

**Report of the Management Board on
Operations of
ING Bank Hipoteczny S.A.
for the 6-month period ended on
30 June 2020**

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1. Introduction

ING Bank Hipoteczny S.A. (hereinafter the Bank) was established on 26 February 2018 after a decision of the Polish Financial Supervision Authority of 16 January 2018 approving the establishment of the Bank.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A. which – as at 30 June 2020 – held 100% in the share capital of ING Bank Hipoteczny S.A. The Bank is a member of the Capital Group that is referred to as the ING Bank Śląski S.A. Capital Group (Group).

As at 30 June 2020, the share capital of ING Bank Hipoteczny S.A. was PLN 380,000,000 and was fully acquired by ING Bank Śląski S.A. The shares of ING Bank Hipoteczny S.A. were covered with contributions in cash.

ING Bank Hipoteczny S.A. operates on the basis of strategic cooperation with ING Bank Śląski S.A. and acquires receivables under mortgage-backed loans. The strategic objective of the Bank is to provide the Group with long-term stable funding by issues of mortgage bonds.

In connection with the COVID 19 pandemic, the Bank keeps analysing the developments identifying risks that may result from a potential increase of loan repayments and a potential drop of property prices. On an ongoing basis, the Bank also analyses the market situation concerning mortgage bonds and changes to the regulatory and economic environment. Additionally, the capability of providers to continue providing services keeps being analysed on a daily basis.

When the COVID-19 pandemic risk was identified, the Bank initiated all measures to continue its operations, including uninterrupted services to customers. Additionally, preventive measures were applied to protect employees' health, inter alia by launching remote work. The Bank has a good liquidity and capital condition, much above regulatory requirements.

The Bank has not noted any material deterioration of its portfolio quality as a result of COVID 19.

Further developments and the impact on the Bank's operations is difficult to predict now and therefore the Bank keeps monitoring and analysing the situation. Details of the actions taken by the Bank to support customers are provided in chapter 4.2.

On 17 March and 8 April 2020, the Monetary Policy Council took decisions to cut interest rates, including the reference rate from 1.5% to 0.5% and the required reserve rate from 3.5% to 0.5%. Another cut was made on 28 May 2020 – the reference rate was reduced to 0.1%.

The decisions of the Monetary Policy Council (RPP) on interest rate cuts adversely affected the Bank's planned results for 2020. The impact was partly materialised already in Q2 2020.

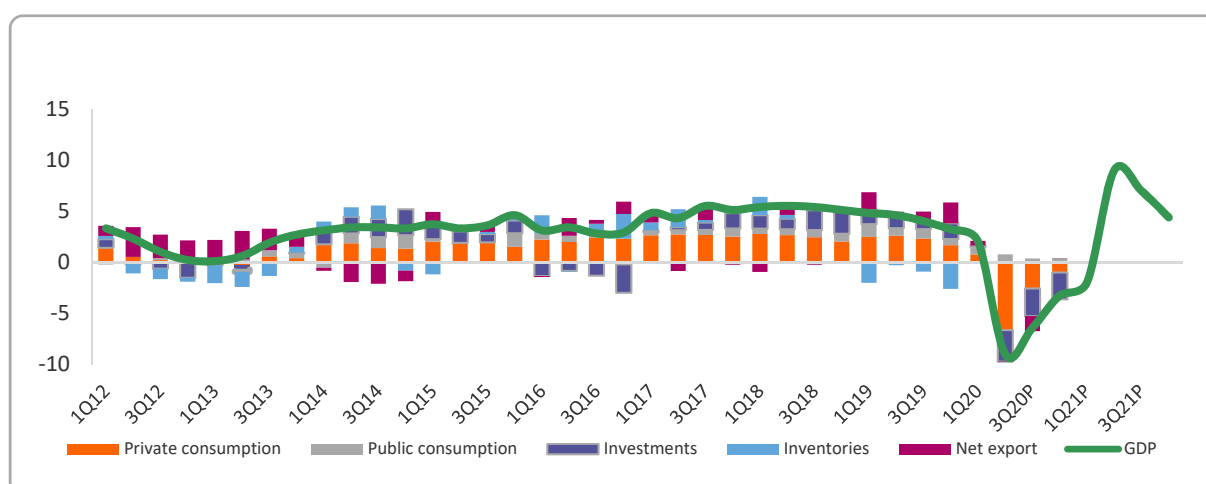
2. Business environment

2.1 Macroeconomic environment

Gross Domestic Product

As estimated by ING economists, in H1 2020 Poland's economy entered a recession. The security measures implemented to fight the pandemic in fact stopped the functioning of a major part of services and reduced consumer spending. Poland did not decide to implement a mandatory closing of workplaces; however, a number of production sectors did suspend their operations, for instance due to a standstill by their cooperating parties abroad, low demand or no supplies of components from abroad. The above related inter alia to production of cars and furniture. Due to a major diversification of industry (in particular a lower share of motor industry than in the region) and a low share of tourism, the economic downturn was not as severe as in some other economies in the region.

In the opinion of ING economists, in H2 this year the market conditions will improve which however will not fully compensate for the effects of the recession from the first half of the year. Most probably, the core problem of the national economy will be a major drop of investments and consumption. The willingness of enterprises to invest was low before the pandemic. Major uncertainties related to the development of the COVID-19 pandemic in Poland and with many Poland's trading partners will only intensify the problem. In turn, low consumer spending is the result of decreasing income and prudence of Poles. The surveys carried out by ING economists in 15 countries all over the world show that Poles are cautious about new spending despite a relatively small epidemic and gigantic support programs. The recession would be much more profound were it not for the large fiscal impulse launched by the government. Contrary to other emerging economies, the support funds to enterprises were largely non-repayable. Access to the support was subject to retaining employment which materially slows down the growth of unemployment.



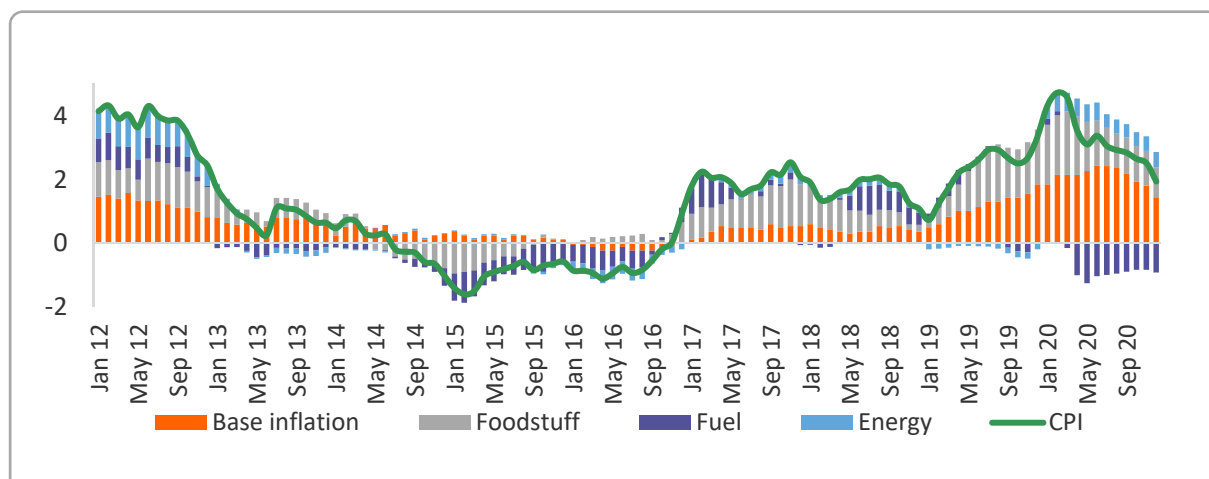
Labour market and salary levels

The outbreak of the pandemic resulted in a major adjustment to salary growth and a certain growth of unemployment. In February 2020, the nominal salary growth in the enterprise sector was stable at almost 9% y/y while in March it significantly dropped to 6.3% y/y. In April there was another drop of wages (1.9% y/y) which in May was continued at -1.2%. That was due to salary decreases in sectors that were primarily exposed to reduced demand and implementation of solutions making employment more flexible as provided for in the anti-crisis shields. Without those solutions, the growth of unemployment rate would have been higher. In June, the registered unemployment rate grew up to 6.1% from 5.5% at the beginning of the year and 5.4% a year earlier.

ING economists anticipate a gradual deterioration of the labour market in the months to come along with expiry of the anti-crisis protective regulations. The continued uncertainties as to a second wave of the COVID-19 pandemic make companies reduce their payroll. In the opinion of the bank's analysts, in H2 salary growth in the enterprise sector will be negative while the registered unemployment rate will grow to about 7-8% at the end of the year.

Inflation

Inflationary processes in H1 were significantly disturbed with the shock of the COVID-19 pandemic. In Q1 2020, CPI was 4.5% y/y versus 1.2% y/y in the equivalent period last year. The inflation growth by 1 pp above the upper limit of NBP's inflation target was due to a material acceleration of base inflation (from 1.1% y/y in Q1 2019 up to 3.4% in Q1 2020) and a growth of prices of foodstuffs and fuels. The rapid drop of oil and other commodity prices in response to the recession resulted in a major weakening of inflationary pressure and a drop of CPI to 2.9% y/y in May. However, the base inflation in June soared to the highest level since 2001. The short-term inflation drop is counteracted with a mechanism of price estimation applied by GUS due to unavailability of certain prices and sanitary restrictions. Additionally, inflation drop is prevented by a pick-up of deferred demand, closure of borders and increased demand for tourist services and increases of regulated prices. As a result, CPI in June was 3.2% y/y. In the opinion of ING economists, the CPI inflation in H2 and in 2021 will return to a downward trend due to a major drop of aggregated demand, labour costs and a high reference base. The lower CPI inflation in H2 2020 will also result from supply factors – lower fuel prices and decreased natural gas prices by almost 10% from July 2020 and a decreasing inflation of foodstuff prices reduced coverage of drought. The disinflation path will continue in 2021. In H1 2021 inflation will drop to about 1.5% which is the lower range of price changes around the target of the National Bank of Poland (2.5% y/y). The anticipated gradual improvement of business conditions will contribute to normalised inflation in 2022.



Condition of public finances

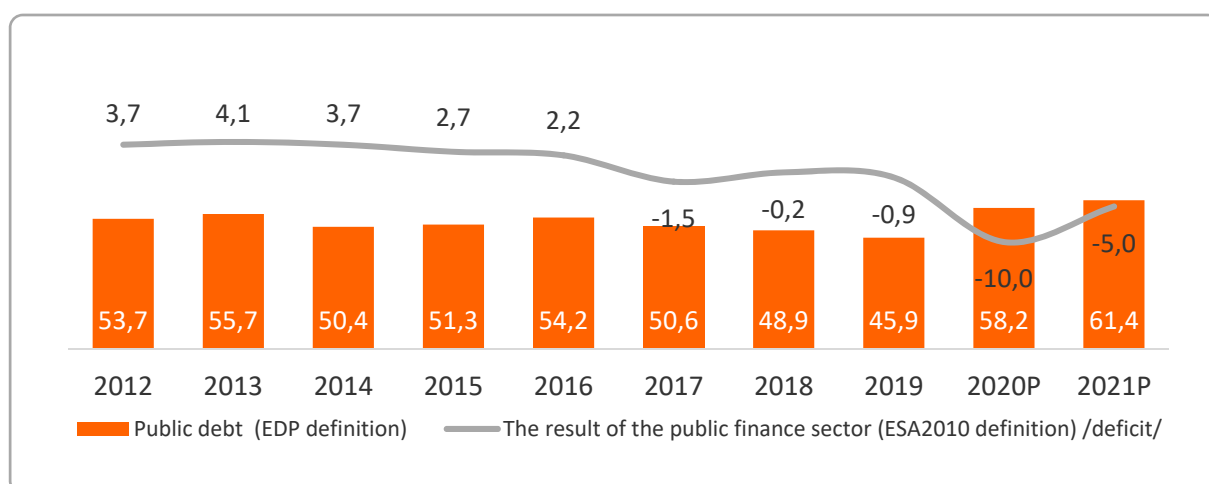
The situation of public finances in H1 2020 reflected the slump in revenues due to the recession as well as high fixed expenditures and new expenditures to prevent a downturn in the economy. Although the scale of the spread of the COVID-19 pandemic in Poland was much lower than for instance in Italy or Spain, the supply and demand shock was due to problems in international trade and lockdown of the economy, in particular between mid-March and mid-May 2020. The crisis completely modified the original budgetary plans for the year, including the rhetoric of a planned zero-deficit state budget for 2020. The operation of automatic stabilisers during the recession resulted in a rapid drop of tax revenues and a growth of certain social expenditures. Additionally, the government decided to launch a high discretionary impulse to support the liquidity of micro, small and medium-sized enterprises and income of employees. In the opinion of ING economists, the deficit of public finances may reach 9-10% of GDP in 2020 versus as little as 0.9% of GDP in 2019.

Protective activities during the COVID-19 pandemic

The first anti-crisis shield became effective at the beginning of April 2020 and covered inter alia subsidies to salaries, standstill benefit, extended child-care holidays, waiver of ZUS premiums for three months for micro enterprises and one half of employees in small enterprises, micro loans and other benefits for sole proprietors and people with civil law contracts. Additionally, the government promised a major increase of public investments. To a large extent, the new public expenditures were financed with the new Covid-19 Counteraction Fund, administered by BGK and funded mainly with bond issues by BGK that are not classified as public debt in line with the domestic methodology. By mid-July, BGK issued bonds totalling PLN 62.9 billion.

A core change to the government's strategy to fight the pandemic occurred at the end of April with the financial shield of the Polish Development Fund of PLN 100 billion addressed to all classes of enterprises and funded with issues of new bonds by PFR. In that shield, companies that recorded a drop of minimum 25% in revenues in a month versus previous months of 2020 or versus the equivalent period of the preceding year, were entitled to obtain a financial subsidy. When headcount in those enterprises is maintained for 12 months, as much as 75% of the subsidy will be cancelled. Ultimately, that will be charged to the State budget in the near future, in line with the redemption schedule of the PFR bonds. Disbursements of the subsidy to SMEs were very fast since the applications were based on a simplified procedure and made via electronic systems of banks. By the end of July 2020, PFR issued PLN 62 billion worth of bonds of which PLN 60.5 billion were disbursed to companies.

