

Appendix to Resolution of the Supervisory Board 22/2020 of 13 May 2020

The Supervisory Board of mBank Hipoteczny S.A., by Resolution 22/2020, has approved the assessment of the application by mBank Hipoteczny S.A. in 2019 of “Principles of Corporate Governance for Supervised Institutions” introduced by the Polish Financial Supervision Authority. On the basis of information received from the Management Board of mBank Hipoteczny S.A., the Supervisory Board confirms that the Bank has implemented and applies the Principles of Corporate Governance.

According to § 27 of the *Principles of Corporate Governance for Supervised Institutions*, the supervising body performs a regular assessment with respect to the application of the principles, and the results of this assessment are made available on the supervised institution’s website and communicated to the remaining bodies of the supervised institution.

IMPLEMENTATION OF THE *PRINCIPLES OF CORPORATE GOVERNANCE*

By way of Resolution No 247/2014 of 16 December 2014, the Management Board of mBank Hipoteczny S.A. has adopted the application of the *Principles of Corporate Governance for Supervised Institutions*, save for the principles set out in:

- a) § 8(4) — shares of mBank Hipoteczny S.A. are acquired indirectly or directly by one shareholder, i.e. mBank S.A. General Meetings shall take place without a formal convocation, and always 100% of the capital shall be represented at a General Meeting. Accordingly, the number of shareholders does not justify the necessity of organizing meetings by use of electronic devices;
- b) § 25(1) — the departure from said principle is dictated by close cooperation with a shareholder, in particular within the scope of consolidated supervision, large exposure risk management, application of statistical methods, area of risk, compliance, internal audit, as well as by the extensive cyclical reporting. In view of the above, the Supervisory Board sessions held 3 times per year are sufficient for keeping the Bank secure;

- c) § 29 — remuneration for holding the position of a member of the Supervisory Board is awarded by the General Meeting to an independent member. The remaining Board Members shall not receive remuneration;
- d) § 53-57 — the departure from said principles is dictated by the fact that the Bank, as a specialist institution, does not carry out an activity within the field of asset management at the customer's risk.

The Supervisory Board of mBank Hipoteczny S.A. has adopted the *Principles of Corporate Governance for Supervised Institutions* by way of Supervisory Board Resolution No 1/2015 of 19 January 2015, save for the aforementioned principles.

By way of OGM Resolution No 15 of 22 April 2015, the Ordinary General Meeting of mBank Hipoteczny S.A. has adopted the *Principles of Corporate Governance for Supervised Institutions* to the extent that they are related to the general meeting, save for the principle specified in § 29 — remuneration for holding the position of a member of the Supervisory Board is awarded by the General Meeting to an independent member.

The Principles of Corporate Governance for Supervised Institutions have been introduced to the By-laws of the Management Board, By-laws of the Supervisory Board and to the Articles of Association.

ASSESSMENT OF THE APPLICATION OF THE *PRINCIPLES OF CORPORATE GOVERNANCE*

The Bank's structure allows for the achievement of long-term goals of the conducted activity. The Bank acts on the basis of written formal regulations covering the management and the exercise of control, internal reporting systems, the flow and protection of information, as well as document circulation.

The Bank has a transparent organizational structure and clearly defined tasks of its individual organizational units.

The Bank manages compliance risk so as to ensure the conformity of the activities with the applicable laws, internal regulations and market standards.

The Bank's business activity is carried out on the basis of a long-term operations strategy with due consideration for the rules of risk management specified in the Risk-Management Strategy.

The rules of the Management Board's activity are set out in the By-laws of the Management Board.

The Supervisory Board has approved the division of competencies between the Management Board Members ensuring the appropriate distribution of responsibilities for the operating activities, risk-monitoring activities and control activities, which is being adopted by the Management Board. The Bank has defined the rules for limiting the conflict of interest among the Management Board Members and the Bank's employees.

The Supervisory Board acts under the By-laws of the Supervisory Board adopted by the General Meeting.

The Bank has implemented a staff policy adequate to the scale of operations and defines the rules of employment, remuneration, appraisal and development of employees.

The Bank has introduced the principles of determining variable components of remuneration of persons in positions having a material impact on the Bank's risk profile, specified in "Remuneration policy for employees having a material impact on the risk profile in mBank Hipoteczny S.A., hereinafter referred to as the "Policy".

The new Policy was adopted by Resolution No 5/2020 of the Supervisory Board of 3 February 2020 and is in conformity with:

- 1/ The EBA (European Banking Authority) guidelines on sound remuneration policies referred to in Article 74(3) and 75(2) of Directive 2013/36/UE and disclosure in accordance with Article 450 of Regulation (EU) No 575/2013 – EBA (European Banking Authority) guidelines on sound remuneration policies EBA/GL/2015/22 of 27 June 2016;
- 2/ The Act of 29 August 1997 – Banking Law and the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed conditions for estimation of internal capital by banks.

