end of the reporting period as the quotient of the Bank's book value and the number of ordinary shares.

The conversion of phantom shares into cash to be paid out is carried out as follows: The number of phantom shares determined for the Bank's Risk Takers by virtue of the shares granted under the non-deferred portion and under the individual tranches of the deferred portion, respectively, is multiplied by the average value of one phantom share calculated as the sum of the value of

the phantom share at the end of the last two annual periods preceding the payout date, divided by 2.

The final value of the bonus, equal to the product of the number of shares and their expected value at the balance sheet date preceding the realisation of each deferred tranche, is actuarially discounted. The actuarial discount means the product of the financial discount (time value of money) and the probability of each participant individually surviving until each of the deferred tranches becomes fully vested. The probabilities referred to above were determined using the Multiple Decrement Model, where the following three risks were taken into account: the possibility of redundancy, the risk of total incapacity and the risk of death.

## **8. Development directions and key elements of the Bank's strategy**

### **The Bank's mission**

From the perspective of the real estate market, mBH's mission 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) as an instrument to refinance attractive forms of real estate lending based on strong competence, the longest market experience and the highest standard of service.

From the perspective of the mBank Group, mBH's mission is to provide stable, long-term and secure refinancing.

From the point of view of investors, mBH's mission focuses on providing long-term covered bonds with a high level of security.

### **The Bank's vision**

mBH will focus on the issuance of covered bonds in Poland and on the international market in the most cost-effective business model possible, i.e. aimed at maximising synergies within the mBank Group, in particular using the free resources of each bank, primarily mBank, in

accordance with their economic purpose, as well as the knowledge and experience within the mBank Group.

In view of the development of the covered bond market in Poland, the Bank's aspiration is to maintain its current position among the leading issuers of these instruments in the country.

Strategic initiatives at mBH are grouped around five pillars:

- (1) sourcing retail mortgages from mBank;
- (2) financing them with regular issues of primarily green covered bonds;
- (3) improving the IT platform and data security;
- (4) risk management;
- (5) fostering an organisational culture based on shared values, ensuring respect for diversity, the professional development of employees and satisfactory working conditions.

Strengthening the mBank Group's self-reliance in financing its business and better matching the time horizon of financing to assets is a key element of the financing strategy. A factor supporting the financing of real estate business is the issuance of covered bonds.

The mBank Group assumes ongoing cooperation between mBank and mBH to implement the covered bond issuance strategy. The issuance of covered bonds allows the Bank to generate stable and long-term financing on attractively priced terms.

The Bank envisages issuing covered bonds secured by residential mortgages raised in cooperation with mBank using a pooling model.

The covered bonds may be issued in both zloty and euro and will have maturities ranging from 4 to 7 years.

## **9. Bank authorities**

### **Shareholders**

The total number of ordinary shares at the reporting date was 2.22 million with a nominal value of PLN 100 per share.

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The Bank has not issued any preference shares and there are no restrictions on the rights attached to the shares. All shares participate equally in the distribution of dividends. All issued shares are fully paid up. The Bank does not hold any treasury shares.

As at the reporting date, the ownership structure of the Bank's registered share capital was as follows:

Name of shareholder	Registered share capital in PLN	Shares		Votes at General Meeting	
		Number	%	Number	%
mBank S.A.	220 000 000	2 200 000	100	2 200 000	100
<b>Total</b>	<b>220 000 000</b>	<b>2 200 000</b>	<b>100</b>	<b>2 200 000</b>	<b>100</b>

## Management Board

In 2024, mBH's Management Board consisted of:

	Position
Piotr Petelewicz	President of the Management Board (as of the KNF decision of 25 October 2024)
Krzysztof Dubejko	President of the Management Board (until 15 May 2024)
Katarzyna Dubaniewicz	Member of the Management Board
Andrzej Kulik	Member of the Management Board

As of 15 May 2024, Krzysztof Dubejko ceased to act as President of the Management Board as a result of his resignation.

With effect from 16 May 2024, Piotr Petelewicz was appointed as a member of the mBH Management Board.

