

**Management Board Report
on the Performance of mBanku Hipoteczny
S.A.
in H1 2024**



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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 focused its activities in 2023 and in H1 2024 on achieving the strategic objectives. We grouped our 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 satisfying working conditions.

The Bank integrates ESG (E – environmental, S – social, G – governance) factors into its business operations, builds its corporate culture on their basis, incorporates them into everyday life and improves ESG disclosure standards to ensure high quality and transparent disclosures of ESG implementation, in line with market standards for reporting and communication.

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Key projects

In H1 2024, the Bank continued to implement its strategy through the following projects:

1) Implementation of the AIRB Method (Pillar: Risk management)

The Bank, together with mBank, launched a project to obtain supervisory approval for the AIRB method for the retail mortgage portfolio in mBH. Following the split by spin-off in May 2023 and the transfer of commercial loans to mBank, the retail portfolio is the core business of the Bank.

The submission of an application to the KNF depends, among others, on the group definition of default and discussions with the UKNF.

2) Decarbonisation (Pillar: mBH ESG)

Within the mBank Group, mBH is participating in the preparation of a submission to the Science Based Targets initiative, which is planned for H2 2024. This corresponds with our aspirations to integrate ESG factors into the Bank's business activities.

3) Sustainability Reporting Project (Pillar: mBH ESG)

The entry into force of the EU's Corporate Sustainability Reporting Directive (CSRD) and the standardisation of ESG disclosure data under the delegated regulation on the European Sustainability Reporting Standards (ESRS) are necessary and expected by the entire banking sector to improve the transparency of corporate disclosures on social, environmental and governance impacts.

In preparing for standalone sustainability reporting, mBH is participating in the preparation of the first CSRD/ESRS-compliant report being developed for the mBank Group's 2024 disclosures. We will work on the preparation of the report for the Bank over the next months as we will be required to publish standalone data for 2025 under the applicable CSRD provisions.

4) ISO Payments (Pillar: Technology and security)

SWIFT and major central banks worldwide have decided to migrate all interbank cross-border payments and RTGS (Real Time Gross Settlement) payments from the traditional MT standard to ISO 20022 XML. In accordance with this decision, the Bank began work adapting its systems to the new payment message formats. At the same time, NBP made a decision to build a new RTGS system in PLN compliant with the ISO 20022 standard, which is why mBH participates in the project to implement the SORBNET3 system in Polish banks.

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5) 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. The key initiatives in this area include participation in the Integration of Security Services (IBS) project. We will use mBank's experience and human and technological resources to improve the level of data security.

6) DORA Project (Pillar: Technology and security)

The Bank has started work to align the organisation's operations with 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 is taking place in several streams, including the adaptation of the Bank's internal regulations, the adaptation of our contracts with ICT providers, and the preparation of an information register. This will result in full compliance with DORA requirements no later than 17 January 2025.

7) JPK – CIT Project (Pillar: Risk management)

In H1 2024, the Ministry of Finance published a draft Regulation of the Minister of Finance on additional data to be included in books of account subject to reporting under the Corporate Income Tax Act. According to the draft provisions, the existing JPK_KR files will be replaced (from January 2025) by JPK_CIT, which consists of the JPK_KR_PD and JPK_ST_KR reports.

Due to the short timeframe for implementation (if the currently proposed timing is maintained) and the wide scope of the changes, as early as the stage of drafting the Regulation in H1 2024, the Bank:

- a) held a workshop with a tax advisor to understand the requirements of the scheme;
- b) analysed the availability of the data and information to be reported in JPK_CIT;
- c) completed a preliminary identification of the areas and processes requiring change.

The Bank is monitoring the regulations in this area. As at the date of the financial statements, the final version of the provisions and their effective date have not yet been announced.

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- 8) Implementation of the amendments to the Banking Law introduced under 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 (Pillar: Risk management)

The amendments resulting from 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 (Journal of Laws, item 1723) entered into force on 29 September 2023. We incorporated the mandatory changes into our internal outsourcing regulations as of their effective date. The Bank implemented further changes liberalising the rules for the outsourcing of banking and factual activities related to banking activities.

- 9) New application architecture (Pillar: Technology and security)

The Bank continues to adapt the application architecture to the current business profile. The Bank carried out a BIA (Business Impact Analysis) of all business processes and, as a result, updated the list of critical processes and systems. The Bank continues to work on modernising the applications to upgrade their technology and business usability. The aim of the project is to adapt the application architecture in business and technical terms to the changed business of mBH with a particular focus on synergies and maximising the use of mBank Group services.

- 10) BMR (Pillar: Pooling, covered bonds)

In 2024, as part of a joint project of the mBank Group, 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 the reform of the WIBOR benchmarks is carried out by the National Working Group on Benchmark Reform (NGR), set up by the Polish Financial Supervision Authority. On 3 April 2024, the Steering Committee of the National Working Group on Benchmark Reform published a communiqué on the decision to start the review and analysis of RFR-type benchmarks alternative to WIBOR. The review covers WIRON, as well as other indices or benchmarks. The review aims to verify the decision of the NGR Steering Committee, taken in September 2022, based on a wider range of market information. Accordingly, changes to the milestones of the existing Roadmap for the replacement of the WIBOR and WIBID benchmarks are possible, however, as indicated by the NGR Steering Committee, without changing the final date for the completion of the benchmark reform, i.e. the end of 2027.

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

11) Automation of 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 intended as a response to the growing demand for a more accurate portfolio selection in line with current business requirements (e.g. loans granted by mBank for the purchase of real estate or construction of a house with documented low energy consumption and loans with a periodically fixed interest rate to be included in pooling). At the same time, the Bank is introducing clear and readable electronic communication with customers. The assumptions adopted will minimise the flow of paper documentation, which is in line with the ESG strategy. Before the end of H1 2024, the Bank completed the next stage of the changes according to the approved timeline, and further process modifications are planned by the end of Q3 2024. This project is part of the implementation of one of the strategic objectives, i.e. a modern, automated pooling process.