The adopted Policy aims at supporting proper and efficient risk management, ensuring that decisions made are not burdened with excessive risk, i.e. risk beyond the Bank's risk appetite accepted by the Supervisory Board, and supporting implementation of the strategy and limiting conflicts of interest.

As far as anonymous notification of irregularities is concerned, on 1 May 2017 *the Regulation of the Minister of Development and Finance of 6 March 2017*¹ entered into force. Its Chapter 5 imposes on the Bank a number of obligations related to procedures for anonymous reporting of violations of law, as well as procedures and ethical standards applicable at the Bank.

On the basis of resolution No 1 of the Extraordinary General Meeting of mBank Hipoteczny S.A. of 28 May 2019, the Bank has implemented a Policy on the assessment of qualifications (suitability) of members of the Management Board, the Supervisory Board and persons performing key functions in mBank Hipoteczny S.A., which was subsequently, by way of resolution No 2 of the Extraordinary General Meeting of mBank Hipoteczny S.A. of 12 December 2019, replaced by a Policy on the assessment of qualifications (suitability) of members of a supervisory body, management body and persons performing key functions in mBank Hipoteczny S.A. The suitability Policy adopted at the Bank meets the requirements arising from the Banking Law and the EBA guidelines on assessing the suitability of a management body and persons performing key functions (EBA/GL/2017/1221/03/2018) and forms the basis for assessing the persons covered by it.

As part of adaptation to the Regulation, the Bank has implemented the BKMS system — an IT tool devised for reporting (including anonymous reporting) of violations of law, as well as procedures and ethical standards applicable at the Bank. Key assumptions to the BKMS system include ensuring anonymity of the reporting person, verification of each notification and the possibility to provide feedback to an anonymous e-mail address.

The Bank has an *Instruction on reporting of infringements at mBank Hipoteczny S.A.*, approved by the Supervisory Board, which sets out the principles of anonymous reporting of violations of law, as well as procedures and ethical standards applicable at the Bank. By way of resolution, the Supervisory Board has approved the division of competencies, according to which the President of the Management Board is responsible for receiving anonymous reports of violations of law and ethical standards by employees. As regards notifications concerning Members of the Management Board, the Supervisory Board has authorized the Chairman of the Supervisory Board to receive the notifications.

¹ *Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed conditions for estimation of internal capital by banks* (Journal of Laws of 2017, item 637)

The Bank has regulated rules regarding promotional activities and relationships with customers. In accordance with internal regulations, prior to publication, an advertisement message shall pass an acceptance process, which also involves a legal opinion and an opinion of the Compliance Department.

The Bank has also implemented respective procedures pertaining to informing customers about offered products. The information was presented before the customer takes a decision. Due to the withdrawal of credits offered to consumers and entrepreneurs, the procedures mentioned above will apply to a limited extent and, in practice, they will apply to the takeover of debt or debt accession.

As regards the internal control system, the provisions of Recommendation H issued by the Polish Financial Supervision Authority, in accordance with Clause 5 of the Introduction thereof, introduced at mBank Hipoteczny S.A., take precedence over the principles laid down in Chapter 8 of the Principles of Corporate Government “Key systems and internal functions”.

The internal control system adopted by the Bank identifies:

- 1) A control function intended to ensure compliance with the mechanisms pertaining, in particular, to the risk management at the Bank. The control function comprises all controls within the processes applicable at the Bank, independent monitoring of compliance with such controls and reporting within that function. The manner of operation of this function is defined in the Internal Control System Rules of Procedure, adopted by Resolution of the Management Board No 118/2019 of 15 November 2019 and approved by Resolution of the Supervisory Board No 43/2019 of 30 October 2019.

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

- a) internal procedures pertaining to the Bank’s operations,
- b) reviews of reports by the Bank’s Management Board,
- c) inspections conducted by directors of departments and employees on independent job positions,
- d) physical safeguards,
- e) a system of limits and rules for controlling them,
- f) rules for taking credit decisions and a system of authorizations,
- g) principles of verifying transaction details and activities, as well as results of risk management models,
- h) activities aimed at controlling the quality and accuracy of implemented tasks.

The accuracy of operation of the internal controls is checked on an ongoing basis by each employee as part of their functions and periodically – as part of horizontal and vertical testing – by heads of organizational units or their appointees and by employees on independent job positions.

- 2) Compliance Department – a compliance unit whose task is to identify, assess, control and monitor the risk of non-compliance of the bank operations with the laws, internal regulations and market standards and presentation of reports in this respect.
- 3) Internal Audit Department – an independent internal audit unit whose task is to audit and assess, in an independent and objective manner, the adequacy of the risk management and internal control systems.

Warsaw, 13 May 2020

Supervisory Board

of mBank Hipoteczny S.A.