Due to the transfer of costs of crisis fighting outside the State budget – to development institutions: BGK and PFR – the data on State budget performance in H1 2020 was relatively good and as at the end of June the deficit was about PLN 17 billion. In H1 2020, tax revenues were by 6.7% lower than a year earlier. That was due to the fact that the fiscal response to the crisis was concentrated on the expenditure side and not tax side. Nevertheless, an amendment to the state budget approved with a zero deficit has been announced for August.

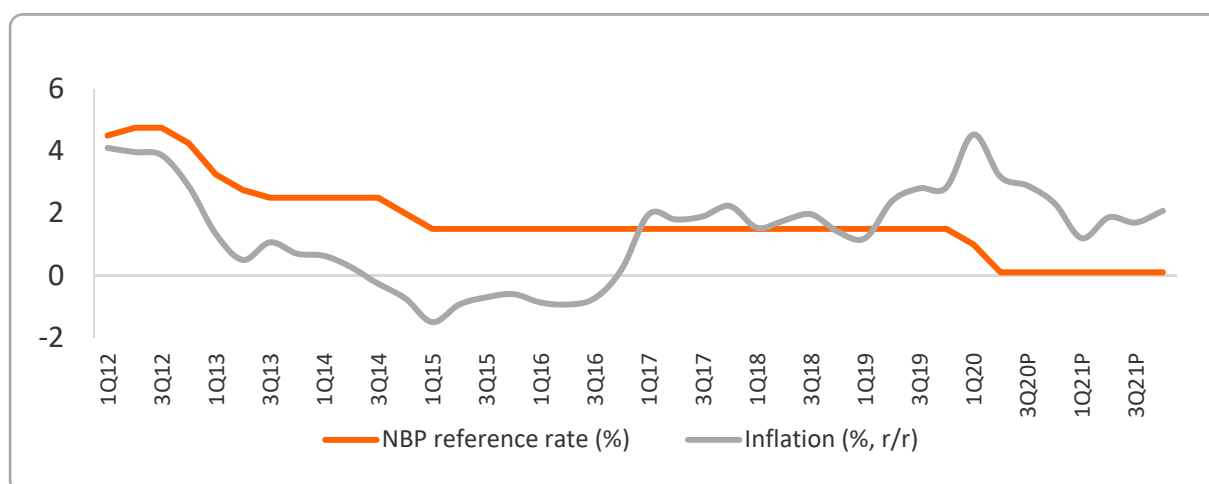


In the opinion of ING economists, in 2020 the deficit of the public finance sector will be 9-10% of GDP since the expenditures financed by BGK from the Covid-19 Counteraction Fund and a part of PFR subsidies to be cancelled will be recognised as public finance sector transactions in compliance with the EU methodology. At the end of 2020, public debt calculated with the Eurostat methodology will exceed 55% of GDP versus 46% of GDP at the end of 2019. For 2021 a high deficit of 5% of GDP is anticipated to support the recovery of the economy after the pandemic as well as a further growth of public debt. The consolidation of public finances will commence not earlier than in 2022.

Monetary policies

After 5 years of no change to interest rates (reference rate of 1.5%), the Monetary Policy Council (RPP) immediately responded to the economic shock caused by the pandemic. RPP launched purchases in the secondary market of T bonds and bonds of BGK and PFR, guaranteed by the State Treasury. Between mid-March and the end of May RPP cut interest rates three times, jointly by 140 bps to almost zero (reference rate of 0.10%). Additionally, after the RPP's decision in March, at the end of April there was a reduction of required reserve from 3.5% down to 0.5%, earning interest at the reference rate.

In mid-March 2020, RPP took a decision to commence an asset purchase program and the scale of Polish QE is among the largest in emerging markets. By mid-July, NBP arranged 10 auctions and purchased bonds with the nominal value of PLN 101.3 billion (4.6% of GDP), with the largest amount in April. T bonds accounted for about one half of the growth of NBP's balance sheet while the other half was made of bonds of PFR and BGK which predominated at the most recent auctions.

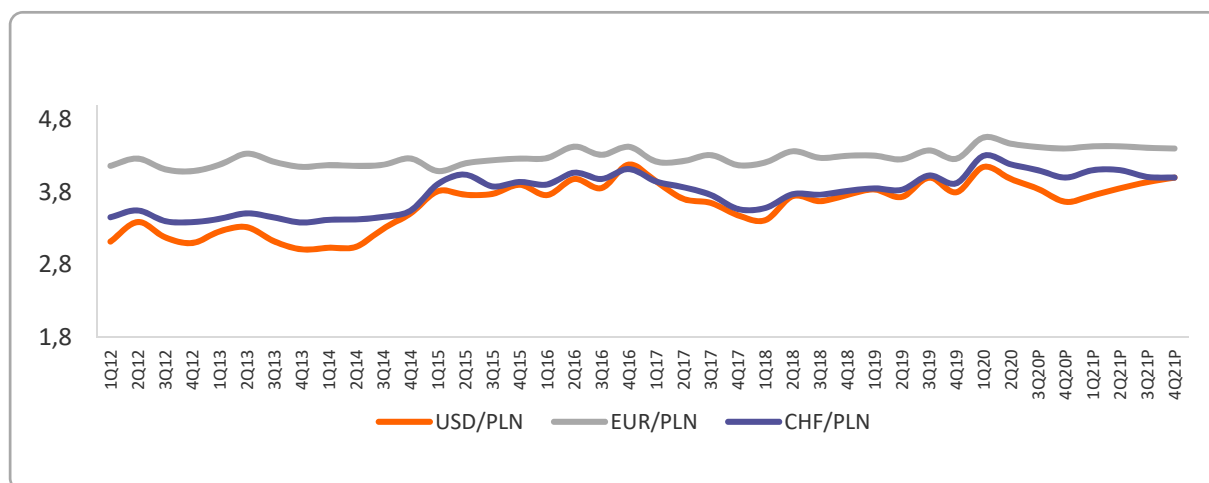


International economic environment

The spread of the pandemic to developed economies was encountered with a clear response of the major central banks. Interest rates were cut to record-low levels before the crisis and thus asset purchase programmes became a key element of monetary policies. It is only this year that the balance sheet of Federal Reserve grew by about 70%. As a result, the situation in stock markets was restored and it was additionally translated into a weakened US Dollar to EUR. In the opinion of ING economists, the €/US\$ exchange rate should remain above 1.15 by the end of the year. Also the European Central Bank was extending its assets but on a smaller scale. This year its assets grew by over 30%. Along with the global economy overcoming the downturn after the pandemic, capital will probably be outflowing from developed economies to more profitable emerging markets. However, the scale of outflow from the USA will be larger than from the euro zone.

In 2020 PLN has been faring almost identically as other currencies in the region, e.g. the Czech crown. Along with the outbreak of the pandemic in Europe, CEE currencies lost 7-10%. Even a large scale of asset purchases and a major increase growth of NBP's balance sheet do not harm PLN. NBP has already purchased large supplies of papers from MinFin/BGK and PFR while foreign investors had already been underweighted in Polish bonds. The weakening of PLN that we observed in the time of economic slowdown in the past – due to a large supply of debt and sale of T bonds – now is not expected to happen. Also the recent very good information on the surplus in the current account of the balance of payments should support PLN. In the opinion of ING economists, the €/PLN exchange rate will remain stable – close to 4.40-4.50 until the end of the year.

The easing of monetary policies in Poland and abroad resulted in a major drop of yields of Polish T bonds. This year bond yields have been recording historic minimum values. In the opinion of ING economists, they will remain low further on in the year. It is also probable that asset swaps will shrink. Demand for domestic debt is generated primarily by Polish banks. Operations by NBP and fund distribution from anti-crisis programs generate increasing over-liquidity in the banking sector which is subsequently invested in T bonds. Additionally, the Monetary Policy Council has convinced investors that no changes to interest rates are to be expected in the coming quarters.



Macroeconomic factors that may affect our operations in H2 2020

The business environment in H2 2020 will be most probably determined by the development of the COVID-19 pandemic in Poland and among its core trading partners. Despite the restrictions to counteract to the epidemic being lifted, in the European Union so far no second wave of the virus has occurred. The example of the USA shows that such risk exists and may result in a renewed application of the quarantine to certain areas and sectors. Recently we saw a second wave of COVID-19 infections inter alia in Spain, Romania and Balkan countries.

The uncertain prospects of core economists, in particular the USA, in the opinion ING economists mean that the major central banks, for instance the Federal Reserve and the European Central Bank, will have to continue their accommodating monetary policies or to ease them further. In particular, the above covers the maintenance of low interest rates and a potential growth of balance sheets of those institutions as a result of asset purchases. That will probably result in unchanged bond yields – including Polish bonds – at relatively low levels.

Low private investments will most probably remain a problem of Poland's economy in H2 2020. The willingness of enterprises to invest was low before the outbreak of the pandemic. COVID-19 is an additional risk factor preventing an accurate assessment of economic prospects. Demand for loans may weaken. Companies may use funds acquired as public aid to fund their outlays, e.g. coming from new EU funds. Most probably that will not apply to construction-related sectors. Approval of the EU budget program, including the Reconstruction Fund, will most probably generate a strong growth of infrastructure investments throughout the EU. That means that construction entities may be more willing to expand their production potential.

In the opinion of ING economists, the Monetary Policy Council will retain almost zero interest rates until the end of 2021. This view is supported with NBP's pessimistic projections providing for a deep recession in 2020 and a moderate economic pick-up and low inflation in 2021. RPP will continue to purchase assets. The economists of ING anticipate that by the end of the year NBP will purchase additional bonds for almost PLN 50 billion with the program continued until mid-2021. That is based on a projection of a public finance deficit of about 5% of GDP in 2021, a consensus within RPP with reference to the sense of the program and certain inertia in pursuing similar programs by other central banks. Due to the continued high uncertainties in global economy and the risk of a second wave of the pandemic, further easing of monetary policies at the turn of the years may not be ruled out.

Macroeconomic projections

	2017	2018	2019	2020P	2021P
GDP growth (%)	4.9	5.4	4.2	-4.2	4.5
Debt of the general government sector by EU methodology (% GDP)	50.6	48.9	45.9	58.2	61.4
Average annual CPI (%)	2.0	1.7	2.3	3.1	1.7
Unemployment rate (%; end of the year)	6.6	5.8	5.2	7.7	6.6
USD/PLN exchange rate (year-end)	3.48	3.76	3.80	3.67	4.00
EUR/PLN exchange rate (year-end)	4.17	4.30	4.26	4.40	4.40
WIBOR 3M (year-end)	1.7	1.7	1.7	0.3	0.3

2.2 Residential estate market

Insufficient supply of housing is a constant element characterising Poland's social and economic situation. The number of apartments in Poland per one thousand inhabitants was 371 in 2017. For comparison, the number in EU countries is about 480 apartments on the average, depending on the source. In Germany, France or Spain it is over 500 apartments. Apart from the shortage, it is necessary to stress an unsatisfactory standard of a large part of available housing. In accordance with a Eurostat definition, over 40% of Poles live in overcrowded homes. Both the average area of an apartment and area per one inhabitant is below EU average.

Depending on the applied methodology, the shortage of housing in Poland is estimated between 1.4 million and 4.4 million homes. In accordance with GUS data, the number of commissioned apartments in the first six months of 2020 was about 97 thousand – 2.7% more than a year earlier. The floor space of the commissioned apartments was 8.7 million m² which was 2.1% more than in the equivalent period last year. Additionally, there were almost 100 thousand apartments where the construction has already started (13.4% less than in the equivalent period last year) and 122.3 thousand apartments for which building permits were issued or which were notified – 5.5% less than in the equivalent period last year.

Since 2014, the prices in the housing property market have been growing. Until Q1 2020 the market key being very strong due to a high consumer and investment demand. As a result of the coronavirus pandemic in Q2 this year, the market clearly cooled down due to reduced activity of the participants. Further development of the housing property market is subject to the pandemic and the effectiveness of measures applied to fight the effects of the pandemic.

Availability of appropriate housing resources is a factor determining further social and economic development. The major shortage of apartments in Poland is an opportunity to develop mortgage banking with objectives to fund properties with long-term mortgage bonds.

2.3 Mortgage lending market

As at 30 June 2020, banks' receivables under housing loans granted to households in Poland amounted to PLN 464.5 billion and grew by 7.6% y/y – as per the data published by NBP. The balance of PLN loans grew by 10.5% y/y and amounted to PLN 341.4 billion.

Poland's mortgage loan market has been practically dominated with variable interest loans. Now banks have started offering fixed rate loans which have risen an increasing interest among customers.

ING Bank Śląski S.A. which is the Bank's strategic partner, as at the end of June was ranked first in the market in terms of new sales and at the end of May was ranked third in terms of its mortgage loan portfolio in PLN.

2.4 Mortgage bond market

As at the end of June 2020, there were four mortgage banks operating in Poland:

- PKO Bank Hipoteczny S.A.,
- mBank Hipoteczny S.A.,
- Pekao Bank Hipoteczny S.A.,
- ING Bank Hipoteczny S.A.

Poland's mortgage bond market is small as compared to developed EU economies where mortgage bonds are a major source in funding mortgage loans. However, the market has been dynamically growing in the recent years. Polish issuers place their issues both in the domestic market and abroad. Primarily, those are public issues with variable interest rates in Poland and with fixed interest rates abroad.

As at the end of Q2 2020, the total value of outstanding mortgage bonds in Poland was about PLN 26.5 billion which means a growth by PLN 2.3 billion versus the end of June 2019. PKO Bank Hipoteczny is now the largest issuer of mortgage bonds in Poland. However, the funding ratio of mortgage loans with mortgage bonds remains low.

In 2019 PKO Bank Hipoteczny and ING Bank Hipoteczny issued their first green covered bonds. The funds raised by the Bank in the issue were allocated to fund or re-finance properties classified among 15% of the best buildings in terms of energy intensity.

The activity of mortgage banks supports the following: improved funding stability within the capital group, diversify funding sources for the retail mortgage loan portfolio, enhanced maturity match of assets and liabilities in the balance sheet (Polish banks basically fund long-term mortgage loans with short-term deposits) and reduced funding costs of lending in the part of the loan portfolio funded with other long-term instruments.

2.5 Regulatory and legal environment

The major legal changes that became effective in H1 2020 and that affected the Bank's business, relate in particular to the borrowers' situation and are due to the declaration of the SARS-CoV-2 pandemic in Poland.