Credit 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 assigned to mBank Hipoteczny at Baa2 and upgraded the rating outlook from negative to positive. The ratings assigned to covered bonds remained unchanged.

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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	-	24.03.2023	rating confirmed
Long-term Counterparty Risk Rating	A2	-	13.07.2021	rating upgraded
Short-term Counterparty Risk Rating	Prime-1	-	13.07.2021	rating upgraded
Long-term Counterparty Risk Assessment Rating	A2 (cr)	-	13.07.2021	rating upgraded
Short-term Counterparty Risk Assessment Rating	Prime-1	-	13.07.2021	rating upgraded
Mortgage covered bonds	Aa1	-	13.07.2021	rating upgraded

2. External Conditions

2.1. Macroeconomic and Legal Environment

Current key drivers of the global economy include: (1) inflation moving towards central banks' targets, but with the risk of a rebound, and (2) interest rates at still high levels.

As a result of the ongoing war in Ukraine, many governments introduced unprecedented sanctions against Russia and Belarus. Governments supported Ukraine financially and materially. In addition to the sanctions introduced so far, many governments are discussing the possibility of using frozen Russian funds to help Ukraine rebuild after the war. The stalemate in continuing US aid to Ukraine was overcome but in view of the upcoming US presidential elections, there is a risk that aid will be cut again. This is compounded by Ukraine's economic problems, in particular the partially destroyed energy system.

Other geopolitical factors that have or will have an impact on financial markets and macroeconomic indicators include the war in Israel and the possibility of spillover of the conflict, tensions between China and the United States and the associated attempts by the BRICS countries to undermine the status of the United States.

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Since its peak, inflation in Poland has gradually declined to around 2.6% in June 2024. Inflation has also fallen in the United States and the euro area, translating into consumer inflation readings of 3% and 2.6% respectively at the end of H1 2024.

In H1 2024, the Monetary Policy Council made no changes to the interest rates, and cuts can be expected in 2025 at the earliest. According to inflation projections, inflation is expected to rise again in H2 2024 and may not reach the NBP target until 2026. The unfreezing of energy prices in H2 2024 will support a temporary return of higher inflation. Despite high interest rates cooling the Polish economy, GDP growth is forecast at around 3.5% for 2024.

The European Central Bank began its long-announced cycle of interest rate cuts in June 2024, reducing interest rates by 0.25%. The decision was motivated by the concern that the European economies would cool down too much, as according to the latest projections, economic growth in the euro area is expected to be just 0.9% in 2024. The Fed holds the rates at 5.25%-5.5%, and the first interest rate cut is expected by financial markets in September 2024.

The zloty was appreciating throughout H1 2024, which may have been driven by investor sentiment about the region and the release of funds for Poland under from the National Recovery Plan. The government plans to apply for funds totalling EUR 23 billion in 2024. In the last months of H1 2024, the currencies of other developing countries were depreciating, including as a result of local elections (Mexico, South Africa, India), but the zloty remained resilient to these shocks.

Increased government spending (e.g. defence sector spending, increased public debt costs) may boost Polish government bond yields in 2024. In addition, an excessive deficit procedure may be triggered against Poland, which could force the government to reduce certain categories of spending. In addition to Poland, the procedure could also be activated against countries such as Belgium, France, Italy, Hungary, Malta and Slovakia.

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Key macroeconomic indicators 2024:

	GDP (% YoY)	Private consumption	Investments	Inflation (% YoY, end of period)	Unemployment rate (% end of period)
2024 Q1	1.9	2.8	11.7	2.0	5.3
2024 Q2	3.3	4.4	6.5	3.2	5.0
2024 Q3	3.9	4.4	3.6	6.6	4.9
2024 Q4	4.8	6.3	1.3	7.0	5.0

Source: <https://makroekonomia.mbank.pl/318499-prognozy-dla-stop-procentowych-i-walut-z-komentarzem>

Due to the increased risk of default for certain groups of borrowers in an environment of rising interest rates, doubts are being raised about the health of the banking sector. The health of the sector has been impacted by the announcement of the government's universal borrower support programme in 2023, introduced by the Act on Crowdfunding for Business Ventures and Borrower Assistance (Credit Holidays).

In 2024, the Credit Holidays have been extended and cover up to four instalments. However, additional criteria have been established to limit the number of people who can benefit from the scheme. Borrowers who meet the following requirements are eligible for the Credit Holidays:

- the mortgage loan does not exceed PLN 1.2 million;
- the borrowers incur expenses related to the monthly principal and interest payments on the loan (Instalment-to-Income) in an amount exceeding 30% of their income;
- the borrowers support at least three children (in which case the income criterion does not apply);
- the borrowers entered into the mortgage loan agreement before 1 July 2022;
- the loan agreement ends in six months or later.

Rising interest rates entail an increase in the legal risk associated with floating interest rates used in loan agreements. The WIBOR has been adapted to the requirements of the BMR, and an index to be developed by the National Working Group is to replace it in future.

According to AMRON, loans with periodically fixed interest rates accounted for the majority of mortgage sales (83% of sales in Q1 2024). It has also been possible to convert loans granted at a

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floating rate to a periodically fixed rate, which makes it easier for customers to consciously mitigate the risk of interest rate changes. Currently mBH has 1791 loans with fixed interest rates in its portfolio.

In addition:

The "2% Safe Loan" programme, introduced by the Act of 26 May 2023, ended in 2023. As of the beginning of 2024, the acceptance of applications has been stopped as the pool provided for this purpose in the public budget was exhausted. Legislative work is underway on a new programme to support first-time property buyers: the "#naStart housing loan". According to the declarations of the Ministry of Economic Development and Technology, the programme may be opened in early 2025.

Following the initiative of the Long-term Funding Ratio Working Group, the KNF has proposed a "Recommendation on the Long-Term Funding Ratio", which is expected to be enacted in mid-July 2024. The KNF expects banks to maintain a ratio of at least 40% from 31 December 2026 onwards. The purpose of the Long-Term Funding Ratio Recommendation is to reduce the risks associated with the current mortgage financing structure. The Recommendation is expected to increase the funding of long-term mortgages primarily with long-term debt instruments that cannot be redeemed in at least one year.