### Appointment and removal of board members and their powers:

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



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The appointment of two members of the Management Board, including the President of the Management Board and the member of the Management Board responsible for risk, shall be made with the approval of the KNF.

The Management Board manages the Bank's affairs and represents the Bank. The Management Board adopts annual financial plans and an operating strategy, which are approved by the Supervisory Board. In them, the Management Board determines the maximum volume of covered bonds and bonds issued in a given year. The scope of activities of the Bank's Management Board includes all matters not reserved for the competence of other bodies of the Bank, pursuant to the Articles of Association or legal regulations.

## Supervisory Board

In 2024, the Bank's Supervisory Board consisted of:

	Position
Marek Lusztyn	Chairman of the Supervisory Board
Pascal Ruhland	Deputy Chairman of the Supervisory Board
Paweł Graniewski	Independent Member of the Supervisory Board
Mariusz Tokarski	Independent Member of the Supervisory Board
Łukasz Maculewicz	Member of the Supervisory Board
Grzegorz Ostrowski	Member of the Supervisory Board
Michał Popiołek	Member of the Supervisory Board
Mikołaj Tatarkiewicz	Member of the Supervisory Board (until 14 September 2024)
Marta Żyndul	Member of the Supervisory Board (appointed on 25 September 2024)
Monika Bączyńska	Member of the Supervisory Board (appointed on 28 November 2024)

On 22 April 2024, the General Meeting of Shareholders appointed members of the Supervisory Board for the next term: Marek Lusztyn, Pascal Ruhland, Paweł Graniewski, Mariusz Tokarski, Łukasz Maculewicz, Grzegorz Ostrowski, Michał Popiołek, Mikołaj Tatarkiewicz.

On 6 September 2024, Mikołaj Tatarkiewicz resigned as a member of the Supervisory Board with effect from 14 September 2024.

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The General Meeting of Shareholders appointed Marta Żyndul to the Supervisory Board on 25 September 2024 and appointed Monika Bączyńska to the Supervisory Board on 28 November 2024.

Pursuant to § 14 (1) (5) of mBH's Articles of Association, the General Meeting decides in the form of a resolution on the election and dismissal of members of the Supervisory Board and the determination of the principles of their remuneration. The members of the Supervisory Board meet the suitability requirements determined on the basis of the Bank's Policy on the Assessment of the Qualifications (Suitability) of Members of the Supervisory Board, Management Board and Key Function Holders of mBH.

Pursuant to § 3(1)(9) and (10) of the Regulations of the Supervisory Board of mBH, the Supervisory Board has the power to appoint and dismiss the President of the Management Board, the members of the Management Board, as well as the power to entrust the function of the Vice-President of the Management Board and to entrust the function of the member of the Management Board who supervises the management of risks that are material to the Bank's operations, and to determine the terms and conditions of contracts and remuneration for the members of the Management Board of the Bank and to represent the Bank in concluding agreements with the members of the Management Board.

There were three Committees within the Supervisory Board: Audit Committee, Remuneration and Nomination Committee, Risk Committee.

Audit Committee:

- (1) Paweł Graniewski – Chairman of the Committee
- (2) Pascal Ruhland - Member of the Committee
- (3) Mariusz Tokarski - Member of the Committee

In 2024, the Audit Committee met on 21 February, 29 February, 1 March, 8 March, 25 July, 9 September, 28 November.

Remuneration and Nomination Committee

- (1) Marek Lusztyn – Chairman of the Committee
- (2) Pascal Ruhland – Member of the Committee
- (3) Paweł Graniewski – Member of the Committee

In 2024, the Remuneration and Nomination Committee met on 3 April, 5 April and 17 April, 10 September, 20 September, 27 November.

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### Risk Committee

- (1) Mikołaj Tatarkiewicz – Chairman of the Committee (until 14 September 2024)
- (2) Marta Żyndul – Chairwoman of the Committee (from 1 October 2024)
- (3) Marek Lusztyn – Member of the Committee
- (4) Michał Popiołek – Member of the Committee

In 2024, the Risk Committee met on 25 March, 7 June, 11 September, 29 November.