In particular, the following:

1. Act of 4 July 2019 amending the Act on Support for Borrowers in Financial Difficulties who Have Taken out Housing Loans and Certain Other Acts (Journal of Laws item 1358) – the objective of the Act is to change the financial support mechanism to people who due to objective reasons are in a difficult financial situation and are obliged to repay housing loans.
2. Act of 14 May 2020 amending certain Acts on protective measures in connection with the spread of the SARS-CoV-2 virus. The Act extends the deadlines to perform duties under other legal changes, inter alia with reference to share dematerialisation (by 30.09.2020), entry to the Central Register of Beneficial Owners (by 13.07.2020).
3. Act of 19 June 2020 on subsidies to interest on bank loans granted to enterprises affected by the effects of COVID 19 and on a simplified procedure for composition approval in connection with COVID 19 – Shield 4.0 which provides for a possibility to suspend repayments of consumer loans, mortgage loans by natural persons (“loan vacations”).

4. A package of Supervisory Impulses for Security and Development of the Polish Financial Supervision Authority on actions to maintain balance between ensuring appropriate financial system stability indicators (in particular in the banking sector) and maintenance and support to business activity. The Polish Financial Supervision Authority proposed a number of changes in connection with the declared state of pandemic, also in favour of banks, for instance: postponed implementation date of the EBA Guidelines on outsourcing (until 31.12.2020) or simplification of BION and reporting.

Recently, the Office of the Polish Financial Supervision Authority and the Ministry of Finance indicated a possibility to implement changes to the local environment to improve the attractiveness of long-term mortgage-backed bonds for Polish banks. The above may result in modifications to local legislation – however, no details may be predicted now; this may also materially affect the future of mortgage banks.

3. Financial results, capital adequacy and financial instruments

In 2019 ING Bank Hipoteczny S.A. started operations and commenced the development of its mortgage loan portfolio to be used as collateral for future mortgage bond issues. In its first year of operation, the Bank, in line with its strategy, acquired a portfolio of mortgage loans from ING Bank Śląski of over PLN 3 billion and in H1 2020 – for over PLN 1 billion. The acquired portfolios were basically financed with a loan contracted from the parent entity and an issue of green covered bonds for PLN 400 million. The above transactions were the core factors affecting the Bank's financial results. Below are the highlights on the Bank's financial condition for the period from 1 January until 30 June 2020.

3.1 Financial highlights

	as at 30.06.2020	as at 31.12.2019
ROA – return on assets (%)	0.43%*	-0.01%
ROE – return on equity (%)	4.07%*	-0.07%
DR – total debt ratio (%)	88.77%	91.87%
TCR – total capital ratio (%)	24.81%	17.03%
LR – leverage ratio (%)	11.13%	8.10%
LCR – net liquidity coverage ratio (%)	2861%	20581%

ROA – return on assets – the ratio of net profit attributable to the shareholders of ING Bank Hipoteczny S.A. to assets as at 31.12.2019.

ROE – return on equity – the ratio of net profit attributable to the shareholders of ING Bank Hipoteczny S.A. to equity as at 31.12.2019.

* In 2020 the methodology of ING BSK was accepted for ROA and ROE – return on assets/return on equity – the ratio of the Bank's total net profit for the last 12 months and the average of the respective months (first-second-third month of the quarter) in the five last quarters, respectively: ROE of equity and for ROA – total assets of the Bank.

DR – debt ratio – the ratio of liabilities of ING Bank Hipoteczny S.A. to assets as at 30.06.2020.

TCR – total capital ratio – the ratio of equity of ING Bank Hipoteczny S.A. to risk-weighted assets as at 30.06.2020.

LR – leverage ratio – the ratio of Tier I capital to leverage ratio exposure as at 30.06.2020.

LCR – net liquidity coverage ratio – the ratio of liquid assets to net inflows as at 30.06.2020.

3.2 Statement of financial position

as at 30 June 2020

	Note number in the Financial Statements	as at 30.06.2020	as at 31.12.2019
Assets			
Receivables from banks	7.6.	68,937.5	7,249.2
Securities measured at fair value through other comprehensive income	7.7.	49,740.7	34,823.5
Securities measured at amortised cost	7.7.	0.0	229,980.4
Loans and borrowings granted to customers	7.8.	3,896,687.3	3,060,898.9
Property, plant & equipment	7.9.	893.3	988.3
Intangible assets	7.10.	1,320.7	1,816.7
Current income tax payables		0.0	0.0
Deferred income tax asset		986.4	1,585.1
Other assets	7.11.	4,970.9	1,784.8
Total assets		4,023,536.8	3,339,126.8
Financial			
Due to other banks	7.12.	3,161,279.8	2,488,153.6
Mortgage bonds issued	7.13.	399,872.0	400,359.9
Provisions	7.14.	669.6	585.7
Income tax payable		107.3	113.1
Liabilities under capital contributions		0.0	170,000.0
Other liabilities	7.15.	9,812.8	8,362.3
Total liabilities		3,571,741.5	3,067,574.7
Shareholders' equity			
Share capital		380,000.0	210,000.0
Supplementary capital – agio		62,002.2	62,191.1
Total other comprehensive income	7.16.	-536.1	-450.1
Retained profit		10,329.2	-188.9
Total equity		451,795.3	271,552.1
Total liabilities and shareholders' equity		4,023,536.8	3,339,126.8
Carrying value		451,795.3	271,552.1
Number of shares		380,000.0	210,000
Carrying value per share (PLN)		1,188.94	1,293.10

The interim abbreviated statement of financial position should be analysed jointly with the notes to the interim abbreviated financial statements which constitute an integral part of the interim abbreviated financial statements.

Detailed information on the Bank's statement of financial position is presented in notes 7.6 to 7.16 to the Financial Statements.



3.3 Profit and loss account

for the period from 1 January until 30 June 2020

	Note number in the Financial Statements	period from 01.01.2020 until 30.06.2020	period from 01.01.2019 until 30.06.2019
Interest income, of which:	7.1.	64,662.5	9,573.3
calculated with the effective interest method	7.1.	64,662.5	9,573.3
Interest expense	7.1.	-37,668.9	-3,211.8
Net interest income	7.1.	26,993.6	6,361.4
Fee and commission income	7.2.	231.9	48.2
Commission expense	7.2.	-90.7	-230.1
Net fee and commission income	7.2.	141.2	-181.9
Net FX profit/loss		7.2	-2.4
Profit on other core operations		-34.8	-13.0
Profit on core operations		27,107.2	6,164.1
Operating expenses	7.3.	-13,290.8	-10,386.0
Allowances for expected losses	7.4.	-840.6	-254.3
Gross profit		12,975.8	-4,476.2
Income tax	7.5.	-2,646.6	839.6
Net profit		10,329.2	-3,636.6
Number of shares		380,000.0	210,000
Basic earnings per ordinary share (PLN)		27.2	-17.32
Diluted earnings per ordinary share (PLN)		27.2	-17.32

In the period ended in 30 June 2020 and in the equivalent period last year there was no activity discontinued at ING Bank Hipoteczny S.A.

The interim abbreviated profit and loss account should be analysed jointly with the notes to the interim abbreviated financial statements which constitute an integral part of the interim abbreviated financial statements.

Detailed notes to individual items of the profit and loss account can be found in the Financial Statements – notes 7.1 to 7.5.

3.4 Capital requirement – Pillar I

In accordance with the CRR Regulation, the Bank calculates its capital requirements for the following risk types:

- credit risk – standard method,



- risk associated to credit valuation adjustment (CVA) – standard method,
- settlement and delivery risk – standard method,
- operational risk – Basic Indicator Approach (BIA),
- market risk (FX risk) – basic method.

At the end of June 2020 the Bank had zero capital requirements for the risk related to credit valuation adjustment, settlement and delivery risk and market risk. As a result, the total capital requirement as of the date hereof comprised solely capital requirements for credit risk and operational risk.

Capital requirement	30.06.2020
<i>Credit risk (PLN million)</i>	137.3
<i>Operational risk (PLN million)</i>	4.6
Total capital requirement (PLN million)	141.9
<i>Core capital Tier 1 ratio (CET1)</i>	24.81%
<i>Tier 1 capital ratio (T1)</i>	24.81%
Total capital ratio (TCR)	24.81%

Detailed information on capital adequacy is presented in the financial statements in part 7.27.1.

The Bank maintains its equity at a level that is not lower than the higher of:

- capital requirement,
- internal capital

Equity management

The capital management process is carried out at the Bank on the basis of its Capital Management Policy at ING Bank Hipoteczny S.A. which is based on applicable regulations.

Capital management at ING Bank Hipoteczny S.A. is aimed at providing for and supporting development of the Bank in compliance with the approved strategy and business model, while maintaining its equity at a level adequate to the scale and risk profile of the Bank's business and in line with regulatory requirements. Additionally, capital can be managed actively in view of the volume and dynamic of changes – both now and in the future.

The overriding objective of the process is to hold adequate and effective capital to accomplish the Bank's business strategy and development plans set forth in financial plans while complying with all internal and external capital requirements. This means financial flexibility in the existing and future environment in order to get adapted to market and regulatory conditions. In that respect, capital management relies on all available capital instruments and transactions both in a base scenario and in a shock scenario.

An appropriate capital adequacy level is set forth in internal regulations. The core capital restrictions result from internal resilience to risk assessed inter alia in stress tests, supervisory requirements (SREP), regulatory minimum levels of capital ratios and leverage ratios and the internal risk appetite.

The management covers:

- Pillar I: minimum capital requirements set forth in the applicable regulations,
- Pillar II: internal capital determined with the Bank's own models for the risk types that are material or permanently material.

Within its capital management, the Bank:

- a. plans its internal capital and capital requirement and equity;
- b. sets internal limits to restrict the generated capital requirements and internal capital;
- c. monitors potential hazards to capital adequacy;
- d. identifies and assesses the materiality of risk types inherent to its business;
- e. takes measures to assess and monitor internal capital, capital requirements and equity;
- f. makes internal capital allocations;
- g. pursues a dividend policy resulting from long-term capital objectives and the preferred capital structure;
- h. develops contingency capital plans to define measures to be taken in case of a drop of capital below "unacceptable" levels;
- i. performs analyses of the impact of macroeconomic factors on capital adequacy in line with the "Stress-test policy at ING Bank Hipoteczny S.A."

On 18 March 2020, the Regulation of the Minister of Finance cancelled the regulation on the systemic risk buffer (Journal of Laws, item 473). The solution was implemented to free capital collected by banks to reduce economic risk related to the COVID-19 epidemic.

As at 30 June 2020, the bank's total capital ratio was 24.81%.

3.5 Internal capital – Pillar II

In accordance with the applicable regulations, internal capital is defined as an amount estimated by the bank, required to cover all identified material risks inherent in the bank's business and changes to the economic environment, subject to the anticipated risk level.

The Bank estimates its internal capital. It is an integral part of the capital management system and management of the Bank, thus ensuring correct identification, measurement, monitoring, aggregation of the risks which the underwrites, providing for maintaining equity at the required level as well as for effective and prudent risk and capital management.

The above process covers:

- a. Identification and assessment of the materiality of various risk types affecting the Bank's operations,
- b. risk measurement and control,
- c. estimation and aggregation of internal capital with tools and methodologies approved by the Management Board or competent committees,
- d. monitoring of internal capital,
- e. allocation, planning and reporting internal capital.

The Bank estimates internal capital to cover risks that are material or permanently material classified in the following categories:

- a. credit risk covering default risk and counterparty risk, concentration risk, residual risk, risk of other non-credit assets.
- b. market risk covering interest rate risk in the banking portfolio.
- c. business risk covering macroeconomic risk.
- d. liquidity and funding risk.
- e. operational risk covering the risk of control errors; risk of unlawful activities, risk of processing errors; risk of inappropriate personnel practices and safety of the workplace, information risk, risk of internal and external fraud, risk of disrupted business continuity, risk of security breach of persons and resources, incompliance/compliance risk and legal risk; the management of operational risk further covers the potential conduct risk, reputation risk and concentration risk (with reference to operational risk).
- f. model risk.

The total internal capital is the sum of internal capital required to cover all types of risk that are material and permanently material for the Bank. In its estimation of total internal capital, the Bank applies a prudent approach and does not rely on a diversification effect.

Internal capital structure	30.06.2020
To cover credit risk	52.1%
To cover market risk	40.3%
To cover business risk	0%
To cover liquidity and funding risk	0%
To cover risk process	7.6%
To cover model risk	0%
Total	100.0%

3.6 Disclosures – Pillar III

Considering the scale and specific nature of the Bank's business, in its financial statements and Management report on the Bank's operations the Bank discloses selected information on capital adequacy. The information in particular refers to:

- objectives and strategies with respect to risk management,
- equity for the purposes of capital adequacy,
- capital requirements,
- capital buffers,
- financial leverage,
- adjustments for credit risk,
- applied credit risk mitigation techniques,
- operational risk, in compliance with Recommendation M,
- liquidity risk management system and liquidity position in compliance with Recommendation P,
- the requirements specified in Art. 111a of the Banking and in Recommendation H,
- remuneration policy of material risk takers in the Bank.

Each time the Bank assesses the adequacy of its disclosures in order to provide market participants with a comprehensive view of the Bank's risk profile.

Operating within the ING Bank Śląski S.A. Group, the Bank also discloses information to its parent entity for consolidation purposes.

Detailed information on the disclosures, verification methods applied and publication thereof is provided in the following document: "Disclosure Policy relating to the publication of qualitative and quantitative information concerning capital adequacy and the scope of information subject to disclosure by ING Bank Hipoteczny S.A.".

3.7 Financial instruments

Between 1 January 2020 and 30 June 2020 the Bank placed temporary extra liquidity in short-term deposits with ING Bank Śląski S.A. The relevant details are disclosed in the Financial Statements of ING Bank Hipoteczny S.A. in note 7.6. In the reporting period, the Bank did not apply hedge accounting.

The Bank entered into Treasury transactions in the wholesale financial market. The relevant details are disclosed in the Financial Statements of ING Bank Hipoteczny S.A. in note 7.7. Ultimately, the acquisitions of loan receivables from ING Bank Śląski S.A. will be financed primarily with mortgage bond issues. In the reporting period, the loan receivables acquired from ING Bank Śląski S.A. was funded with a credit line provided by ING Bank Śląski S.A. In the reporting period, the Bank complied with the standards set forth in the Act on mortgage bonds and mortgage banks, concerning the permitted levels of loans and borrowings (including acquired receivables) and bond issues in relation to the Bank's equity. In H1 2020 the Bank did not issue any mortgage bonds or any other debt financial instruments.