As regards the legal environment, it is important to note the litigation in the banking industry regarding the floating interest rate clauses used in loan agreements. The lawsuits concern loans where the interest rate clause is based on the WIBOR reference rate. In the lawsuits, clients claim that they were not properly informed about the risks associated with the floating interest rate clause and raise doubts about the WIBOR reference rate. The borrowers seek to have the floating interest rate clause declared ineffective and, consequently, to establish that the interest rate on the loan is solely based the bank's fixed margin or that there is no interest rate at all. Claims to have the entire agreement declared invalid are, as a rule, alternative claims and not primary claims.

The Bank monitors market practice as well as court judgments in this regard. According to the Polish Bank Association statistics from the end of May, out of 67 judgements in the first instance, 63 were positive for the banks. Out of 21 judgments in the second instance, all were positive for the banks.

The lawsuits are accompanied by clients' applications for interim measures suspending the obligation to pay interest or, less frequently, full loan instalments with interest. In the majority

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of cases, the courts refuse to grant interim measures or the measures granted are waived on appeal. At the end of May, more than 336 applications for interim measures were reported to the Polish Bank Association, but out of 102 cases concluded in the second instance, the court dismissed the applications for interim measures in 93 cases.

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. The Regulation introduced a European Digital Identity Wallet to enable the secure authentication of a person's identification data and the use of qualified electronic signatures or seals. While use remains voluntary, recognition of this method will be mandatory, also for financial services market players. Two implementing acts on the technical requirements for means of identification and how to certify them 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.

The Act on the Protection of Whistleblowers adopted on 14 June 2024 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 will enter into force 3 months after promulgation. The Act sets out the conditions, measures and rules for the protection of whistleblowers who report or publicly disclose breaches of the law. The Act clarifies the concept of a whistleblower as an individual who obtained information about the breach in a work-related context. No retaliatory action may be taken against a whistleblower, and the Act contains an open-ended list of retaliatory actions. The Act also contains provisions on internal reporting which should be followed by legal entities such as a bank. According to the regulations, an internal procedure must be established for reporting breaches 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.

The AML Package was officially adopted and published in the EU Official Journal on 19 June 2024. Much of the legislation will become effective in three years' time but this transitional period should be used to allow obliged institutions to adapt their activities to the new or updated obligations. In addition to internal AML/CFT procedures or policies, IT processes and solutions will also 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:

- (1) The AMLA Regulation enters into force on 26 June 2024 and will generally apply as of 1 July 2025;
- (2) The AML Regulation enters into force on 9 July 2024 and will apply as of 10 July 2027 (with the exception of provisions relating to football agents and professional football clubs as obliged entities, to which the Regulation only applies as of 10 July 2029);
- (3) The AML Directive will apply as of 9 July 2024, but the deadline for its transposition by the Member States is 10 July 2027;
- (4) The Wire Transfer Regulation entered into force on 29 June 2023 but will apply as of 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 the catalogue of obliged institutions (i.e. entities that must comply with AML/CFT legislation), sets out the scope of procedures, policies and controls that must be adopted by obliged institutions, and describes the rules for the application of financial security measures, such as client identification or verification. The AML Directive is specifically addressed to the Member States and national supervisory authorities, and it sets out, among others, their obligations and rights. The AML Directive 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, and sets out in particular the AMLA's rules of operation and its role vis-à-vis obliged institutions and vis-à-vis national supervisors. Among others, the AMLA may issue AML/CFT guidelines and recommendations.

2.2. Mortgage Covered Bond Market

Covered bonds are issued in 30 different European countries. The increased popularity of this instrument has taken it beyond European borders. It has become a global product, with issuers in countries such as Australia, Canada, New Zealand, Singapore, South Korea and Brazil.

In Poland, the covered bond market has been operating for more than 20 years. 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.

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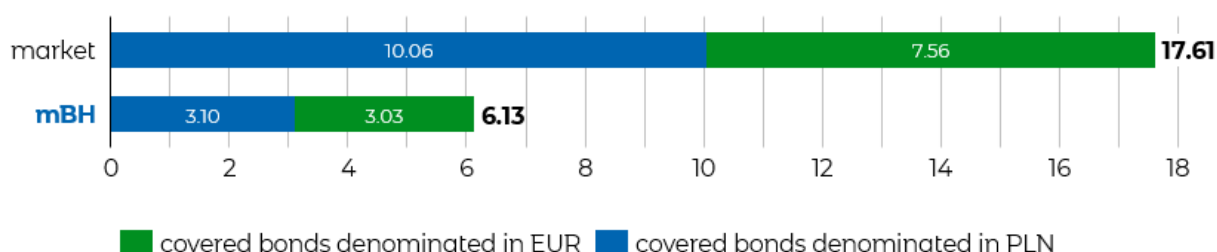


The volume of Polish covered bonds outstanding at the end of June 2024 was approximately PLN 17.6 billion (EUR 4.1 billion). On a macro level, the biggest issuers of covered bonds are Denmark, Germany and France, whose issues worth EUR 463 billion, EUR 394 billion and EUR 367 billion account for 16.1%, 10.3% and 8.9% of the European market, respectively (according to ECBC: European Covered Bond Fact Book 2023).

In H1 2024, five mortgage banks were active in Poland. Four of them issued mortgage covered bonds and one of them issued public covered bonds. These issues were directed to institutional investors.

In order to improve mortgage loan funding structures, the Polish Financial Supervision Authority plans to introduce a new Long-term Funding Ratio for banks. The solution as proposed would make this instrument more attractive to new groups of buyers on the Polish market.

Mortgage covered bonds outstanding domestically and internationally as at 30 June 2024
(in PLN billion)



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

On 30 June 2024, the Bank had PLN 6.1 billion outstanding mBH covered bonds, representing a 34.8% market share.

The currently perceived limited demand for covered bonds in Poland is due to the lack of systemic incentives for investment in such instruments and the high over-liquidity of the financial sector. An opportunity to change this is opened by the concept of long-term mortgage loan financing presented by the KNF in May 2023, described above and in section 2.1.