The Supervisory Board of the 13<sup>th</sup> term (formed on 22.04.2024) appointed the same persons to the above-mentioned committees.

Due to the resignation of Mikołaj Tatarkiewicz on 6 September 2024 with effect from 14 September 2024, he ceased to act as Chairman of the Risk Committee. By resolution dated 1 October 2024, the Supervisory Board appointed Marta Żyndul to the Risk Committee of the Bank's Supervisory Board and entrusted her with the function of Chairwoman of the Risk Committee.

### **Procedure for convening and powers of the General Meeting**

The General Meeting shall be convened as an ordinary or extraordinary general meeting in accordance with the Bank's Articles of Association and the provisions of the Commercial Companies Code.

The core competences of the General Meeting include the adoption of resolutions on the following matters:

- (1) considering and approving the annual report on the Bank's operations and the financial statements for the previous financial year,
- (2) granting discharge to the members of the Bank's governing bodies for the performance of their duties,
- (3) distributing net profit or covering losses of the Bank,
- (4) amending the articles of association,
- (5) electing and dismissing members of the Supervisory Board and determining the principles of their remuneration,
- (6) increasing or reducing the Bank's share capital,
- (7) liquidation, disposal of the whole of the Bank's undertaking or merger with another bank,
- (8) selection of liquidators and determination of their remuneration,

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- (9) provisions concerning claims for compensation for damage caused in the formation of the company or in the exercise of management or supervision,
  - (10) setting a date for the payment of dividends,
  - (11) disposal or encumbrance of the Bank's real estate on which its head office is located,
  - (12) matters brought before the Supervisory Board for consideration,
  - (13) matters brought for consideration by shareholders under the procedure provided for in the Articles of Association,
  - (14) giving consent for the Bank to acquire or dispose of shares or stocks, or to establish or join other business organisations, whereby consent is not required if the acquisition of shares or stocks in companies has taken place as part of enforcement, bankruptcy, restructuring or other agreement with the Bank's debtor and in the event of the disposal of shares or stocks acquired in the above manner; in such a case, the Bank's Management Board is obliged to inform the Supervisory Board of the above actions,
  - (15) other matters reserved by law or the Articles of Association.

## 10. Other information

### **Loans and their interest rates**

The floating interest rates applied by the Bank are based on WIBOR for PLN loans and EURIBOR for foreign currency loans. The Bank's interest rate on a given day is equal to the sum of the Bank's margin set in the agreement and the base rate.

In accordance with Recommendation S, the Bank introduced the possibility of converting floating interest rates into periodically fixed interest rates for a period of 5 years. As at 31 December 2024, the share of loans with periodically fixed interest rates in the loan portfolio was 4.96%.

### **Information on the Government's Credit Holidays and Borrower Support Fund**

In connection with the enactment on 12 April 2024 of the Act amending the Act on support for borrowers who have taken out a home loan and are in financial difficulty and the Act on crowdfunding of economic ventures and assistance to borrowers, extending the "Credit Holidays" under new rules, allowing the borrowers to suspend repayment of loan instalments

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and entailing the non-accrual of interest during the suspension period, the Bank assessed the impact of the programme and its update on the level of provisions under the programme. As at 31 December 2024, 40% of retail loans were eligible for the programme and 14% of total retail loan amount was covered by the credit holidays. These customers applied for an average of 3.6 months of credit holidays. The gross carrying amount of loans covered by the credit holidays as at 31 December 2024 was PLN 1.3 billion. The credit holidays had a negative impact on the Bank's gross profit for 2024 in the amount of PLN -28.8 million.

104 applications were received for support from the Borrower Support Fund in 2024, of which 68 customers signed a contract and received support from the Fund. The number of exposures with active support as at 31 December 2024 is 251 contracts.

**Related party transactions**

The direct parent of mBH is mBank. The direct parent of mBank is Commerzbank AG.

Transactions concluded in 2024 between the Bank and related parties were typical and routine transactions, concluded on terms that did not deviate from market conditions, and their nature and terms resulted from the day-to-day operational activities conducted by the Bank. Transactions with related parties carried out in the ordinary course of business include loans, deposits, liabilities under issued debt securities and derivative transactions.