In case of future mortgage bond issues, the potential interest rate risk and FX risk will be hedged with appropriate derivative instruments. The Bank plans to apply hedge accounting in the future.

In the opinion of the Bank's Management Board, as at 30 June 2020 no indications existed of a risk of untimely repayment of the obligations contracted by the Bank.

4. Development directions and operations of ING Bank Hipoteczny S.A.

4.1 Development directions

The strategic objective of Bank Hipoteczny S.A. is to acquire and then increase the share of long-term funding in the balance sheet of the ING Bank Śląski S.A. Group by issues of mortgage bonds to become a major issuer of such debt instruments in the Polish market.

The achievement of the set goal will support:

- improved funding stability in the ING Bank Śląski S.A. Capital Group,
- diversification of funding sources for the existing retail mortgage loan portfolio,
- alignment of the term structure of assets and liabilities in the balance sheet of the ING Bank Śląski S.A. Capital Group,
- freeing liquidity of the ING Bank Śląski S.A. Capital Group,
- lowering the cost of funding of the conducted lending activity in the part of the loan portfolio funded with other long-term instruments.

4.2 Acquisition of mortgage-backed receivables and loan portfolio structure

The core business of ING Bank Hipoteczny S.A. is to purchase receivable portfolios of mortgage-backed housing loans in order to issue mortgage bonds. The Bank acquires such receivables solely from ING Bank Śląski S.A. The receivables are acquired pursuant to the Framework agreement concluded in 2019 on transfer of receivables to issue mortgage bonds.

Between 1 January and 30 June 2020 the Bank completed two purchase transactions of mortgage-backed receivable portfolios from ING Bank Śląski S.A. As of the transaction dates, the sum of the principal transferred receivables was PLN 1,018.9 million. In connection with the green covered bond issue, the portfolios transferred to the Bank this year largely cover receivables classified as green.

In its purchase transactions of receivables, ING Bank Hipoteczny S.A. applies the criteria as set forth in the Act on mortgage bonds and mortgage banks as well as it determines its own conditions applicable to the acquired receivables. The core criteria are presented in the table below:

Criterion	Value
Amount of acquired receivables / Mortgage lending value of properties	Maximum 100%
Loan collateral	First mortgage
Loan currency	PLN
Loan purpose	Residential purposes
Title to the property	Ownership or perpetual usufruct
Delays in repayment or impairment premises	None

Loan portfolio structure by LtV (Loan to Value) – 30.06.2020:

LTV (BHWN)	Structure %
(0-50>	22.3%
(50-60>	16.7%
(60-70>	21.1%
(70-75>	10.3%
(75-80>	9.1%
(80-100>	20.4%
Total	100.0%

LTV by market value	Structure %
(0-50>	33.5%
(50-60>	23.4%
(60-70>	27.6%
(70-75>	10.1%
(75-80>	5.5%
(80-100>	0.0%
Total	100.0%

Average LtV BHWN weighted with capital was 64.0% while average market LtV was 54.9%.

As at 30 June 2020, the carrying value of the mortgage-backed receivable portfolio was PLN 3,884.2 million. All the acquired loans earn interest at the variable rate of WIBOR 6M.

In connection with the COVID-19 pandemic, the Bank implemented measures to assist customers who are in a difficult financial condition:

- on 7 April 2020 we decided to allow borrowers to suspend loan instalment repayments (the principal part or the entire instalment) for up to 6 months. When full instalments (covering principal and interest) are suspended, the Bank keeps accruing interest on the loan to be repaid by borrowers first after the suspension period ends. Additionally, the Bank extends loan repayment periods (both when the principal part is suspended or full instalments). This actions coincide with the “Standpoints of banks on unification of rules of offering support tools for customers of the banking sector” issued by the Polish Bank Association (a non-statutory moratorium within the meaning of the EBA Guidelines). As at 30 June 2020, repayments were suspended in compliance with the above rules by 570 customers.

The loan portfolio with instalment repayment suspension accounted for 3.32% of the bank's overall mortgage receivable portfolio.

- on 24 June 2020 we provided borrowers with a possibility to suspend performance of loan agreements (pursuant to the amended *Act on specific arrangements for the prevention, counteraction and control of COVID-19, other communicable diseases and the resulting crisis situations*). Upon customers' request, the Bank suspends repayment of full loan instalments for 1 to 3 months without charging interest for the period and extends the loan repayment period accordingly. As at the end of the reporting period, the Bank had no customers who requested the suspension of their repayments. The first customers' requests of such type were implemented in July and now 5 customers have been allowed to postpone repayment of which 2 customers had their instalment repayment suspended for 3 months and now enjoy a 3-month period of loan suspension.

The Bank has simulated the effects of such operations and their impact on the capacity to pay its obligations to mortgage bond holders. The simulations show that the Bank is highly secure and will be able to pay its debt to investors on time.

4.3 Mortgage bonds

In H1 2020 the Bank did not make any mortgage bond issue. As at 30 June 2020, the nominal value of the Bank's outstanding mortgage bond issues was PLN 400 million.

The securities are listed at the Stock Exchange in Luxembourg and at the parallel market of the Warsaw Stock Exchange. They may also be used to secure a lombard, technical loan and repo operations with the National Bank of Poland.

The Bank's PLN mortgage bonds are rated at Aa3 by Moody's Investors Service – this is a confirmation of the high quality of the mortgage loan portfolio that secure the above securities (this is the highest possible rating available to issuers from Poland).

The next issue of mortgage bonds will be depend on market conditions and the liquidity condition of the ING BSK Group.

4.4 Rating of the Bank and its mortgage bonds

In H1 2020 the ratings of the Bank by Moody's Investor Service were not changed and as at 30 June 2020 they were as follows:

Moody's Investors Service Ltd.	
LT Issuer Rating	Baa1
ST Issuer Rating	P-2
LT Counterparty Risk	A2
ST Counterparty Risk	P-1
Outlook of long-term issuer rating	Stable
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A2 (cr) / P-1 (cr)

The Agency emphasised there that the rating of the Bank reflects:

- 100% shareholding of ING Bank Śląski S.A. and its stable outlook,
- Strategic adaptation and operational integration within the structure of the ING Bank Śląski S.A. Group,
- The commitment on the part of ING Bank Śląski S.A. to support the capital and liquidity position of ING Bank Hipoteczny S.A. in order to comply with regulatory requirements.

The high quality of the mortgage loan portfolio serving as collateral to the securities issued by the Bank was confirmed by Moody's Investors Service which rated the mortgage bonds issued by the Bank at Aa3 which is the highest possible rating available to issuers from Poland. In the period under report the rating was not changed.

Moody's Investors Service Ltd.

ISIN Code	XS2063297423
Day of issue	10 October 2019
Day of redemption	10 October 2024
Interest rate	Wibor 6M + 0.53%
Currency	PLN
Issue rating	Aa3

5. Internal conditions to operations

5.1 Staff competencies

In recruitment processes, experienced and qualified employees were hired who most come from the ING Bank Śląski S.A. Group. The Bank has implemented procedures to ensure appropriate competence levels in all key position supporting the Bank's operations. The Bank supports its employees in regular enhancing their qualifications. The headcount is suitable to the scale of business operations.

5.2. Cooperation with ING Bank Śląski S.A.

Basically, the operational formula of ING Bank Hipoteczny S.A. relies on synergy effects between Bank Hipoteczny S.A. and ING Bank Śląski S.A. as a strategic outsourcing partner for Bank Hipoteczny S.A., in particular by:

- outsourcing of legally permitted operations to ING Bank Śląski S.A. to the extent justified in terms of effective operations of the Bank on the basis of solutions developed within the ING Bank Śląski S.A. Group,
- sharing of the IT infrastructure and systems, used by the ING Bank Śląski S.A. Group,
- structuring the organisation of Bank Hipoteczny in a manner to ensure effective control of the services outsourced to ING Bank Śląski and performance of activities

required by law that have to be performed by the Bank, including inter alia decision taking or risk management processes,

- mapping of current handling processes of loans with ING Bank Śląski S.A. subject to appropriate modifications, including those required by applicable laws.

Therefore, the cooperation between both entities is based on an outsourcing agreement with the following key elements:

- ensuring that the activities required by law to be performed by Bank Hipoteczny S.A. are performed by it, including inter alia decision taking or risk management processes; in case of automated or partly automated processes – those processes rely on conditions approved by the Bank,
- outsourcing the following to ING Bank Śląski S.A.: (i) intermediation in the performance of certain banking operations offered by the Bank, in particular in the administration and after-sale handling of the receivables under the mortgage-backed loans acquired by the Bank; and (ii) factual activities related to the Bank's banking operations,
- taking into account the restrictions set forth in Art. 6a.3 of the Banking Act (hereinafter the “Banking Act” or “BA”) – ensuring that the outsourcing activities does not include: (i) management of the bank within the meaning of Art. 368 § 1 of the Code of Commercial Companies (CCC), in particular management of the risk inherent to banking activity, including asset and liability management, creditworthiness assessment and credit risks analysis, and (ii) internal audit of the bank,
- ensuring that any outsourcing of activities by ING Bank Śląski S.A. to third parties complies with Art. 6a.7 of the Banking Act – and in certain instances – that direct agreements are concluded between such third parties and the Bank,
- development and updates – both by ING Bank Śląski S.A. and the Bank – of business continuity plans assuring continuous and uninterrupted business to the extent covered with the outsourcing agreement,
- providing the Bank with tools for effective monitoring and control of performance of the agreement by ING Bank Śląski S.A.

For customers whose mortgage loans will be transferred to Bank Hipoteczny S.A. – the process of servicing loans and the loan related costs will remain unchanged.

The rules and scope of cooperation between ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. are set out in details in the Cooperation Agreement between the two parties.

5.3 Internal control system

The internal control system (SKW) is an element of managing the Bank – the principles, rules and objectives of the system are set forth in particular in the Banking Act and the Regulation of the Minister of Development and Finance on risk management and internal control system, remuneration policy, and a detailed manner of internal capital estimation at banks.

I. Objectives of the internal control system

The objective of the internal control system is to ensure:

- 1) Effectiveness and efficiency of the Bank's operations.
- 2) Reliability of financial reporting.
- 3) Compliance with the rules of risk management at the Bank.
- 4) Compliance of the Bank's operations with the law, supervisory requirements, internal regulations, and market standards.

The general objectives of the internal control system also include:

- 1) examination of compliance of the Bank's business and the relevant activities performed by related parties with regulations of the markets in which the Bank operates, regulations of Krajowy Depozyt Papierów Wartościowych S.A. [National Depository of Securities], the clearing and settlement houses referred to in Art. 68a of the Act on trading in financial instruments and the stock clearing house referred to in Art. 2.4 of the Act on commodity exchanges in which the Bank participates,
- 2) well organised and secure pursuance of activities,
- 3) functioning of appropriate administrative and accounting procedures,
- 4) effectiveness of internal regulations concerning flows of insider information and professional secrets and ensuring safe access thereto,
- 5) reliability of non-financial reports,
- 6) effectiveness of internal regulations concerning review of customers' complaints and queries and holding a complaint register,
- 7) effectiveness of internal regulations concerning counteraction to money laundering and terrorist financing,
- 8) performance of investments by the Bank in line with the applicable requirements and standards and in a manner adequate for the risk level of such investment.

II. Roles of the Bank's governing bodies

1. Supervisory Board

Within the scope of its tasks set forth inter alia in the Bank's Articles of Association and the Regulations of the Supervisory Board of ING Bank Hipoteczny S.A., related to monitoring and supervising the internal control system subject to prior recommendation of the Audit and Risk Committee, the Supervisory Board:

- 1) approves the Policy – Internal control system of ING Bank Hipoteczny S.A..
- 2) approves assessment criteria of adequacy and effectiveness of the internal control system, proposed by the Management Board.
- 3) supervises the implementation and ensuring the functioning of an adequate and effective internal control system.
- 4) monitors the effectiveness of the internal control system on the basis of information received from the Management Board, the Audit and Risk Committee and the Compliance Unit and the Internal Auditor Function.
- 5) on an annual basis, assess the adequacy and effectiveness of the internal control system, including the adequacy and effectiveness of the control function performed by the first and second line of defence, the compliance Unit and the Internal Audit Function as well as compliance with the duties set forth in part B of Recommendation H by the Bank's Management Board,
- 6) approves the classification principles of irregularities detected by the internal control system covering as a minimum major and critical irregularities,
- 7) in order that the internal control system ensures compliance with the laws, internal regulations and market standards, the Bank's Supervisory Board:
 - supervises the performance of its duties by the Management Board concerning compliance risk management,
 - approves the Compliance Policy of ING Bank Hipoteczny S.A.,
 - minimum once a year, makes an assessment of the efficiency of compliance risk management by the Bank.

2. Audit and Risk Committee

The Committee performs advisory functions to the Bank's Supervisory Board related to the internal control system. The Committee is composed of two independent members, including an Auditor who holds know-how and skills in accounting and audit of financial statements.

3. Bank's Management Board

Within the scope of the risk management process, the Bank's Management Board:

- 1) develops, implements and maintains an adequate and effective internal control system,
- 2) takes measures to ensure uninterrupted functioning of the internal control system,
- 3) sets assessment criteria of adequacy and effectiveness of the internal control system,
- 4) determines the types of actions to take in order to remedy irregularities detected by the internal control system, including remedial and disciplinary measures,
- 5) approves the classification principles of irregularities detected by the internal control system covering as a minimum major and critical irregularities,
- 6) approves the selection criteria of material processes and a list thereof along with their relationships to general and specific objectives,
- 7) ensures a regular review of all processes at the Bank for their materiality,
- 8) approves the *Policy – Internal control system at ING Bank Hipoteczny S.A.*, ensures a periodic review and updates of the Policy and submits the results of the review to the Audit and Risk Committee and the Supervisory Board,
- 9) ensures access for employees of the Compliance Unit, the Internal Auditor and the employee responsible for Operational Risk Management and for other units coordinating the accomplishment of general objectives to the required source documents, including those containing confidential information – in connection with their business duties,
- 10) sets forth the rules of development, approval and implementation of control mechanisms in all processes at the Bank and determines the role of the organisational units responsible for the development of draft control mechanism, approval and implementation thereof,
- 11) ensures the adequacy and effectiveness of controls in all processes performed at the Bank,
- 12) in order to ensure that the internal control system assures compliance with the law, internal regulations and market standards, it is responsible for developing a compliance policy, ensuring that it is adhered to and for submitting reports to the Audit and Risk Committee and the Supervisory Board on compliance risk management,
- 13) sets an appropriate scope and criteria of independent monitoring of compliance with the control mechanisms covering ongoing verification and testing,
- 14) ensures the functioning of a control function matrix and assignment of tasks to ensure the functioning thereof,
- 15) sets the reporting rules of minimum the effectiveness of key control mechanisms and the results of vertical testing.

