

**Evaluation of operations of ING Bank Hipoteczny S.A. in 2020  
prepared by the Supervisory Board taking into account the  
evaluation of internal control systems, risk management,  
compliance and internal audit function**

ING Bank Hipoteczny S.A. (the Bank) was established on 26 February 2018, upon obtaining a permit issued by the Polish Financial Supervision Authority on 16 January 2018.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A. which as at 31 December 2019 held 100% shares in the share capital of ING Bank Hipoteczny S.A. The latter is a member of the Group which in this document is referred to as the ING Bank Śląski S.A. Group. (the Group).

As at 31 December 2020, the share capital of ING Bank Hipoteczny S.A. amounted to PLN 380,000,000.00 and was fully taken up by ING Bank Śląski S.A. ING Bank Hipoteczny S.A.'s shares were paid in cash.

The Bank runs business based on the strategic cooperation with ING Bank Śląski S.A., acquiring debt under mortgage-backed loan agreements. The strategic objective of the Bank is to provide the Group with long-term and stable funding by way of issue of covered bonds.

### **Business landscape**

As at November 30, 2020, banks' receivables under residential loans in Poland amounted to PLN 472.1 billion and increased by 6.2% y/y - according to data published by the National Bank of Poland. The balance of loans in PLN increased by 10.1% y/y. and amounted to PLN 354.7 billion.

The Polish mortgage market is almost entirely dominated by variable interest rate loans. Currently, banks are introducing more and more loans to their offers based on a periodically fixed interest rate, which enjoy a growing interest of customers.

ING Bank Śląski S.A. being the Bank's strategic partner, at the end of December it was second on the market in terms of new sales and third in terms of the size of the portfolio of mortgage loans in PLN.

High demand for housing, a developing economy and low interest rates are conducive to further growth of the mortgage market. However, further growth depends on the development of the situation related to the COVID - 19 pandemic.

### **Operations of ING Bank Hipoteczny S.A.**

2020 was a special year due to the external situation caused by the COVID 19 pandemic. Despite the pandemic and the reduction in interest rates negatively affecting the planned results, the Bank is in a very good liquidity and capital situation, significantly exceeding the required regulatory levels. The activities carried out by the Management Board aimed at acquiring and then gradually increasing the share of long-term financing in the Bank's balance sheet by issuing covered bonds, as a result of the above-mentioned factors, had to be adjusted to the external situation and market opportunities. At the same time, the Management Board made efforts to compensate for the negative impact on the implemented strategy, which allowed the Bank to achieve good results.

The Bank constantly analyses the developments, including the covered bond market, and changes in the regulatory and economic environment, as well as the situation of customers. The above allows the Bank's Management Board to take actions adequate to the situation. In the past reporting period, the Bank acquired a mortgage loan portfolio of over PLN 1 billion. The gradual expansion of the mortgage loan portfolio enables the Bank to prepare for the next issue of covered bonds in favourable market conditions. As part of the diversification of financing sources, in 2020 the Bank also issued its own bonds in the amount of approximately PLN 1 billion.

The Supervisory Board supervises the Bank's operations, ensuring compliance with relevant legal regulations, in particular those concerning accounting, finance and reporting. The duties of the Supervisory Board also include supervision over processes related to management of particular risks in ING Bank Hipoteczny S.A. with the support of the Audit and Risk Committee. Based on the Committee's recommendations, the Supervisory Board accept and approve the risk management strategy in the Bank's operations, the main principles of the policy in this respect as well as the risk appetite level. Further, the Supervisory Board monitors the utilisation of internal limits vis-à-vis the current strategy of the Bank. The Audit and Risk Committee provides support to the Supervisory Board in monitoring the risk management process, including operational risk, non-compliance, credit risk and market risk. The Committee also supervises: the process of internal capital estimation, capital adequacy assessment and risk assessment of models related to calculation of capital and other models. The Committee voices its opinion about the overall readiness of the Bank to take the risk in the current and long term perspective. Similarly, it is the Committee's task to monitor the financial reporting process. In this context, the Committee analyses from time to time the Bank's financial statements and the results of the audit of those statements. The Audit and Risk Committee also analyses the results of the work of the entity authorized to audit financial statements, ensuring its independence and effectiveness. Moreover, the Committee monitors the effectiveness of internal control and internal audit systems and assesses the effectiveness of measures taken to mitigate compliance risk and assesses the quality of compliance risk management.