Mortgage banks' support for the 17 UN Sustainable Development Goals is also a key issue. In the absence of regulation, the covered bond market has, in line with other debt market instruments,

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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 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).

The Bank is developing its issuance business based on the housing retail loan portfolio which we are building in cooperation 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 low-energy mortgages. These loans can form the basis of mBH's green covered bonds.

The largest issuers of green covered bonds are Germany (24.1% of all outstanding green mortgage bonds), Norway (20.2%) and Denmark (17.3%).

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.

By 30 June 2024, two of the five mortgage banks had their green mortgage bonds under the ICMA standard. The Bank has set targets in its 2023-2026 strategy and has committed to issuing covered bonds that support the ESG goals. More information on covered bond issues is presented in section 4.2 below.

2.3. Housing Property Market

A key factor driving the housing market in Q1 2024 was the closing of acceptance of applications for subsidised loans under the government's "2% Safe Loan" programme at the end of December 2023. The closing of the programme resulted in a reduction in sales in the housing market. In total, in the six main markets (Warsaw, Kraków, Wrocław, the Tri-City, Poznań, and Łódź), developers sold around 11,000 units in Q1 2024, which represented a decline of around 23.0% QoQ. In addition to the closing of the government programme, the drop in sales was driven by factors including:

- (1) cautious approach by investment buyers;
- (2) average level of sales of unsubsidised housing loans;
- (3) the winter season, when sales are always somewhat weaker;
- (4) uncertainty on the part of some cash buyers as to the future market developments;
- (5) fairly limited offer of flats with high price levels in several cities.

According to the Central Statistics Office (GUS), approximately 48,800 units were completed in Q1 2024. This represented a decrease of approximately 18.0% QoQ and a decrease of approximately 12.0% YoY. The observed trend was a consequence of the decreasing production of units under construction in previous years. During this period, building permits were issued for approximately 69,000 units. This represented an increase of around 3.0% QoQ and around 33.0% YoY. Around 60,100 units were started, an increase of around 20.0% QoQ and around 56.0% YoY. This means that production has started to rise slowly.

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As a result, the number of flats for sale increased for the second consecutive quarter in Q1 2024. A total of around 16,700 new flats were on offer in the six¹ main markets, approximately 4.7% more than in the previous quarter. The total primary market offer at the end of March 2024 increased by approximately 17.2% QoQ and amounted to around 42,400 flats.

Despite the increase in the number of units available on offer, there are still strong differences between individual markets in terms of sales volumes. In Warsaw, Kraków and Wrocław, the offer is much lower than the long-term sales average. The rate at which the offer is sold out indicates an excess of demand over supply. The situation is similar in the Tri-City, where the offer is close to the long-term average, but sales remain high. In Łódź, on the other hand, despite good sales, the record offer approaching around 8,000 units indicates a strong oversupply. The market closest to equilibrium is Poznań, with an offer slightly above the annual sales volume.

According to the National Bank of Poland (NBP), the average transaction price in the six main primary markets in Poland as at the end of March 2024 amounted to approximately PLN 12,900/sq.m and increased by approximately 4.9% QoQ and by approximately 19.4% YoY.² The highest average transaction price in the markets under review was recorded in Warsaw at approximately PLN 15,900/sq.m. The lowest average price was recorded in Łódź at approximately PLN 9,700/sq.m. The highest quarter-on-quarter and year-on-year increases were recorded in Kraków (approximately 8.5% QoQ and approximately 28.0% YoY) and Warsaw (approximately 6.4% QoQ and approximately 16.0% YoY). A quarter-on-quarter price decline was observed only in Gdańsk (approximately -0.2% QoQ and approximately 14.0% YoY). The average transaction price in the six main secondary markets according to data from the National Bank of Poland at the end of Q1 2024 amounted to approximately PLN 11,500/sq.m and increased by approximately 4.6% QoQ and by approximately 14.2% YoY. The highest average transaction price in the markets under review was recorded in Warsaw and amounted to approximately PLN 14,400/sq.m. The lowest average price was recorded in Łódź at approximately PLN 7,500/sq.m. Quarter-on-quarter and year-on-year price increases accelerated in all markets under review. Particularly high quarter-on-quarter increases were recorded in Łódź (approximately 7.3%) and Kraków (approximately 6.4%). The highest year-on-

¹ Due to data availability, six main cities were included in the analysis: Warsaw, Wrocław, Poznań, Gdańsk, Kraków, Łódź.

² Analysis of average transaction prices based on NBP data for Q1 2024.

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year price increases were recorded in Kraków (approximately 21.3%) and Wrocław (approximately 16.2%).

The average time-to-sell of flats on the primary market for the cities under review, measured in quarters according to sales averaged over the last four quarters, increased from 2.5 quarters in Q4 2023 to 3.0 quarters in Q1 2024.

The outlook for the residential property market in 2024 remains closely linked to the new offer of the government's support programme for the purchase of the first flat or house. Alongside the programme, demand will also be stimulated by continued double-digit wage growth in 2024, forecast by the Polish Economic Institute to reach 12.3% in 2024, and slight interest rate cuts forecast by economists. This means that residential property prices will not fall in 2024, but rather will increase, especially in the segment covered by the new programme format.

2.4. Housing Loan Market

At the end of May 2024, according to data published by the BIK, banks granted 15,000 housing loans worth PLN 6.21 billion. The average loan amount in May 2024 was PLN 414,000, 13.2% higher than the year before. The value of housing loans granted from January to May 2024 amounted to PLN 40.254 billion. Compared to the same period last year, loans granted increased by approximately 165%. The figures are the result of growing demand for housing loans. This was supported by the KNF's supervisory initiatives regarding creditworthiness assessment, the Monetary Policy Council's decision to cut the NBP reference rate in September 2023 from 6.75% to 6.00%, as well as the launch of the government's "2% Safe Loan" programme as of July 2023. The closing of the programme in December 2023 and the government's subsequent decisions regarding the continuation of support for the purchase of the first flat will have a key impact on clients' decisions in the coming months, including the sale of home loans.