Discloses information as follows:

informs the Supervisory Board minimum once a year of performance of tasks related to the internal control system with specific focus on:

- a) the adequacy and effectiveness of the internal control system in ensuring the achievement of each objective of the internal control system,
- b) the scale and nature of material and critical irregularities and the most important activities aimed at remedying the irregularities, including any remedial and disciplinary actions taken,
- c) ensuring the independence of the Compliance Unit and the Internal Auditor Function,
- d) ensures appropriate human resources as may be required for effective performance of the tasks and the funds to raise qualifications in a systematic manner, gain experience and skills by employees of the Compliance Unit and the Internal Audit Function.

III. Three lines of defence within the Bank's organisational structure

The internal control system covers the Bank's entire organisational structure and is split into three lines of defence.

First line of defence	Second line of defence	Third Line of Defence
<p>The Bank's business and organisational units providing operational support to Business</p>	<p>1) Units of the following areas:</p> <ul style="list-style-type: none"> • operational risk • compliance risk • legal risk • credit and market risk • finances • HR management, and <p>2) Model validation function</p>	<p>Internal Auditor function</p>

1. First Line of Defence

It is a part of the control function. It is responsible for the development, implementation and performance of control mechanisms in order to accomplish general and specific objectives of the internal control system. The line also covers independent monitoring of compliance with control mechanisms by way of ongoing verification and/or horizontal testing.

The first line of defence is responsible for compliance with the rules provided for in the approved policies, regulations, instructions, and procedures. The responsibilities of the first line of defence include inter alia risk analysis, control and management in various processes, including also to outsourced activities.

The tasks of the first line of defence are performed by higher management and the organisational units they supervise that carry out and support business objectives.

2. Second line of defence

It pursues tasks attributed to the control function of the second line of defence and supports the first line of defence in achieving the objectives of the internal control system.

It is responsible for:

- publishing standards of conduct and consulting internal regulations of the Bank (including monitoring of laws and regulations and analysis of compliance with external legal acts) and developing methods and tools within the internal control system,
- approval of decisions of the first line of defence concerning implementation, modification or withdrawal of control mechanisms,
- monitoring the first line of defence for its application of regulations relating to the internal control system,
- horizontal monitoring of compliance with control mechanisms within the second line of defence,
- vertical monitoring of the first line of defence for compliance with control mechanisms.

Within its control activities, the second line of defence units perform their own independent assessment of the effectiveness of operations of the first line of defence by applying the following methods: tests, reviews, and other forms of control.

3. Third line of defence

The Internal Auditor Function (SAW) operates as the third line of defence and provides the management with an independent, objective assurance as to the adequacy and effectiveness of the risk management system and the internal control system in the first and second line of defence.

The roles, authority, scope and nature of work, responsibilities of the Internal Auditor and the rules of cooperation between the Bank's organisational units and SAW are set forth in the *Policy – Audit Card of ING Bank Hipoteczny S.A.* (Audit Card).

IV. Control Function

The Control Function is an element of the internal control system composed of all control mechanisms in the processes functioning at the Bank, independent monitoring of compliance therewith and reporting within the control function. Control covers positions, groups of people or organisational units that are responsible for the tasks assigned to the function.

In the control function, processes were identified that are material for the Bank which contain key control function mechanisms.

V. Rules to assess the effectiveness and adequacy of the internal control system

On an annual basis, the Internal Auditor Function (SAW) performs an assessment of the effectiveness and adequacy of the internal control system within the first and second line of defence on the basis of:

- audit results/opinions carried out in line with the annual audit plan. In order to develop the annual audit plan, SAW relies on information on the internal control system incorporated in the control function matrix,
- audit results/opinions of the external auditor subject to recommendations of the regulator that stay open as of the assessment date of the internal control system,
- identified critical and high risks during the year with specific focus on risks open as at the assessment date of the internal control system,
- timeliness and progress in implementing measures to mitigate the identified risks.

A final assessment of the internal control system is made by the Supervisory Board subject to recommendations of the Audit and Risk Committee and in particular it covers:

- assessment made by the Internal Auditor function,
- information from the Management Board on the mode to perform tasks related to the internal control system,
- periodic reports of the Compliance Unit,
- material information for the adequacy and effectiveness of the internal control system, obtained from the parent entity,
- findings by the auditor or the external auditor,
- findings from regulatory activities by the competent authorities (e.g. PFSA, Office of Competition and Consumer Protection),
- assessment and opinions issued by external entities, if any, that are material from the viewpoint of the adequacy and effectiveness of the internal control system.

In H1 2020 the Supervisory Board assessed the internal control system of ING Bank Hipoteczny S.A. for 2019, taking the above factors into account and assessing if the internal control system at ING Bank Hipoteczny SA was effective and adequate for the Bank's business model and scale of operations.

5.4 Risk management

Risk management at ING Bank Hipoteczny SA is aimed at ensuring effective risk control and maintenance in a changing macroeconomic and legal environment within the risk appetite accepted by the bank and subject to the assumed level of business activity. The assumed risk level is a major element of the planning process.

Risk management at ING Bank Hipoteczny SA relies in particular on the following principles:

- the risk management process, including the lending process, is set forth and regulated with strategies, policies and procedures approved by the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.,
- the Bank manages all identified types of bank risks and carried out the ICAAP process (Internal Capital Adequacy Assessment Process) as follows:
 - the risk management process is adequate to the scale of operations and to the materiality, scale and complexity of each risk and it is kept adapted to new risk factors and sources,
 - the risk management methods, models and risk measurement systems and the underlying assumptions are adapted to the scale and complexity of each risk and they are periodically verified and validated,
- the organisational structure of risk management ensures independence of the risk area, including the independence of property appraisal and credit decisions of business activity,
- the risk management process is integrated with planning controlling processes and supports the accomplishment of the Bank's strategy while ensuring compliance with risk management strategy, in particular with respect to risk appetite,
- the risk management process is consistent with the risk management principles of the ING Bank Śląski S.A. Group, also with respect to the use of group risk models, tailored to the specific business of ING Bank Hipoteczny S.A. and approved by the competent bodies of ING Bank Hipoteczny S.A.
- stress tests are held at the Bank on the basis of earlier approved scenarios. Stress test results are discussed at meetings of committees and the Bank's Management Board. Reporting of risk sources and factors and measurements of risk levels and costs supports adequate preventive and remedial measures.

The risk management process is supervised by the Bank's Supervisory Board which is kept informed on the risk profile in ING Bank Hipoteczny S.A. and on major activities taken with respect to risk management.

The Bank's Management Board responsible for risk management, including supervising and monitoring the tasks taken by the Bank in that respect. The Bank's Management Board takes major decisions that affect the Bank's risk profile and approves internal regulations concerning risk management.

Risk management is carried out in three independent lines of defence.

The objectives, rules and organisation of risk management as well as detailed management methods of specific risk categories are disclosed in the financial statements of ING Bank Hipoteczny S.A.

5.5 Measurement of collateral to mortgage loans

ING Bank Hipoteczny S.A. pursues its tasks related to credit collateral on the basis of the following external and internal legal acts:

- Act on mortgage bonds and mortgage banks.
- Act on land and mortgage registers and mortgage,
- Banking Act,
- Recommendations of the Polish Financial Supervision Authority,
- including in particular Recommendations F, S and J,
- The provisions of internal banking regulations, in particular the Regulations of determining the mortgage lending value of properties (hereinafter: BHWN).

The Bank has developed and applies the Regulations on determining the mortgage lending value of properties, approved by the Polish Financial Supervision Authority on 4 January 2019. The Regulations contain the guidelines set forth in Recommendation F relating to the core criteria applied by Polish Financial Supervision Authority in approving regulations of mortgage banks used to determine the mortgage lending value of properties.

BHWN is the value – determined on the basis of an appraisal in compliance with the Act on mortgage bonds and mortgage banks – that in the Bank’s opinion reflects the risk level related to the properties as the collateral to the loans acquired by the Bank.

The BHWN value determined on the basis of an appraisal underlies a decision if the receivables can be purchased by the Bank. The mortgage lending value of properties is determined in a prudential manner subject to long-term parameters.

ING Bank Hipoteczny S.A. determines BHWN on the basis of an expert appraisal of the mortgage lending value of properties. The expert appraisal of the mortgage lending value of properties is performed subject to due diligence. The appraisal provides solely for those parameters that will remain permanent and – assuming rational use – they will be achievable for any owner of the property. It also provides for all types of risk that due to the experience and analysis may adversely affect BHWN. The expert appraisal made on a specific date documents all assumptions and parameters underlying the analysis, the determination process of BHWN and the resultant proposal of the BHWN value.

The expert appraisal considers analyses and projections of parameters that are specific for each property, that materially affect credit risk assessment related to accepting the property as collateral and general factors, including: market cycles, changes to the purchasing power of money, demography, unemployment rate, local development plans. When the state of epidemic due to the SARS-COV-2 virus was declared, the mortgage lending value of properties was determined in a very prudential manner subject to specific locations and potential impact of COVID-19 on the value of appraised properties in the local market.

The BHWN determination process at the Bank is carried out by a dedicated team in the Risk Management Area, independent of the Bank's business functions.

When receivables are purchased, the determination process of the mortgage lending value of properties follows four stages:

Verification of the legal status of properties	ING Bank Śląski SA under the Outsourcing Agreement
Making a report from an inspection of the property and market research	An appraiser with appropriate experience and skills to estimate banking risk with respect to securing housing loans
Drafting a BHWN expert appraisal	Bank's dedicated organisational unit – Appraisal and Credit Decision Team
Drafting a BHWN expert appraisal and determination of the mortgage lending value of properties	Bank's dedicated organisational unit – Appraisal and Credit Decision Team

The drafting process of BHWN expert appraisals and determination of the mortgage lending value of properties as specified above are carried out by two independent persons.

5.6 Register of collateral to mortgage bonds

ING Bank Hipoteczny S.A. keeps and holds a register of collateral to mortgage bonds (hereinafter: Register). The Register is kept in compliance with the requirements specified in the documents listed below:

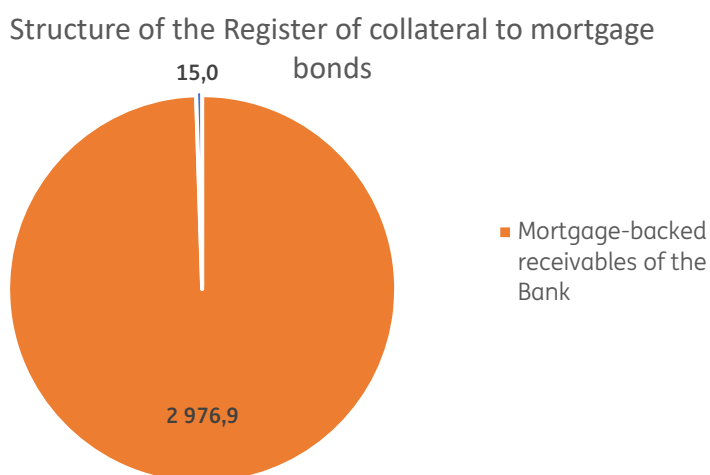
- Act of 29 August 1997 on mortgage bonds and mortgage banks (Journal of Laws of 2003, No. 99, item 919, as amended).
- Resolution No. 633/2015 of the Polish Financial Supervision Authority of 1 December 2015 on the template of the register of collateral to mortgage bonds,
- Recommendation K of the Polish Financial Supervision Authority of 9 February 2016 concerning the maintenance rules of registers of collateral to mortgage bonds by mortgage banks.

To the Register the Bank enters the acquired receivables under mortgage-backed housing loans as well as the rights and funds underlying issues of mortgage bonds as well as other funds as the surplus to cover interest on the outstanding mortgage bonds redeemable within the next 6 months. Mortgage bonds are secured with the Bank's receivables secured with the highest priority mortgage.

Additionally, mortgage bond issues may also rely on funds of the Bank specified in Art. 18.3 of the Act on mortgage bonds and mortgage banks.

As at 20 June 2020, the value of mortgage-backed receivables and other funds referred to in the Act on mortgage bonds and mortgage banks was PLN 2,991.9 million.

As at that date, the structure of the Register was as follows (PLN million):



A Treasury bond for PLN 15 million partly secures payment of interest on mortgage bonds for 6 months (PLN 3,446.6 million). The total value of mortgage-backed receivables and substitute collateral (in the part not used to cover interest on mortgage bonds) was equivalent to the overall collateral level of mortgage bonds of 747.11%.

Due to the fact that the mortgage-backed receivables and the outstanding mortgage bonds were matched in terms of the currency and interest rate as at 30 June 2020, the Bank did not enter into or record any hedging transactions to the Register.

The Custodian supervises the Register on an ongoing basis.

The core details on the Register as at 30 June 2020 are presented in the table below:

	30.06.2020
Register of collateral to mortgage bonds	
Mortgage-backed receivables (PLN million)	2976.9
Treasury bonds (PLN million)	15.0
Liquidity buffer (PLN thousand)	3,446.7
Number of loans	15,559
Average loan value (PLN thousand)	191.3
Average maturity (months)	246
Average LtV (loan to market value)	52.82%
Average LtV (loan to BHWN)	62.24%

Average maturity, average LtV to market values and to BHWN values are average values weighted with loan principal.