**Information on amendments to the articles of association**

In connection with the amendments to the Banking Law with the entry into force of the Act of 16 August 2023 amending certain acts in connection with ensuring the development of the financial market and the protection of investors in this market, Article 34(4) was added. According to this provision, if the bank ceases to perform an activity specified in the articles of association for a continuous period of 12 months, the bank should immediately apply for a permission to amend the articles of association by deleting the activity not performed. The bank analysed the scope of activities included in the articles of association in the context of the actual activities carried out. Amendments to the articles of association by deleting the activities not performed were drafted and submitted to the Polish Financial Supervision Authority for approval of the amendment to the articles of association and were subsequently passed by the Extraordinary General Meeting and registered with the National Court Register. The following activities were deleted:

- (1) Relating to the activity of issuing public covered bonds and collecting assets to secure them :

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- a. granting loans not secured by a mortgage as referred to in Article 3(2)(1)-(3) of the Act on Covered Bonds and Mortgage Banks (Section 6(2) of the Articles of Association);
- b. acquisition of receivables from the loans referred to above (Section 6(3) of the Articles of Association, sentence 2);
- c. acquisition of securities referred to in Article 3(2)(4) of the Act (which may be used as the basis for the issue of public covered bonds);

and:

- d. issuing public covered bonds (Section 6(5) of the Articles of Association) related to the aforementioned assets.
- (2) The following "additional" activities included in Section 7 of the Articles of Association were deleted as not performed:
- a. safekeeping of securities;
  - b. providing consultancy and advisory services relating to the real estate market, including the determination of the mortgage bank value of property;
  - c. managing claims of the mortgage bank and other banks on account of the loans referred to in Article 12, and granting such loans on behalf of other banks on the basis of agreements concluded with them.

In Section 9 on the organisational structure, independent positions will be added, replacing offices and alongside departments.

**Information on compliance by members of the Supervisory Board and the Management Board with the requirements set out in Article 22aa of the Banking Law**

On 18 April 2024, the Supervisory Board conducted a review and concluded that the Members of the Management Board individually and collectively meet the requirements set out in Article 22aa of the Banking Law. This applies both to the composition with the outgoing President of the Management Board Krzysztof Dubejko and the composition with the new President of the Management Board Piotr Petelewicz who holds his position based on the decision of KNF dated 25 October 2024.

On 22 April 2024, the General Meeting conducted a review and concluded that the existing Supervisory Board Members met the requirements set out in Article 22aa of the Banking Law.

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**Proceedings pending before a court, an authority competent to conduct arbitration proceedings or a public administration body**

Information on pending proceedings can be found in Note 28 of the Financial Statements for 2024.

**Financial support from public funds**

In 2024, the Bank did not receive any financial support from public funds, in particular under the Act of 12 February 2009 on the granting of support to financial institutions by the State Treasury (Journal of Laws 2014, item 158).

**Cooperation with international institutions**

The Bank does not cooperate with international public institutions.

**Guarantees and sureties granted by the Bank**

The Bank did not issue any guarantees or sureties in 2024.

**Events after the balance sheet date**

There were no material events after the balance sheet date that would require additional disclosure in these Management Board Report.

**Information on the entity authorised to audit the financial statements**

Information on the entity authorised to audit the financial statements can be found in Note 38 of the Financial Statements for 2024.

## **11. Statements by the Management Board**

**Corporate governance**

In its operations, the Bank is guided by the principles of corporate governance and good banking practices, setting high standards based on transparency of operations, business ethics and a balance between the interests of all stakeholders involved in the Company.

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On 16 December 2014, the Management Board and on 19 January 2015, the Supervisory Board adopted for application the Corporate Governance Principles for Supervised Institutions ("Principles"), adopted by the Financial Supervisory Authority on 22 July 2014, with the exception of the Principles set out in § 8.4, § 29, §53-57.