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3. Financial Results

3.1. Key Financial Indicators

	30.06.2024	31.12.2023
Net ROA ¹⁾	-0.88%	0.21%
Gross ROA ²⁾	-0.88%	0.34%
Net ROE ³⁾	-10.58%	2.59%
Gross ROE ⁴⁾	-10.67%	4.11%
C/I (cost/income ratio) ⁵⁾	57.40%	50.32%
Net interest margin ⁶⁾	1.12%	1.21%
Cost of risk ⁷⁾	0.04%	0.11%
Total capital ratio	19.88%	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 the 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

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3.2. Statement of Financial Position

PLN'000	30.06.2024	31.12.2023	Change
ASSETS	10 090 077	10 105 413	-0.15%
Loans and advances to customers measured at amortised cost	9 079 024	9 048 883	0.33%
Loans and advances to customers measured at fair value through profit or loss	0	0	0%
Financial assets measured at fair value through other comprehensive income	843 327	845 733	-0.28%
Other assets	167 726	210 797	-20.43%
LIABILITIES AND EQUITY	10 090 077	10 105 413	-0.15%
Liabilities from the issue of debt securities	6 134 712	5 874 096	4.44%
Liabilities to banks	3 108 546	3 359 288	-7.46%
Share capital	727 362	727 362	0.00%
Other liabilities	119 457	144 667	-17.43%

The balance sheet total of mBH at 30 June 2024 was PLN 10.09 billion, down 0.15% from 31 December 2023. This was primarily due to the reduced implementation of the pooling plan caused by the credit holidays. The transactions closed in H1 2024 only offset regular payments and prepayments of the existing portfolio. The net value of the loan portfolio at the end of June 2024 was PLN 9.08 billion compared to PLN 9.04 billion at the end of December 2023.

On the liabilities side, the carrying amount of debt securities in issue at 30 June 2024 was 4.44% higher than at 31 December 2023. During this period, the Bank issued 2 series of covered bonds to the value of PLN 700 million.

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3.3. Profit and loss account

PLN'000	Period from 01.01.2024 to 30.06.2024	Period from 01.01.2023 to 30.06.2023	Change
Net interest income	56 345	77 092	↓ -26.91%
Net fee and commission income	(2 650)	(4 124)	↓ -35.74%
Trading income	1 653	(1 160)	+/-
Result from non-material modification	(59 873)	106	+/-
Net impairment losses on loans and advances	(1 787)	(7 697)	↓ -76.78%
General administrative costs	(30 524)	(32 349)	↓ -5.64%
Depreciation	(5 965)	(6 793)	↓ -12.19%
Operating profit	(34 578)	33 831	↓ -202.21%
Tax on the Bank's balance sheet items	(10 571)	(13 614)	↓ -22.35%
Gross profit/loss	(45 149)	20 217	↓ -323.32%
Income tax	390	(9 029)	↓ -104.32%
Net profit/loss	(44 759)	11 188	↓ -500.06%
Weighted average number of ordinary shares/diluted weighted average number of ordinary shares	2 200 000	3 078 011	↓ -34.52%
Earnings per ordinary share / Diluted earnings per ordinary share (PLN)	(20,35)	3,63	-711.11%

In H1 2024, the Bank's results were mainly driven by:

- (1) negative result from material modification due to provisioning for Credit Holidays;
- (2) compensation for reduced Retail Pooling, which added PLN 8.2 million to the operating profit;

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(3) reduced contribution to the Resolution Fund (BFG).

In H1 2024, the impact of the May 2023 split was also evident, including:

- (1) lower interest income compared to 2023 due to the absence of the corporate segment, which had been transferred;
- (2) 35.7% higher net commission income compared to the previous year due to the absence of commission expenses for the corporate segment;
- (3) the absence of high write-downs on commercial loans (76.7% lower compared to H1 2023);
- (4) reduction in the overall administrative cost base, including staff costs and depreciation (down by 5.6% and 12.2% year on year, respectively).

In H1 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 63,249 thousand (H1 2023: PLN 79,491 thousand). The income is derived entirely from operations in the Republic of Poland.

4. Business of mBH

4.1. Lending

The Bank's lending business focused exclusively on the retail lending area in H1 2024. The business model of mBH, consistently implemented since 2013, is largely based on the outsourcing of a number 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 loan 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 H1 2024, the Bank continued to work actively with mBank to develop products and maximise mBank's sales of retail loans which meet the criteria for transfer to mBH: statutory criteria, risk

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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 volume of home loan sales in the market, including mBank's market share, as this is a key factor in building pooling potential. Sales of retail housing loans were high starting last year but slowed down since the beginning of 2024, undoubtedly due to the closing of the government's "2% Safe Loan" programme. The market is currently awaiting a decision on the launch of the government's support programme for the purchase of the first home.

mBH carried out 2 pooling transactions of retail loans in H1 2024 for an amount of PLN 716 million. The timing of transactions planned for 2024 has been adjusted in line with the constraints under the statutory credit holidays. These affect the volume of assets available for subsequent pooling transactions. They are taken into account as one of the portfolio selection criteria due to their valuation and the temporary tax inefficiency of acquiring these receivables in the Group.

4.2. Issuance of Covered Bonds and Refinancing

mBank Hipoteczny is the longest-established mortgage bank in Poland. It 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 6.1 billion, representing 34.8% of the total market.

Bank's outstanding mortgage covered bond issues

Issue date	Maturity date	Currency	Value	Moody's rating
22.02.2019	20.12.2028	PLN	100 000 000	Aa1
TOTAL		PLN	100 000 000	
Issue date	Maturity date	Currency	Value	Moody's rating
28.02.2014	28.02.2029	EUR	8 000 000	Aa1

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17.03.2014	15.03.2029	EUR	15 000 000	Aa1
30.05.2014	30.05.2029	EUR	20 000 000	Aa1
24.04.2015	24.04.2025	EUR	11 000 000	Aa1
28.09.2016	20.09.2026	EUR	13 000 000	Aa1
26.10.2016	20.09.2026	EUR	35 000 000	Aa1
26.04.2018	05.03.2025	EUR	300 000 000	Aa1
12.11.2019	15.09.2025	EUR	300 000 000	Aa1
TOTAL		EUR	702 000 000	

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

Issue date	Maturity 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
TOTAL		PLN	3 000 000 000	

As at the reporting date, the Bank had one outstanding series of unsecured bonds with a value of PLN 35 million.