5.7 Custodian

In compliance with the Act on mortgage bonds and mortgage banks (Act), a custodian is nominated for each mortgage banks and minimum one sub-custodian. The custodian's tasks include the verification if:

- the obligations under the outstanding mortgage bonds are secured by the mortgage bank in compliance with the Act,
- the mortgage lending value of properties accepted by the mortgage bank has been set in compliance with the regulations,
- the mortgage bank complies with the provisions of Art. 18 of the Act,
- the results of the coverage balance test and liquidity test confirm that the receivables of the mortgage bank as well as the rights and funds entered to the register of

collateral to mortgage bonds are adequate to secure the interests of mortgage bond holders,

- the keeping of the register of collateral to mortgage bonds by the mortgage bank is compliant with the Act,
- mortgage banks – in compliance with the Act – establish collateral to planned issues of mortgage bonds and control if appropriate entries have been made to the register of collateral to mortgage bonds.

After a review of the application of the Supervisory Board of ING Bank Hipoteczny S.A., on 4 January 2019 the Polish Financial Supervisory Authority nominated Ms Grażyna Zielińska as custodian for ING Bank Hipoteczny S.A. and Mr Krzysztof Brejda as sub-custodian – both for a six-year term.

The Custodian and Sub-custodian exercise ongoing control of the register.

5.8 Statutory limits

Acting in compliance with the Act on mortgage bonds and mortgage banks, ING Bank Hipoteczny S.A. monitors the limits related to operation of the mortgage bank.

The statutory limits and utilisation thereof as at 30 June 2020 were as follows:

Item	Statutory limit	Statutory limit value	Limit utilisation	Legal Basis
1.	The maximum amount of receivables of the Bank in the part exceeding 60% of BHWN versus the total amount of mortgage-backed receivables of the mortgage bank.	30%	11.82%	Art. 13.1 of ulzbh
2.	Percentage of receivables for which the ratio of a single mortgage-backed loan in the acquisition date of the receivable to BHWN exceeds 100%	0%	0%	Art. 13.2 of ulzbh
3.	Maximum refinancing ratio of acquired receivables (in the portion up to 80% of BHWN) with funds raised with mortgage bonds	100%	10.48%	Art. 14 of
4.	Maximum volume of the acquired shares or interests in other entities versus the equity of the mortgage bank;	10%	0%	Art. 15.1. 5
5.	Maximum multiple of the sum of loans obtained, bonds issues to the equity of the mortgage bank (in the first 5 years)	10	7.19	Art. 15.2. 1
6.	Maximum multiple of the total nominal value of outstanding mortgage bonds of Bank Hipoteczny to the equity of the mortgage bank	40	0.91	Art. 17.1 of ulzbh
7.	Minimum over-collateralisation of mortgage bond issues with mortgage-backed receivables and other collateral (bonds, cash, funds with NBP, financial security instruments);	110%	747.11%	Art. 18.1 of ulzbh

8.	Minimum over-collateralisation of mortgage bond issues with mortgage-backed receivables;	85%	744.22%	Art. 18.1 of ulzbh
9.	Minimum ratio of revenues of the mortgage bank from receivables and other instruments (bonds, cash, funds with NBP, financial security instruments) versus interest expense on the outstanding mortgage bonds;	100%	1318.10%	Art. 18.2 of ulzbh
10.	Coverage ratio with instruments (bonds, cash, funds with NBP) of the nominal interest on outstanding mortgage bonds, payable within the next 6 months;	100%	100%	Art. 18.3a of ulzbh
11.	Maximum ratio of mortgage-backed receivables established during construction investments to the overall value of mortgage-backed receivables, underlying the issue of mortgage bonds;	10%	0%	Art. 23.1 of ulzbh
12.	Maximum ratio of mortgage-backed receivables established on properties to be developed in compliance with zoning plans to the overall value of mortgage-backed receivables, underlying the issue of mortgage bonds;	1%	0%	Art. 23.2 of ulzbh

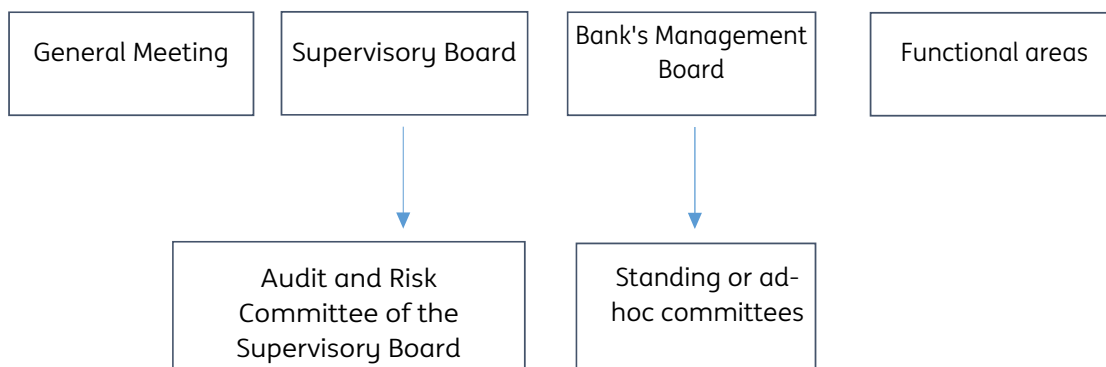
Apart from monitoring the statutory limits – in compliance with the Act on mortgage bonds and mortgage banks – the Bank reviews the collateral to mortgage banks on each working day. The coverage balance test is carried out no less frequently than every 6 months and the liquidity test – no less frequently than every 3 months.

In the period under report, ING Bank Hipoteczny did not exceed any of the limits specified in the table and obtained positive results of the review of collateral to mortgage bonds and the coverage balance and liquidity tests.

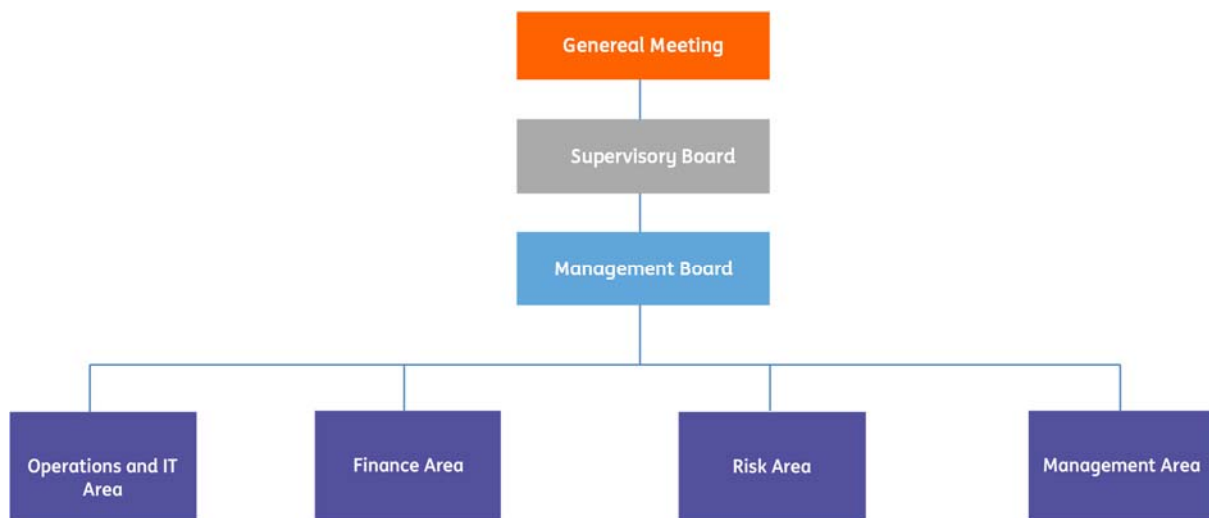
6. Organisational structure and authorities of ING Bank Hipoteczny S.A.

6.1 Organisational structure

ING Bank Hipoteczny S.A. is managed on the basis of the organisational structure displayed in the chart below and in line with the split of duties between the Bank's governing bodies as detailed further below.



Organisational Structure of ING Bank Hipoteczny S.A. in its functional areas



6.2 Competencies of Bodies and Committees of ING Bank Hipoteczny S.A.

The competencies of the Bank's governing bodies are set forth in the Banking Act, Code of Commercial Companies and other regulations and the Bank's Articles of association as well as the respective Regulations.

The competencies of the **Bank's General Meeting** include in particular:

- review and approval of the report of the Management Board on operations of the Bank and financial statements for the preceding financial year and granting a vote of approval to members of the Bank's governing bodies for performance of their duties,
- appointment and dismissal of members of the Supervisory Board,
- approval of resolutions on matters relating to: determination of the rules of remuneration of the members of the Supervisory Board and other matters provided for in law, the Articles of Association or submitted by the Supervisory Board, the Management Board, or eligible shareholders,
- resolutions concerning claims for remedying damage caused while establishing the Bank or exercising management or supervision,
- developing a share redemption procedure and amounts of remuneration for the redeemed shares and providing consent to acquire the Bank's shares for redemption,
- establishment and liquidation of special funds from net profit,
- resolutions on issues of mortgage bonds convertible into shares or instruments with rights to acquire shares of the Bank,
- resolutions on liquidation, disposal or lease of the entire enterprise of the Bank or an organised part thereof or establishment of limited rights in rem thereon.

The powers of the **Bank's Supervisory Board** include in particular:

- review of the Management report and financial statements for the previous year for compliance with the underlying books of account and documents as well as facts,
- assessment of proposals made by the Management Board concerning profit distribution or loss coverage,
- submission to the General Meeting of an annual report from results of the above reviews;
- inspection of the Bank's assets and financial audit,
- approval of the principles of prudent and stable management of the Bank and the Bank's strategy developed by the Management Board, performing periodic reviews and verification of its implementation, as well as approval of long-term development plans of the Bank and annual financial business plans of the Bank, developed by the Management Board,
- approval of acceptable risk levels in various areas of the Bank's business,

- approval of proposals of the Bank's Management Board relating to the establishment and liquidation of the Bank's organisational units abroad,
- providing consent for purchase or disposal by the Bank of shares or rights to shares or interests in other legal persons as long as the value of such assets each time exceeds PLN equivalent to EUR 1,000,000 or the operation relates to assets constituting minimum 50% of the share capital of another legal person; no consent of the Supervisory Board shall be required in case of the Bank's exposure resulting from change of receivables, enforcement of collateral accepted by the Bank,
- appointment and dismissal of members of the Bank's Management Board,
- conclusion of contracts with members of the Bank's Management Board relating to their functions and determination remuneration under such contracts and providing consent to members of the Management Board to be provided with other benefits from the Bank or its related entities,
- approval of the Regulations of the Management Board, Organisational Regulations and the Bank's internal control system,
- selection of an entity to audit the Bank's financial statements, subject to recommendations of the Audit and Risk Committee of the Management Board and providing opinion on terminating the contract with such entity,
- providing consent for transactions between the Bank and its shareholders or other related entities or members of the Bank's bodies if the value of such transaction exceeds EUR 1,000,000 with the exception of typical and routine transactions whose nature and terms and conditions result from the Bank's normal operations, or transactions contemplated in the Bank's annual financial plan approved by the Supervisory Board,
- providing consent for the Bank to incur an obligation or dispose of assets with the single value or jointly vis-a-vis one entity or entities related to such entity, exceeds 10% of the Bank's equity, subject to item 4) and 11); such consent is not required with reference to the entities referred to in item 9),
- providing consent to purchase, dispose or pledge by the bank of a fixed asset whose value exceeds PLN equivalent of EUR 1,000,000; the consent of the Supervisory Board – subject to item 10) – shall not be required when such assets is required by the Bank as creditor as a result of collection of the Bank's receivables,
- submission to annual General Meetings of reports and reviews as required by applicable laws, recommendations of the supervisory authority and other regulations approved by the Bank,
- suspension, for valid reasons, of a member of the Management Board in his/her function and delegation – for maximum 3 months – of members of the Supervisory Board to temporarily perform functions of members of the Management Board that are not able to perform their functions,
- approving the Bank's policy related to compliance risk,
- approving rules governing procedures for internal capital assessment, capital management and capital planning,

- approval of regulations to appraise mortgage value of properties that becomes effective when approved by the Polish Financial Supervision Authority,
- approval of cooperation agreements with ING Bank Śląski S.A.,
- requesting of the Polish Financial Supervision Authority to appoint and trustee and a deputy trustee,
- approval of the principles of model management,
- approval of the code of ethics and management principles of conflicts of interest.

Resolutions of the Supervisory Board may in particular apply to:

- conclusions and recommendations resulting from supervisory and inspection activities,
- providing consents and permits,
- providing opinions,
- reports and reviews submitted to the General Meeting, in particular:
 - reports on reviews of financial statements and Management reports on the operations of the Bank in the financial year as well as proposals of the Management Board as to profit distribution for the financial year,
 - assessment of the Bank's condition, including assessment of internal control systems, risk management, compliance systems and the internal audit function,
 - reports on operations of the Supervisory Board and its committees in the financial year with an assessment by the Supervisory Board in that period,
 - report on the assessment of the functioning of the remuneration policy in the Bank
 - assessment of the application of the Rules of Corporate Governance for Supervised Institutions.

The competencies of the **Audit and Risk Committee of the Supervisory Board** include in particular:

- support to the Supervisory Board with respect to monitoring and supervision over financial reporting processes, internal and external audit and the management system at the Bank, in particular the adequacy and effectiveness of the internal control system and the risk management system, relations between the Bank and the firm auditing the Bank's financial statements.
- support to the Supervisory Board in terms of monitoring and supervision over the risk management process, including the operational risk, the credit risk, and the market risk, and also the internal capital estimation process, capital management and planning and the model risk, and the capital adequacy area.

The competencies of the **Bank's Management Board** include in particular:

- representing the Bank in contacts with authorities and third persons and management of the Bank's assets and interests. The Management Board operates in all areas not reserved for the competencies of the Bank's other governing bodies,
- approving resolutions in matters that in compliance with applicable laws and the Bank's Articles of Association require decisions of the Bank's other statutory bodies,
- development of the Bank's policies, in particular credit policy, risk management policy and remuneration policy,
- determination of rules to acquire funding from other financial institutions and rules of application thereof and determination of the rules to place the Bank's funds with other banks,
- determination of rules to set interest rates on the products offered by the Bank, in particular interest rates on loans and default interest rates,
- review of proposals to recognise extraordinary losses and establishment of provisions in excess of amounts approved separately by the Bank's Management Board,
- approval of investment plans and determination of rules to carry out investments,
- taking decisions in matters related to the purchase, encumbrance, disposal and rental of properties and other property rights in excess of amounts set by the Management Board,
- decisions on purchases and disposal by the Bank of shares and interests in other entities, in excess of amounts set by the Management Board,
- determination of the rules of granting and revoking powers of attorney to perform specific actions or specific action types,
- matters in excess of ordinary management, in particular matters beyond the competencies of individual members of the Management Board and Committees established by the Management Board,
- other matters reserved to the competencies of the Management Board in dedicated regulations approved by the Management Board and other matters put on the agenda by the President of the Management Board or another Member of the Management Board.