In the opinion of the Supervisory Board, the risk management system in ING Bank Hipoteczny S.A. covers all material risks. In the processes of their identification, measurement, management and reporting, instruments and techniques appropriate for each identified risk category are used.

In 2020, ING Bank Hipoteczny S.A. satisfied the requirements of safe operation and capital adequacy, in particular:

- pursued a prudent lending policy - the Bank had in its portfolio only loans granted in Polish zlotys (PLN). Lending processes and procedures were consistent with supervisory requirements and best market practices. The Bank held a diversified, good quality, credit portfolio - in the entire 2020, there were 26 impaired loans were identified (in Stage 3), of which 22 related to exposures as a result of submitting applications for the so-called "Statutory credit holidays". The share of non-performing loans in total gross exposures amounted to approx. 0.15% at the end of 2020 - i.e. significantly less than the average of the entire banking sector, the parameters (PD, LGD) and risk costs were low. The portfolio's average risk weight for the mortgage portfolio continued to decline as mortgage entries to ING BH increased, and amounted to approximately 37.3% at the end of December. The average LtV based on the banking and mortgage value of the real estate remained stable below 63%. Throughout 2020, no key or detailed RAS limits for credit risk were exceeded;
- had the highest market standards, policies and systems in the area of market risk management. Throughout 2020, individual market risk categories were managed actively so that their levels were within the agreed limits effective at the Bank;
- maintained a stable liquidity position. In 2020, the supervisory liquidity measures were above the regulatory limits - the results of the stress tests show a good liquidity position of the Bank;
- actively managed the risk of the models used by the Bank, so that its level remain within the limits of the assumed model risk appetite;
- actively managed and maintained the level of non-financial risk below accepted loss limits, within the limits of the non-financial risk appetite;
- had an adequate level of equity to meet supervisory requirements.

ING Bank Hipoteczny S.A. has an efficient Internal Control System covering all organisational units of the Bank and all three lines of defence. The main objectives of the Internal Control System were achieved in 2019.

The Bank has a formal reporting path for the scale and nature of the identified irregularities, as well as the status of corrective actions and disciplinary measures taken. In particular, information on open critical and high-risk recommendations (if any) is reported quarterly to the Audit and Risk Committee. Corrective actions are planned and implemented, and their status is monitored on an ongoing basis.

In the Compliance Unit area, adequate human resources necessary for the effective performance of tasks by this unit in 2020 were ensured. In the area of activities of the Internal Auditor, in the opinion of the Bank's Management Board and Internal Auditor, adequate human resources necessary for the effective performance of tasks were ensured. by this unit in 2020 (the Audit Plan for 2020 approved by the Supervisory Board was implemented).

At the same time, the Polish Financial Supervision Authority issued post-inspection recommendations in the field of human resources in the area of internal audit and division of competences of members of the Management Board. In 2020, no other gaps in the independence and resources of the Compliance Unit and the Position of Internal Auditor were identified.

The internal control system that is in place at the Bank secures the Bank effectively enough against unexpected events with respect to granted financing, non-financial, market, liquidity or capital adequacy risks.

In December 2020, the total capital ratio of ING Bank Hipoteczny S.A. was at the level of 30.60%.

In the opinion of the Supervisory Board, the Bank's attention should still be focused on activities that increase the scale of its operations while maintaining an appropriate security level, such as:

- adequate capital management in order to ensure safe lending portfolio growth and fulfilment of all present and future regulatory requirements,
- increase in the volume of mortgage loans including green assets which are used for the issue of covered bonds,
- obtaining financing through another issue of covered bonds,
- maintaining an adequate level of liquid assets,
- further improvement of cost effectiveness while maintaining high quality processes, through the optimal use of existing resources.

In the opinion of the Supervisory Board, the current strategy of increasing the scale of operations implemented by the Bank over the last year will lead to the achievement of the intended financial results in the subsequent reporting periods.

In 2020, the Bank will keep on following the adopted strategy while maintaining adequate capital base in relation to the planned increase in the volume of mortgage loans.