In H1 2024, mBank Hipoteczny issued two series of mortgage covered bonds in an offering without prospectus with a nominal value of PLN 500 million and PLN 200 million. mBH did not

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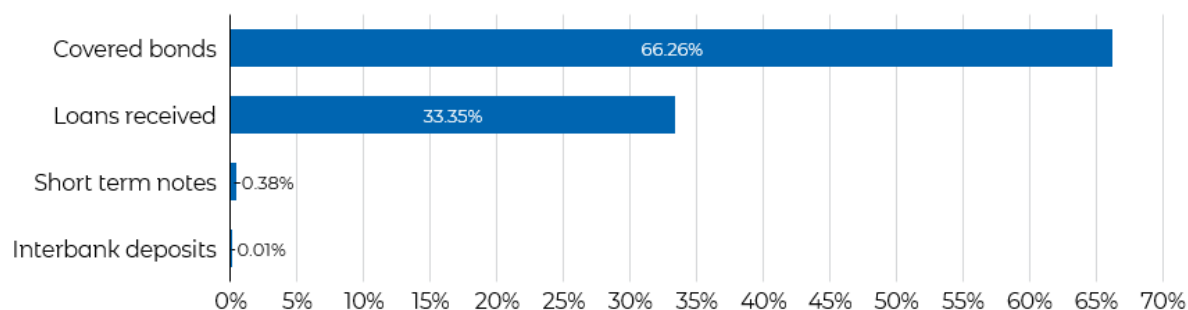
issue any bonds in H1 2024. This was a conscious policy of the Bank, resulting from the mBank Group's high over-liquidity and the strategy focusing on intra-group financing.

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:

- (1) it 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) it maintains the financial and organisational infrastructure;
- (3) it has an adequate level of collateral in the form of adequate credit quality.

Refinancing structure of the Bank's business



The borrowings relate to the territory of Poland, while the covered bonds issued are publicly traded and it is not possible to determine the geographic structure of the refinancing for them.

Agreements signed and repaid

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

On 7 February 2024, the Bank signed a loan agreement with mBank for PLN 510 million at a variable interest rate, covered by an application to the KNF in order to include the loan funds as liquidity inflows in the LCR.

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

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 receivables registered in the covered bond collateral register, secured by mortgages established on the right of perpetual usufruct or the right of ownership of real estate, registered in the land and mortgage registers with top priority.

As at the reporting date, the collateral for the issue of mortgage covered bonds comprised receivables to the value of PLN 8.14 billion from a total of 33,373 mortgage loans in PLN. All loans forming the basis of the covered bond issue were Retail Loans, secured by real estate located in Poland, mainly in the Mazowieckie and Dolnośląskie voivodships.

In addition to receivables under loans, government bonds with a nominal value of PLN 240 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 36.9% (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. Risks of Investing in Covered Bonds

In H1 2024, the risk profile of investments in covered bonds issued by mBH did not change relative to the beginning of 2024. The covered bonds collateral register includes only residential mortgage loans denominated in PLN.

The absence of EUR-denominated loans makes it necessary to hedge the currency position in connection with covered bonds issued in EUR.

In addition to the Bank's compliance with a number of statutory requirements, the conservative policy of valuing the real estate used as collateral pursued by the Bank over many years also contributes to the high safety of covered bonds investments. In accordance with the Act on Covered Bonds and Mortgage Banks, the minimum level of overcollateralisation of mortgage and public covered bonds 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.

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 activities.

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

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important decisions affecting the Bank's risk level and adopts internal regulations on risk management.

Risk management at the Bank is consistent across 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

Due to the nature of the Bank's business, credit risk is the most significant risk.

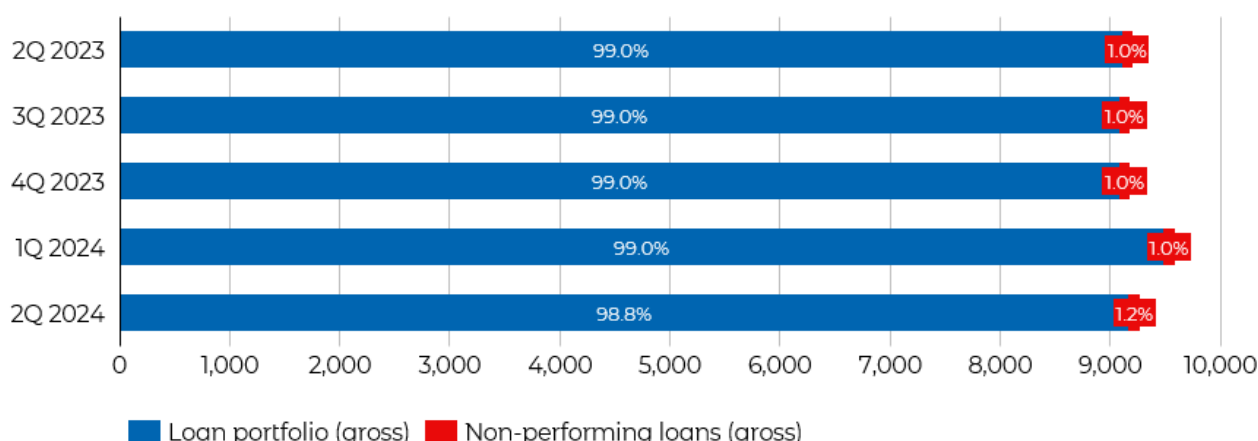
Loan portfolio

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 modestly in H1 2024 from 1.02% to 1.18%. The majority of liabilities are repaid on time. The level of NPLs is adequate for the Bank's business profile.