The Principles addressed to shareholders were presented by the Management Board at the Annual General Meeting of Shareholders of mBH on 22 April 2015, and the General Meeting on that date adopted Resolution 15 on the application of the Corporate Governance Principles for Supervised Institutions, in which it adopted the Principles for application insofar as they relate to the General Meeting (with the exception of section 29 of the Principles concerning remuneration for serving as a member of the Supervisory Board which is granted only to an independent member). This resolution entered into force on the date of its adoption.

Based on and to the extent of the aforementioned decision, the Bank exempted the following provisions of the Corporate Governance Principles for Supervised Institutions from application:

*§8(4) The supervised institution shall, where warranted by the number of shareholders, endeavour to facilitate the participation of all shareholders in the meeting of the governing body of the supervised institution, including by providing for the possibility of electronic active participation in meetings of the governing body.*

The Bank does not comply with this Principle. The Bank's shares are held directly and indirectly by its sole shareholder, mBank. General Meetings are held without being formally convened and 100% of the capital is always represented at the General Meeting. Therefore, the number of shareholders does not justify the need for electronic meetings.

§29: The Bank does not apply the Principle:

*(1) The remuneration of members of the supervisory authority shall be determined in accordance with the function they perform and also in accordance with the scale of activity of the supervised institution. Members of the supervisory authority appointed to serve on committees, including the audit committee, should be remunerated commensurate with the additional tasks performed by the committee concerned.*

*(2) The remuneration of the members of the supervisory authority, unless such remuneration is prohibited by law, should be determined by the constituent body.*

*(3) The remuneration arrangements for members of the supervisory authority should be transparent and included in the relevant internal regulation of the supervised institution.*



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Remuneration for serving as a member of the Supervisory Board is granted by the General Meeting to the independent member. The other members of the Supervisory Board do not receive remuneration.

The Bank does not comply with the principles of § 53 - §57 of the Corporate Governance Principles for Supervised Institutions which relate to the activity of managing assets at the client's risk, as the Bank does not carry out this type of activity. The Bank does not apply any restrictions on the exercise of voting rights on securities. With regard to the transfer of ownership of securities, the only restriction is the indication in the prospectus that the issuance of covered bonds on the primary market is not addressed to individual (retail) investors and, in the case of covered bonds introduced to trading abroad, additionally that they are not addressed to Polish residents.

As required by § 27 of the Corporate Governance Principles for Supervised Institutions, on 18 April 2024, the Bank's Supervisory Board assessed the application of the Principles at the Bank in 2023. The Supervisory Board of mBank Hipoteczny S.A. approved the assessment of the application by mBank Hipoteczny S.A. (hereinafter: the Bank) in 2023 of the "Corporate Governance Principles for Supervised Institutions" introduced by the Polish Financial Supervision Authority. Based on the information received from the Management Board of mBank Hipoteczny S.A., the Supervisory Board confirms that the Bank has implemented and applies the Corporate Governance Principles. The Bank has implemented an Internal Governance Policy which sets out the basic principles and good practices for the different areas of internal governance.

These rules are available on the website:

[https://www.knf.gov.pl/dla\\_rynku/regulacje\\_i\\_praktyka/zasady\\_ladu\\_korporacyjnego](https://www.knf.gov.pl/dla_rynku/regulacje_i_praktyka/zasady_ladu_korporacyjnego)

The Bank has implemented and complies with Recommendation Z on internal governance principles in banks in accordance with the principle of proportionality and adequacy arising from the scale, nature of its activities and the specific characteristics of the Bank.

The Bank declares that where the scope of Recommendation Z overlaps with the scope of the Corporate Governance Principles for Supervised Institutions, the provisions of Recommendation Z shall prevail. To the extent not covered by Recommendation Z, the Corporate Governance Principles for Supervised Institutions shall apply.