The Bank's Management Board has established the following standing committees: the list of the standing committees is attached as Appendix No. 4 to the Organisational Regulations of ING Bank Hipoteczny SA:

- Asset and Liability Committee (ALCO),
- Credit Policy Committee (KPK),
- Non-Financial Risk Committee (NFRC),
- Green Covered Bond Committee (GCBC).

The Asset and Liability Committee supervises and takes decision on:

- market and liquidity risk management at ING Bank Hipoteczny,
- management of the Bank's balance sheet (assets and liabilities), together with methods and transfer pricing system parameters,
- structure of the books of ING Bank Hipoteczny S.A.,
- management of capital and capital adequacy,
- appraisal of financial instruments and calculation of price adjustments providing for factors that are not incorporated in appraisals in the Bank's systems.

Credit Policy Committee

Scope of operations

- Credit risk appetite, i.e. detailed limits of the risk appetite and concentration limits:
 - Determines the types of limits,
 - Sets and changes limit levels.

Credit Policy:

- KPK takes decisions on regulations concerning the implementation of the Policy of Credit Risk Management at ING Bank Hipoteczny S.A.,
- KPK determines and modifies the rules governing risk identification, assessment, and control, including:
 - rules governing credit risk assessment,
 - credit analysis standards,
 - credit competences,
 - rating process course,
 - rules governing monitoring of customers and credit exposures,
 - rules governing conducting restructuring and collection,
 - rules governing collateral establishment and monitoring,
 - rules governing establishment of impairments/provisions,
 - rules governing assessment of the environmental and social risks,
 - rules governing assessment of the business partner risk.

Credit products and processes:

- KPK takes decisions on acceptance of the implementation of new or modification of the existing:
 - products exposed to the credit risk,
 - types of an economic activity related to offering of credit products,
 - distribution channels for credit products,
 - IT systems used in lending business.
- Decisions in that respect are taken only in the event of a material impact on the risk level or a necessity to adjust the credit risk assessment rules.

Credit risk models:

- CPC approves regulations on the development, maintenance, or application of risk models, including:
 - rules governing management of the credit risk models,
 - methodology of model development and monitoring,
 - definitions of the credit risk models,
 - scope of application of the credit risk models,
 - validation of credit risk models.
- KPK approves reports with validation results of credit risk models.
- KPK monitors credit risk levels, ensures compliance with law, supervisory regulations, and the standards of the ING Group and reviews and approves any other issues relating to credit or settlement risk.

KPK ensures compliance with the law, supervisory regulations and standards of the ING Bank Śląski S.A. Group.

Non-Financial Risk Committee – the Committee – following the applicable laws, regulator's requirements, the Bank's internal regulations and good practices of the ING Bank Śląski S.A. Group, , covers inter alia the following issues/areas:

- Initiation and recommendation of changes and new solutions on the area of non-financial risk.
- Approval, consultation and recommendation of:
 - plans, projects and programs related to the management of non-financial risk and control standards,
 - waivers and deviations in the area of non-financial risk with minimum a high risk level.
- Approval of:
 - annual plans and results of control tests,
 - annual risk identification and assessment plans and results of Business Environment Assessment as well as scenario analysis and the results of risk identification and assessment if non-acceptable risks are identified,
 - time schedules of task performance and a report on the monitoring of the Second Line of Defence within testing of key controls,
 - reports on non-financial risks and recommendations to the Bank's Management Board of decisions on material issues of non-financial risks,
 - a list of mandatory training in the area of non-financial risks,
 - periodic reviews of the Bank's organisational structure for its compliance with the principles of operational risk management,
 - calculation methodology of internal capital for operational risk at ING Bank Hipoteczny S.A.,

- measurement results of economic and regulatory capital for operational risk, including quarterly monitoring of the levels of capital required for operational risk and factors affecting changes thereof.
- Supervision of:
 - non-financial risk identification, monitoring and mitigation (including approval of control standards, scenario analyses and stress tests),
 - information transfer from the regulator to the relevant units of the Bank,
 - quality assurance process in non-financial risk management.
- Monitoring of utilisation of limits set forth in the risk appetite statement (including loss limits).

- Assessment of:
 - reports related to reputation risk and aspects of conduct risk,
 - non-financial risk with reference to material changes in the Bank's management structure and material elements of outsourcing processes.

- Tasks related to the Reference Rate Committee.

The Green Covered Bond Committee is responsible for all aspects related to non-environmental nature of mortgage bond issues.

Scope of operations

- Initiation and recommendation of changes and new solutions on the area of green covered bonds.
- Approval of:
 - modifications to the document: *ING Bank Hipoteczny S.A. – Green Covered Bond Framework*,
 - changes to technical conditions to classify receivables to the green asset portfolio,
 - reports concerning allocation of funds raised in bond issues (allocation reporting) and environmental impact reporting,
 - periodic reports submitted to the *Climate Bonds Initiative*.
- Supervision of:
 - processes related to operational implementation of changes specified in the document: *ING Bank Hipoteczny S.A. Green Covered Bond Framework*.
 - processes related to operational implementation of changes to technical conditions to qualify receivables to the green asset portfolio,
 - application process of funds raised in green covered bond issues subject to potential alternative investments specified in the document: *ING Bank Hipoteczny S.A. Green Covered Bond Framework*,
 - development process of the green asset portfolio,

- o cooperation with external entities involved in processes related to green covered bonds,
- o quality assurance in processes related to green covered bonds,
- o reporting processes to the ING Group.

6.3 Management Board of ING Bank Hipoteczny S.A.

Between 1 January and 31 December 2019 the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

	Function	Period of performing the function
Mirostaw Boda	President of Management Board	26.02.2018 – present
Jacek Frejlich	Deputy President of the Management Board	26.02.2018 – present
Roman Telepko	Deputy President of the Management Board	26.02.2018 – present

Split of core competencies within the Bank's Management Board:

Mirostaw Boda	President of the Management Board responsible for the Management Area
Jacek Frejlich	Deputy President of the Management Board for Finances, Operations and IT
Roman Telepko	Deputy President of the Bank's Management Board responsible for Risks

Other managerial functions of Members of the Management Board

	Function	Period of performing the function
Mirosław Boda	Deputy Chairman of the Supervisory Board – ING Usługi dla Biznesu S.A. Deputy Chairman of the Supervisory Board – ING Nowe Usługi S.A.	Throughout the reporting period
Jacek Frejlich	Did not hold any additional functions of a member of any management board or a member of a supervisory board.	Throughout the reporting period
Roman Telepko	Did not hold any additional functions of a member of any management board or a member of a supervisory board.	Throughout the reporting period

The composition of the Management Board and the split of the duties within the Management Board was not changed.

Recruitment policy of Members of the Management Board and assessment of Members of the Management Board

All appointed members of the Management Board of ING Bank Hipoteczny S.A. comply with the requirements set forth in Art. 22aa of the banking Act and before appointment they were subject to suitability assessment in compliance with EBA Guidelines.

The recruitment and assessment process of candidates for members of the Management Board at ING Bank Hipoteczny S.A. is based on the principles set forth in the Policy of selection, appointment, re-appointment and succession planning of Members of the Management Board and the Supervisory Board of ING Bank Hipoteczny S.A.

Upon instructions of ING Bank Hipoteczny S.A., on the basis of a succession base, the HR Unit of ING Bank Śląski S.A. Prepares a list of candidates for specific positions. The candidates on the list shall comply with the diversity requirements as set forth in the Diversity Policy of ING Bank Hipoteczny S.A. If there are no internal candidates meeting the required criteria and needs, external recruitment is carried out. The Supervisory Board selects minimum 2 persons from the list of candidates and such persons will be invited to the assessment process performed by an external company. The external company prepares assessment reports.

The Supervisory Board commissions the suitability assessment process in compliance with the applicable Adequacy Assessment policy of Members of the Supervisory Board, Management Board and persons in key positions at ING Bank Hipoteczny S.A., subject to the principles set forth in the Diversity Policy with reference to Members of the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.

With reference to Members of the Management Board, the following general rules of selection, appointment and succession planning apply:

- Members of the Management Board are appointed and dismissed by the Supervisory Board in a secret ballot subject to compliance with the requirements specified in the Banking Act.
- The Management Board is composed of minimum three members, including the President and Deputy Presidents of the Management Board. Upon a proposal of the President of the Management Board, the Supervisory Board may appoint a Deputy President to the position of the First Deputy President.
- The number of members of the Management Board shall be established by the Supervisory Board. Minimum one half of members of the Management Board shall be citizens of the Republic of Poland.
- Members of the Management Board are appointed for a joint term of office which commences on the appointment day and covers full consecutive financial years.
- The President of the Management Board and the Deputy President managing risks that are material to the Bank's business are appointed by the Supervisory Board subject to approval by the Polish Financial Supervision Authority. The consent of the Polish Financial Supervision Authority shall be also required when the function of the Deputy President referred to above is entrusted to a previously appointed member of the Management Board.

Diversity policy

ING Bank Hipoteczny S.A. has implemented *Diversity Policy for members of the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.*

The Policy is aimed to reach out to a broad scope of competencies at the appointment of members of the Supervisory Board and Management Board in order to attract various viewpoints and experience and to support independent opinions and rational decisions within each body and to ensure high quality of task performance by the governing bodies.

The Bank treats diversity as an attribute of its organisational culture. With respect to professional criteria, the diversity strategy assures selection of people with varied educational background, skills and experience, adequate for their functions and responsibilities and who are complementary in the entire Management Board and Supervisory Board.

The criteria are verified in the adequacy assessment process as set forth in the Adequacy Assessment Policy of members of the Supervisory Board, Management Board and persons in key positions at *ING Bank Hipoteczny S.A.* Additionally, the Diversity Policy covers and relies on differences resulting from gender and age to achieve the best results, apart from know-how, competencies and professional experience.

Remuneration principles of members of the Bank's Management Board

On 18 June 2020 the Bank's Supervisory Board in resolution No. 35/5/2020 approved modifications to the Remuneration Regulations of members of the Management Board of ING Bank Hipoteczny S.A. which sets forth basic rules and conditions applicable to remuneration of members of the Management Board of ING Bank Hipoteczny S.A. The Regulations are compliant with the values and long-term interests of the ING Bank Śląski S.A. Group and thus facilitates effective risk management at the Group. The remuneration principles of Members of the Management Board are set on the basis of market data. They provide for the level of know-how and skills, responsibilities and the risk taken in the respective function. Each member of the Bank's Management Board has concluded an employment contract with the Bank setting forth inter alia conditions of remuneration and no competition clauses.

6.4 Supervisory Board of ING Bank Hipoteczny S.A.

Between 1 January and 31 December 2019 the composition of the Supervisory Board of ING Bank Hipoteczny S.A. was as follows:

	Function in the Supervisory Board	Date of appointment	Date of dismissal/ resignation	Independent Member*	Audit and Risk Committee
Brunon Bartkiewicz	Chairman	26.02. 2018			
Joanna Erdman	Member	26.02. 2018			
Marcin Giżycki	Deputy Chairman	26.02. 2018			
Bożena Graczyk	Member	26.02. 2018			M
Lorenzo Tassan-Bassut	Member	08.04. 2020			
Krzysztof Gmur	Member	26.02. 2018		✓	P
Jacek Michalski	Secretary	11/09/2018		✓	M

P – Committee Chairperson, W – Committee Deputy Chairperson, M – Committee Member

* / in compliance with the definition set forth in the Act on certified auditors, statutory auditors and public supervision of 11 May 2017.

The composition of the Supervisory Board was not changed in 2020. In 31 March 2020 Mr Patrick Roesink resigned from his function as a member of the Supervisory Board of ING Bank Hipoteczny S.A. and a member of the Audit and Risk Committee of the Supervisory Board of ING Bank Hipoteczny S.A. On 8 April 2020, the General Meeting appointed Mr Lorenzo Tassan-Bassut as a member of the Supervisory Board of ING Bank Hipoteczny S.A. At a meeting of

the Supervisory Board on 18 June 2020, Ms Bożena Graczyk was unanimously elected by the Supervisory Board as a member of the Audit and Risk Committee of ING Bank Hipoteczny SA.

In the period under report, there were 2 stationary meetings of the Supervisory Board and 2 stationary meetings of the Audit and Risk Committee. Due to the pandemic, meetings of the Bank's bodies are arranged with the use of means of remote communication.

In accordance with Art. 395 § 2.3 of the Code of Commercial Companies, annual general meetings grants a vote approval separately to each member of the Supervisory Board. Such vote of approval is an assessment of members of the Supervisory Board irrespective of a review by the General Meeting of a report of the Supervisory Board from its operations.

On 8 April 2020 the Annual General Meeting of ING Bank Hipoteczny S.A. was held at which the General Meeting:

- Approved the annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2019 until 31 December 2019;
- approved the report of the Management Board on operations of ING Bank Hipoteczny S.A. for the period from 1 January 2019 until 31 December 2019;
- approved the report of the Supervisory Board on the review of the financial statements, reports of the Management Board from operations and a proposal of the Management Board on the coverage of the loss generated by ING Bank Hipoteczny S.A. in the period from 1 January 2019 until 31 December 2019;
- approved the reports and reviews of the Supervisory Board for the period from 1 January 2019 until 31 December 2019 covering:
 - 1) assessment of the Bank's condition, including assessment of internal control systems, risk management, compliance systems and the internal audit function;
 - 2) report from operations of the Supervisory Board and its Committee;
 - 3) report on the assessment of the functioning of the remuneration policy in the Bank
 - 4) assessment of the application of the Rules of Corporate Governance for Supervised Institutions.
- approved the proposal of the Management Board on the coverage of the loss generated by ING Bank Hipoteczny S.A. in the period from 1 January 2019 until 31 December 2019;
- granted a vote of approval to all members of the Supervisory Board for the period from 1 January 2019 until 31 December 2019;
- granted a vote of approval to all members of the Management Board for the period from 1 January 2019 until 31 December 2019;
- appointed Mr Lorenzo Tassan-Bassut as a Member of the Supervisory Board of ING Bank Hipoteczny S.A.