The coverage of non-performing debt with provisions was 26%. The median LTV ratio of the entire exposure portfolio was 46% with a noticeable downward trend over time, mainly due to the cyclical massive revaluation of collateral.

Quality of the loan portfolio



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The Retail Loan portfolio is characterised by very good quality, which, in addition to the credit policy applied and the risk criteria that the Bank has defined for loans acquired through pooling from mBank, is influenced by the fact that it is a maturing portfolio (the average age of the contracts in this portfolio is 6.4 years). As at the reporting date, there were 358 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.

In the case of the Retail Loans portfolio, write-offs increased in H1 2024 compared to the end of 2023 due to the systematic increase in the loans meeting impairment criteria due to the natural life cycle of the portfolio, updates of macroeconomic forecasts, the recalibration of risk models, and the implementation of a massive update of collateral valuation.

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 second largest risk in the Bank after credit risk.

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 and CIRS 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 1.804 million. Other risks calculated by this measure amounted to: interest rate risk PLN 1.8 million, credit spread risk PLN 0.9 million, foreign exchange risk PLN 0.054 million. The level of risk measures is lower than in the previous period, mainly due to lower exposure to foreign exchange 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 under the most adverse 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 3.8% (EaR) and 12.9% (NII) of the net interest income budgeted for 2024, 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

The Bank takes into account supervisory recommendations, in particular the KNF Recommendations and the EBP Guidelines, which relate to liquidity risk management.

The Bank 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, should adverse scenarios materialise. 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 EBP Guidelines, which relate to liquidity risk management.

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

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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 reserve represented approximately 9.0% of total assets

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

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 covered bond issues with a maturity of 5 years or more.

The net outflow coverage ratio, which measures the ratio of the liquidity buffer to net liquidity outflows over a stress period of 30 calendar days (LCR), was 969.35%.

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 117.98%.

The utilisation level of the commitment limit under Article 15(1) of the Act on Covered Bonds and Mortgage Banks as at the date of the report was 39.87%. In H1 2024, this limit was not exceeded.

The average residual maturity of mortgage bonds issued was 2.5 years, while the average maturity of loans received from other banks was 3.3 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 ALCO 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.

5.4. Operational Risk

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

The Bank maintains 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 outsourced activities related to the loan acquisition processes through pooling and the maintenance of the loan portfolio. Outsourced processes are subject to continuous 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). These 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;

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- (3) the level and increasing scale of the regulatory burden with insufficient resources increases the risk of process errors;
- (4) increasing importance of outsourcing of process execution;
- (5) managing the institution 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 dynamic 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 dynamic 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;

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- (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;
- (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 of the Bank's operational losses in H1 2024 related to the Retail Banking line.

The table below shows the distribution of actual gross losses incurred by the Bank in H1 2024 and 2023 by operational risk category.

Operational event category	Total gross loss (PLN'000)	
	30.06.2024	31.12.2023
Offences committed by outsiders	0	5.5
Customers, products and business practices for banking products	577.5	174.6
Process execution, delivery and management	71.1	43.2
Total	648.6	223.3

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The high share of losses in the category "Customers, products and business practices" in 2024 was mainly due to the cost of provisions against litigation concerning foreign currency loans (this relates to the period of lending at mBank, before currency conversion and transfer to mBH under pooling) as well as the costs of court actions to declare the WIBOR clause ineffective.

We monitor the level of operational risk losses on an ongoing basis and report it 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 corrective actions triggered. In the case 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 table presenting the distribution of losses does not include events related to:

- (1) the government credit holiday programme – as at 30 June 2024, the Bank recognised an impact of credit holidays of PLN 59,873 thousand (negative);
- (2) the CJEU judgment of 11 September 2019 in the case concerning consumer credit repaid in full early – as at 30 June 2024, the Bank recognised an impact of the CJEU judgment of PLN 8,183 thousand (as at 31 December 2023: PLN 7,887 thousand).

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 Q1 2024 Financial Statements.

We monitor 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 of the models. 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.

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 Bank'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 Position.

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 reports by the Management Board of the Bank;
- c. reviews by heads of departments/independent posts;
- d. physical security;
- e. system of limits and rules for controlling them;

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- 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. it manages compliance risk (understood as the risk of the consequences of the Bank's 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. it 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 DC.

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:

- a. anti-money laundering and countering the financing of terrorism;
- b. 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;
- 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

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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, whose nature and scope are agreed in detail with the client, 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 identified critical and significant irregularities;
- 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 persons 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 liabilities in respect of employee benefits. 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 which 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 in such a way that: The number of phantom shares determined for the Bank's Risk Takers as 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, being 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 method of competing risks, 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 satisfying 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, while the issuance of covered bonds supports the financing of the real estate business.

The mBank Group expects ongoing cooperation between mBank and mBH to implement the covered bonds 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 sources in cooperation with mBank using a pooling model.

The covered bonds will 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 2.2 million with a nominal value of PLN 100 per share.

The Bank has not issued any preferred 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:

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Shareholder	Registered share capital (PLN)	Shares		Votes	
		#	%	#	%
mBank S.A.	220 000 000	2 200 000	100	2 200 000	100
Total	220 000 000	2 200 000	100	2 200 000	100

Management Board

In H1 2024, mBH's Management Board consisted of:

- (1) Krzysztof Dubejko – President of the Management Board (until 15 May 2024);
- (2) Andrzej Kulik – Member of the Management Board;
- (3) Katarzyna Dubaniewicz – Member of the Management Board;
- (4) Piotr Petelewicz – Member of the Management Board, to become President of the Management Board after the KNF approval (as of 16 May 2024).

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

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

Appointment and removal of management 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.

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, requires 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.

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Supervisory Board

In H1 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

These persons were re-elected to the Supervisory Board for the next term.

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 (9) and (10) of the Rules 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.

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There were three Committees within the Supervisory Board: Audit Committee, Remuneration and Nomination Committee, and 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 H1 2024, the Audit Committee met on 21 February, 29 February, 1 March and 8 March.

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 H1 2024, the Remuneration and Nomination Committee met on 3 April, 5 April and 17 April.