The text of Recommendation Z on the principles of internal governance in banks can be found on the website of the Polish Financial Supervision Authority:

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[https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja\\_Z\\_70998.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_Z_70998.pdf)

**Rules for the appointment and removal of managers**

The Supervisory Board appoints and dismisses members of the Bank's Management Board, including the President of the Management Board, taking into account the assessment of the fulfilment of the requirements referred to in Article 22aa of the Banking Law. The appointment of the President of the Management Board and the member of the Management Board supervising the management of the significant risk in the Bank's operations, as well as the assignment of the function of the member of the Management Board supervising the management of the significant risk in the Bank's operations to the appointed member of the Management Board shall be made with the consent of the KNF. The consent is requested by the Supervisory Board. The Supervisory Board, immediately after the appointment of the Management Board and after any change in its composition, shall submit to the KNF information on the composition of the Management Board and on any change in its composition, as well as information resulting from the assessment referred to in section 1 on the fulfilment by the members of the Management Board of the requirements referred to in Article 22aa of the Banking Law. The assessment in question is carried out on the basis of the Policy on the assessment of qualifications (suitability), appointment and dismissal of members of the Bank's Body in force at the Bank (Suitability Policy). In addition, the Supervisory Board informs the KNF of the approval and change of the internal division of competences in the Bank's Management Board. The Bank's Management Board consists of President of the Bank's Management Board and other members of the Bank's Management Board. The internal division of competences in the Bank's Management Board is determined by the Management Board and approved by the Supervisory Board. The President and the other members of the Bank's Management Board are appointed for a joint term of office of 3 years (the current term of office ends in 2025). The terms of office of the members of the Management Board expire at the latest on the date of the General assembly of Shareholders approving the financial statements for the last full financial year of their function as members of the Management Board. In addition, the mandate of a member of the Management Board shall also expire due to death, resignation or dismissal from the Management Board by the Supervisory Board. Members of the Bank's Management Board may be dismissed by the Supervisory Board before the expiry of their term of office at any time. The Management Board manages the Bank's affairs and represents the Bank. The Management Board adopts annual financial plans and an operating strategy, which are approved by the Supervisory Board. The Management Board determines the maximum volume of mortgage bonds and bonds issued in a given year in its annual financial plans and operating strategy.

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The Bank has also adopted a Policy on the Identification of Key Functions in the Bank, the Appointment and Removal of Employees Performing these Functions and the Assessment of their Qualifications (Suitability) in accordance with Recommendation Z.

**Audit Committee of the Supervisory Board**

The Bank complies with the regulations on the appointment, composition and functioning of the Audit Committee of the Supervisory Board (hereinafter: the Audit Committee), including that its members meet the independence criteria and the requirements for having knowledge and skills in banking and in accounting or auditing.

The Audit Committee operates on the basis of the Audit Committee Regulations introduced by Supervisory Board Resolution No. 31/2023 of 27 March 2023 updated by Resolution No. 65/2024 of the Supervisory Board of 2 December 2024. The composition of the Audit Committee of the current term of office was appointed by Supervisory Board Resolution No. 40/2024 of 22 May 2024. All members of the Audit Committee meet the requirements for having knowledge and skills in banking and finance and in accounting or auditing, which they have acquired through experience and education.

The basic tasks of the Audit Committee derive from the provisions of 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, the "Recommendations on the functioning of the Audit Committee" adopted by the KNF.

The Audit Committee performs the tasks provided for in the applicable legislation in the mode of day-to-day supervision on the basis of information provided by the Bank's Management Board, the Statutory Auditor, the Internal Audit Function, the Compliance Department, the Accounting and Settlement Department in the mode of meetings.

The Audit Committee, by Resolution No. 19/2023 of 6 December 2023, adopted the "Policy on the selection of the audit firm and on the provision by the audit firm conducting the audit, by entities related to the audit firm and by a member of the audit firm's network of permitted services that are not an audit of the financial statements at mBank Hipoteczny S.A.".

The Policy aims to implement the obligations arising from the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (hereinafter "the Act") and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

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The policy on the selection of the audit firm takes into account the principle of auditor rotation. The maximum uninterrupted duration of the statutory audit engagements referred to in the second subparagraph of Article 17(1) of Regulation No. 537/2014 carried out by the same audit firm or an audit firm affiliated to that audit firm or any member of the network operating in countries of the European Union to which those audit firms belong shall not exceed 10 years. The key auditor may re-perform the statutory audit of a bank after a period of at least 3 years from the completion of the last statutory audit. In the case of a statutory audit, the first statutory audit contract shall be concluded with the audit firm for a period of not less than two years, renewable for a further period of at least two years.