Risk Committee

- (1) Mikołaj Tatarkiewicz – Chairman of the Committee
- (2) Marek Lusztyn – Member of the Committee
- (3) Michał Popiołek – Member of the Committee

In H1 2024, the Risk Committee met on 25 March and 7 June.

The Supervisory Board of the 13th term (formed on 22 April 2024) re-elected these persons to the above-mentioned committees.

Procedure for convening and powers of the General Meeting

The General Meeting is 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;

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-
- (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;
 - (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 synthetic LIBOR or 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.

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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 30 June 2024, the share of loans with periodically fixed interest rates in the loan portfolio was 5.5%.

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 for Business Ventures and Borrower Assistance, extending the Credit Holidays under new rules, giving the borrower the possibility to suspend the repayment of loan instalments without interest accruing during the suspension period, the Bank assessed the impact on its provisions under the programme. As at 30 June 2024, 45% of retail loans were eligible for the programme and 13% of total retail loan amounts were 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 30 June 2024 was PLN 1.1 billion. The Bank now estimates that the credit holidays will have a negative impact of PLN 60 million on the Bank's gross profit for 2024.

57 applications were received for support from the Borrower Support Fund in H1 2024, of which 29 customers signed a contract and received support from the Fund. The number of exposures with active support as at 30 June 2024 is 229 contracts.

Related party transactions

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

The transactions concluded in H1 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 upon 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, the provisions of Article 34(4) were added. According to these provisions, in the event that a bank ceases to perform an activity specified in the articles of association for a continuous period of 12 months, the bank

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should immediately apply for approval to amend the articles of association by deleting the activity no longer 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 deleting activities no longer performed have been drafted and submitted to the Polish Financial Supervision Authority for approval to amend the articles of association. The following activities are to be deleted:

- (1) Relating to the activity of issuing public covered bonds and the sourcing of assets to secure them:
 - a. the granting of loans not secured by mortgage referred to in Article 3(2)(1)-(3) of the Act on Covered Bonds and Mortgage Banks (Article 6(2) of the Articles of Association)
 - b. the acquisition of debt on account of the loans referred to above (Article 6(3) second sentence of the Articles of Association);
 - c. the 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. the issuance of public covered bonds (Article 6(5) of the Articles of Association) related to the aforementioned assets.
- (2) With regard to the "ancillary" activities included in Article 7 of the Articles of Association, the following are deleted as activities no longer performed:
 - a. safekeeping of securities;
 - b. provision of consulting and advisory services related to the real estate market, including the determination of mortgage bank property values;
 - c. management of the debt of the mortgage bank and other banks on account of the loans referred to in Article 12, as well as the granting of such loans on behalf of other banks on the basis of agreements concluded with them.

In Article 9 concerning the organisational structure, independent work positions will be inserted in place of divisions in addition to departments.

The approval of the KNF is expected by the end of August, after which the amendments to the Articles of Association will be approved by the Bank's bodies and enacted by the General Meeting.

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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 5 March 2024, the General Meeting performed a review and considered that the candidate and the existing Supervisory Board Members met the requirements set out in Article 22aa of the Banking Law.

On 18 April 2024, the Supervisory Board performed a review and considered that the Members of the Management Board individually and collectively met the requirements set out in Article 22aa of the Banking Law. This includes both the Management Board with outgoing President Krzysztof Dubejko and the new Management Board Member Piotr Petelewicz, who is to be President of the Management Board after obtaining approval from the KNF.

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 30 of the Financial Statements for H1 2024.

Financial support from public funds

In H1 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 H1 2024.

Events after the balance sheet date

There were no material events after the balance sheet date that would require additional disclosure in these financial statements.

Information regarding the audit engagement provider

Information regarding the entity authorised to perform the audit of the financial statements can be found in Note 40 of the Financial Statements for H1 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.

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 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 excluded 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

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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 comply with 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.

Remuneration for serving as a member of the Supervisory Board is granted by the General Meeting to the independent members. 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 complies with the Corporate Governance Principles. The Bank has implemented an Internal

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Governance Policy, which sets out the basic principles and good practices for the different areas of internal governance.

These principles are available on the website:

https://www.knf.gov.pl/dla_ryнку/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 prevail. To the extent not covered by Recommendation Z, the Corporate Governance Principles for Supervised Institutions 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:

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 requires 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, submits to the KNF information on the composition of the Management Board, 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 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

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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 Meeting 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 expires 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.

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

The Bank complies with the regulations on the appointment, composition and functioning of 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 of the Bank's Supervisory Board operates on the basis of the Audit Committee Rules introduced by Supervisory Board Resolution No. 31/2023 of 27 March 2023 with the composition appointed by Supervisory Board Resolution No. 42/2023 of 8 May 2023. 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

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Rules of the Supervisory Board, the "Recommendations on the functioning of the Audit Committee" adopted by the KNF.

The Audit Committee performs the tasks of the audit committee provided for in the applicable legislation through day-to-day supervision on the basis of information provided by the Bank's Management Board, the Statutory Auditor, the Internal Audit Position, the Compliance Department, the Accounting and Settlement Department in 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 affiliates of 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 of mBank Hipoteczny S.A."

The Policy is intended to implement the obligations arising from the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (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.

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 Article 17(1) second paragraph of Regulation No. 537/2014 carried out by the same audit firm or an audit firm affiliated with 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 perform another 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 between the beginning of the period audited and the issuing of the audit report;

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- (2) any services of designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

The following are not prohibited services under Article 136 of the Act on Statutory Auditors:

- (1) services involving:
 - a. due diligence procedures on the economic and financial condition;
 - b. issuing comfort letters in connection with prospectuses issued by the audited entity, 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 audit firm;
- (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 financial statements for H1 2024 did not provide mBH with any prohibited services or permitted non-audit services other than the verification 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.

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

The representation of women in management positions accounts for 50% of total 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 Management Board of the Bank 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 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, which are forwarded to mBH's Management Board for approval. 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 and members of the

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Management Board, 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 includes a justification and at least two options for the selection of the audit firm together with a justified preference for one of them.