The statutory auditor or audit firm carrying out the statutory audit, and any member of the network to which the statutory auditor or audit firm belongs, shall not provide directly or indirectly to the audited entity, its parent undertaking or the entities controlled by it within the Union:

- (1) any prohibited non-audit services during the period from the beginning of the audited period to the issuance of the audit report;
- (2) any services consisting of the development and implementation of internal control or risk management procedures relating to the preparation or control of financial information or the development and implementation of technological systems relating to financial information.

Services prohibited under Article 136 of the Act on Statutory Auditors are not:

- (1) services:
  - a. involving carrying out due diligence procedures on the economic and financial condition,
  - b. entailing issuance of assurance letters - performed in connection with the audited entity's prospectus, carried out in accordance with the national standard for related services and involving agreed procedures;
- (2) assurance services on pro forma financial information, earnings forecasts or estimated results, included in the audited entity's prospectus;
- (3) study of historical financial information for the prospectus;
- (4) verification of consolidation packages;
- (5) confirming the fulfilment of the terms and conditions of the concluded loan agreements on the basis of an analysis of financial information from the financial statements audited by the respective audit firm;

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- (6) assurance services on corporate governance, risk management and corporate social responsibility reporting;
- (7) services to assess the compliance of financial institutions' and investment firms' disclosures with capital adequacy and variable remuneration disclosure requirements;
- (8) certifications concerning reports or other financial information intended for the supervisory authorities, the supervisory board or any other supervisory body of the company or the owners, going beyond the scope of the statutory audit and intended to assist those bodies in fulfilling their statutory duties.

The audit firm reviewing the annual financial statements did not provide mBH with any prohibited services or permitted non-audit services except for the review of consolidation packages.

**Diversity policy at mBH**

In its operations, the Bank complies with the mBank SA Group requirements for ensuring diversity. When deciding on the composition of the Bank's Management Board, the Supervisory Board aims to ensure its diversity, in particular with regard to age, education, professional experience and the proportion of women.

The same criteria are applied by the Bank's shareholder when deciding on the composition of the Supervisory Board.

The representation of women in management positions is 47% of all management positions. We are committed to creating equal opportunities regardless of gender.

The recommended number of women on the Management Board is a minimum of one. As at the reporting date, the proportion of women on the Bank's Management Board is 33%.

**Truthfulness and reliability of the reports presented**

The Management Board of mBH declares that, to the best of its knowledge:

- (1) the financial statements and comparative data have been prepared in accordance with the applicable accounting principles and give a true, fair and clear view of the Bank's assets, financial position and profit or loss,
- (2) the Management Board's report gives a true picture of the Bank's situation, including a description of the main risks and threats.

The process of preparing financial data for reporting purposes is automated and based on the Bank's accounting data. The preparation of data in the source systems is subject to formalised

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operational and acceptance procedures. The creation of a set of accounting balances based on the Bank's general ledger system follows a process that includes appropriate internal controls. Manual adjustments are subject to special controls.

The Bank continuously monitors changes in external laws and regulations related to the preparation of reports and updates internal regulations on an ongoing basis and adapts IT systems as necessary.

The preparation of financial statements at mBH is handled by the Financial Reporting Division in the Accounting and Settlement Department. The financial accounting and the administration of the model chart of accounts are the responsibility of the Accounting and Settlement Department.

The Bank prepares annual and condensed semi-annual financial statements. At the same time, the financial statements are forwarded to the members of the Audit Committee of the Supervisory Board. The Audit Committee, after consultation with the external auditor, recommends to the Supervisory Board the acceptance or rejection of the annual financial statements.

The annual and condensed semi-annual financial statements of mBH are subject to an independent audit and review by a statutory auditor, respectively. The selection of the Bank's auditor is made by resolution of the mBH Supervisory Board. A recommendation on the selection of the auditor is made by the Audit Committee of the Supervisory Board. In accordance with the Policy on the Selection of the Audit Firm. The Recommendation shall include a justification and at least two options for the selection of the audit firm together with a justified preference for one of them.