6.5 Remuneration policy and HR management

Headcount

The headcount at ING Bank Hipoteczny S.A. as at 30 June 2020 was 41FTEs; as at 31.12.2019 and 30.06.2019 – 39 and 37 FTEs respectively.

Remuneration Policy

The core internal regulations related to remuneration policies are provided in:

1. The Remuneration Policy of ING Bank Hipoteczny S.A. – takes into account the Remuneration Policy in the ING Bank Śląski S.A. Group and sets forth key assumptions underlying the remuneration policy in order to attract and retain employees by offering market competitive remuneration levels and defines remuneration components.
2. Remuneration regulations of employees of ING Bank Hipoteczny S.A.

In accordance with the regulations, overall remuneration of employees of the Bank is composed of a fixed part and a variable part.

The fixed remuneration covers:

- a. base salary,
- b. benefits accorded in compliance with applicable laws and the Bank's internal regulations, in particular: additional remuneration for overtime, annual holiday allowance, costs of private cars used for business purposes,
- c. additional benefits as specified in the Bank's general policy, namely: medical care, employee pension plan, company cars, benefits to employees under Cafeteria Program Regulations,
- d. fixed compensation as follows:
 - severance pay for employees laid off for reasons not attributable to employees,
 - compensation at retirement for health or age reasons,
 - allowance in case of death.

The variable remuneration covers:

- annual bonus subject to the rules set forth in the Assessment Regulations of employees of ING Bank Hipoteczny S.A.
- or a bonus subject to the rules set forth in the Assessment Regulations of Identified Staff of ING Bank Hipoteczny S.A.

The relation of variable remuneration to fixed remuneration may not exceed 100%.

Base salary

The core assumption underlying the base salary system is to assure consistency and fairness of remuneration at ING. That is possible due to a regular analysis of multiple factors, including financial and economic aspects. We ensure that the remuneration we offer is benchmarked to the market and we keep updating the system on the basis of detailed market information. The objective of the remuneration policy is to attract and retain employees who contribute to our development by offering competitive and fair remuneration.

The Bank applies an internal grading structure of each working position. The structure is determined on the basis of an independent and objective scoring method of valuation and job descriptions. The working positions are valued on an ongoing basis, in particular in case of major organisational changes at the Bank. The Bank verifies the adequacy of base salaries by regular benchmark studies carried out by external specialised entities.

Variable remuneration

Bonus is the core element of variable remuneration – this is additional remuneration available to employees who perform their STEP UP tasks as specified in the business strategy and values of ING.

The principles of setting and assessing tasks include the following:

- Assessment regulations of employees of ING Bank Hipoteczny S.A.
- Assessment regulations Identified Staff of ING Bank Hipoteczny S.A.

The core objective of the assessment (Step Up) is to ensure adequate competencies of employees on the basis of motivating feedback, setting adequate targets, reliable accounting for the tasks and commitment development so that various business objectives can be accomplished and ING Bank Hipoteczny S.A. maintains its competitive position.

For material risk takers at ING Bank Hipoteczny S.A., the Bank regulates variable remuneration in the Assessment Regulations of Identified Staff of ING Bank Hipoteczny S.A.

In accordance with the Capital Management Policy at ING Bank Hipoteczny S.A., the Bank holds capital tests in order to assure that the entire pool of variable remuneration of all employees does not restrict its ability to maintain an adequate capital base. If such a restriction is detected, a decision may be taken to deactivate the pool of variable remuneration.

In the case of Identified Staff, variable remuneration is composed of:

- cash payment (up to 50%),
- financial instruments (minimum 50%).

The split applies both to remuneration disbursed after the end of the assessment period and to the deferred part. The deferral period is four years from approval of the variable remuneration by the Management Board/Supervisory Board.

Irrespective of the bonus system, the Bank operates an employee remuneration system within which a bonus fund is established to be used for individual discretionary bonus for employees with outstanding performance or for achievements that generated important effects for the Bank.

Non-wage benefits

Additional medical care	Apart from work medicine benefits (as specified in the Labour Code), the Bank provides employees with medical care that is available to employees in differentiated benefit packets, dedicated to various working groups.
Group insurance	Employees are offered an opportunity to join a group life assurance program at preferential rates negotiated by the Bank and they may choose from among two insurance companies,
Cafeteria system	In the system, each Bank employee via a benefit internet platform may on their own spend funds allocated from the Company Social Benefit Fund.

Remuneration principles of members of the Bank's Management Board

On 18 June 2020 the Bank's Supervisory Board in resolution No. 35/5/2020 approved modifications to the Remuneration Regulations of members of the Management Board of ING Bank Hipoteczny S.A. which contains basic rules and conditions applicable to remuneration of members of the Management Board of ING Bank Hipoteczny S.A.

The Regulations are modified regularly along with changing conditions and regulations at the ING Bank Śląski S.A. Group.

The Regulations are compliant with the values and long-term interests of the ING Bank Śląski S.A. Group and thus facilitates effective risk management at the Group.

The remuneration principles of Members of the Management Board are set on the basis of market data. They provide for the level of know-how and skills, responsibilities and the risk taken in the respective function.

The remuneration package of each member of the Management Board is composed of:

- a. fixed remuneration which is made up of a base salary and the following additional benefits: Employee Pension Plan (PPE), medical care, company car, allowances related

to termination of employment contract, other benefits granted by decisions of the Supervisory Board.

- b. variable remuneration which covers an annual bonus in compliance with the Policy of variable components of remuneration for Identified Staff of ING Bank Hipoteczny S.A., including Members of the Management Board.

Variable components of remuneration of Members of the Management Board and Identified Staff

According to the requirements of:

- a. Banking Act of 29 August 1997 (consolidated text: Journal of Laws of 2015, item 128, as amended),
- b. Regulation of the Minister of Development and Finance of 06 March 2017 on risk management and internal control system, remuneration policy, and a detailed manner of internal capital estimation at banks, hereinafter referred to as the Regulation of the Minister of Development and Finance,
- c. Guidelines of the European Banking Authority 27 June 2016 on sound remuneration policies, referred to in Art. 7.3 and Art. 75.2 of the Directive 2013/36/EU and disclosures in accordance with Art. 450 of Regulation (UE) No. 575/2013, hereinafter referred to as the Guidelines,
- d. Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, as amended, hereinafter referred to as the RTS Regulation.

The Bank has the following regulations setting forth the principles underlying variable components of remuneration:

- a. Policy of variable components of remuneration for Identified Staff,
- b. Assessment regulations of Identified Staff of ING Bank Hipoteczny S.A.

As at 30 June 2020, the Policy of variable components of remuneration for Identified Staff was applied to 7 members of the Supervisory Board, 3 members of the Management Board and 8 positions (9 persons) in the IDS List.

List of Identified Staff – a list of persons employed at the Bank, identified as having material impact on the risk profile of ING Bank Hipoteczny S.A. on the basis of quantitative and qualitative criteria, specified in Appendix No. 1 to the Policy of variable components of remuneration for Identified Staff, in compliance with the Regulation of the Minister of Development and Finance and the RTS Regulation.

The list of Identified Staff keeps being updated by the President of the Management Board of ING Bank Hipoteczny S.A.

On the basis of the criteria, Identified Staff include in particular:

- members of the Supervisory Board and the Management Board,
- persons in managerial positions and reporting to members of the Bank's Management Board,
- employees who are responsible for operations of the independent risk management, compliance or internal audit functions,
- employees who are responsible for legal, finances (including taxes and budgeting), HR, remuneration policy, IT or economic analysis,
- employees who are responsible for the risk category management committee as specified in Art. 79-87 of Directive 2013/36/EU other than credit risk or market risk or who are members of the committee,
- positions at which employees fall within the same remuneration bracket as higher management and material risk takers (as long as they have material impact on the risk profile).

The following criteria are applied to identify if a specific position/person has material impact on the Bank's risk profile and should be included in the List of Identified Staff:

- a. The person in the position has authority to take decisions or issue binding opinions that materially affect the Bank's risk profile,
- b. The person in the position is responsible for control functions at the Bank including responsibilities or involvement in developing risk management systems, development or implementation of material risk mitigation procedures at the Bank.

Additionally, the analysis of impact on the Bank's risk profile is aimed at identifying key committees of the Bank whose decisions affect the Bank's risk profile and to incorporate members of the committees with veto rights or casting vote to the List of Identified Staff.

The Supervisory Board approves the Policy of variable components of remuneration and supervises the adherence thereto.

In the period under report, the Supervisory Board of ING Bank Hipoteczny SA held 6 meetings (including 1 stationary, 3 by correspondence, 2 using means of remote communication).

Variable remuneration is appropriately proportionate to fixed remuneration. The ratio of fixed remuneration to variable remuneration is maximum 1.

Variable remuneration is determined on the basis of performance assessment and it is composed of:

- cash payment (up to 50%),
- financial instruments (minimum 50%).

The split applies both to remuneration disbursed after the end of the assessment period and to the deferred part.

The Bank follows the rule of deferral of variable remuneration; however, in compliance with the proportionality principles specified in the Regulation of the Minister of Development and Finance, an absolute amount of variable remuneration of up to PLN 40,000 is introduced that is not deferrable.

A holding period applies to variable remuneration awarded in financial instruments. The period is equal to one year from the instrument award date.

Financial instruments awarded as part of variable remuneration are an instrument within the meaning of the Act on trading in financial instruments with net asset value of ING Bank Hipoteczny S.A. as the underlying.

It is possible to reduce or refuse the disbursement of deferred variable remuneration on the basis of:

- verification of results of task accomplishment, or
- ex post risk adjustment and capital test.

The verification of results of task accomplishment is to identify if any indications exist to change the results of the assessment period considering the performance of an Identified Staff member – and thus to reduce or refuse the disbursement of variable remuneration. In particular, this applies to conduct of an employee that results in a material adjustment of the Bank's financial statements and loss of reputation by the Bank.

On the basis of an ex post risk adjustment, the Bank is entitled to reduce or refuse the disbursement of variable remuneration in the following circumstances:

- a. occurrence of events resulting in a breach or potential breach by the Bank of the standards set forth in Art. 142.1 of the Banking Act as a result of which a Remedy Plan has to be activated,
- b. disbursement of variable remuneration on the basis of unreliable data,
- c. when Identified fail to comply with appropriate standards concerning their competencies and reputation,
- d. occurrence of a conflict of interest related to the disbursement of a part of variable remuneration in financial instruments due to incompliance with the rules related to the use of insider information and other actions that may affect the value of the assets of ING Bank Hipoteczny S.A. in short term.

Employees are not entitled to an annual bonus (including any undisbursed deferred part) in the employment contract is terminated:

- a. pursuant to Article 52 of the Labour Code,

- b. on initiative of the employer for reasons attributable to the employee under termination notice.

The Identified Staff may not use their own hedging strategies or insurance concerning the remuneration and responsibilities with the exception of mandatory insurance under applicable specific regulations, that would neutralize the measures applied to such persons by the Bank as part of the implementation of the Policy. The Identified Staff are obliged – by 31 January each year when they perform their respective functions – to provide the employer with a statement of not applying and hedging strategies or insurance.

The Bank does not provide any individual pension benefits understood as a part of the variable remuneration packet.

The Bank does not apply any solutions concerning the award or disbursement of variable remuneration that would circumvent the Policy.

Once a year, by 31 January, ING Bank Hipoteczny S.A. provides the Polish Financial Supervision Authority with information on the employees of the Bank whose individual total remuneration for the previous year is in excess of EUR 1 million at the mean rate of the National Bank of Poland, prevailing on the last working day of the year covered with the report, along with information on their respective positions and the amount of core elements of remuneration, awarded bonus and long-term rewards and the withheld pension contributions.

ING Bank Hipoteczny S.A. publishes information concerning the Policy as required by the Polish Financial Supervision Authority on detailed principles and publication manner of qualitative and quantitative disclosures concerning capital adequacy and the scope of information subject to disclosure.

With respect to members of the Management Board, annual bonus is triggered when the Bank generates profit of minimum 80% of the plan for the year for which variable remuneration is calculated.

In accordance with the Capital Management Policy at ING Bank Hipoteczny S.A., ING Bank Hipoteczny holds capital tests in order to assure that the entire pool of variable remuneration of all employees does not restrict the ability of the Group to maintain an adequate capital base. If such a restriction is detected, a decision may be taken to deactivate the pool of variable remuneration.

The amount of variable components of remuneration may be reduced and disbursement halted if the Bank generates a permanent book loss.

When the employment contract is terminated by the Bank, members of the Management Board are entitled to a severance pay equivalent to three-month base salary of the last three months preceding such termination.

Members of the Management Board and Identified Staff are subject to no-competition clauses which provide for compensation.

In the period under report, no employee of ING Bank Hipoteczny SA was paid remuneration of minimum EUR 1 million.

Contracts between the Bank and managing persons

Within the meaning of Art. 2.1.30.a, of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical disclosure by issuers of securities and conditions to recognise as equivalent the information that is required by the law in Non-Member States, Members of the Management Board are the persona managing the Bank.

Each member of the Bank's Management Board has entered into an employment contract with the Bank that sets inter alia remuneration conditions and contains no-competition clauses (Resolution of the Supervisory Board of 11 May 2018, as amended).

7. Corporate governance and disclosures for investors

7.1. Corporate governance rules and application

The Bank has approved for implementation the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority, on the basis of the following decisions of the bank's governing bodies:

Resolution of the Management Board No. 29/10/2019 of 11 March 2019 – a statement of application at ING Bank Hipoteczny S.A. of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority, including the principles related to competencies and duties of the Management Board – managing the affairs of the Bank and representation of the Bank, in compliance with the applicable regulations and the Bank's Articles of Association,

Resolution of the Supervisory Board No. 20/03/2019 of 22 March 2019 – a statement of application at ING Bank Hipoteczny S.A. of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority, including the principles related to competencies and duties of the Supervisory Board – supervision of the affairs of the Bank in compliance with the applicable regulations and the Bank's Articles of Association,

Resolution of the General Meeting No. 18 of 3 April 2019 – a statement of application at ING Bank Hipoteczny S.A. of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority, including the competencies of the General Meeting,

Resolution of the Bank's Management Board No. 34/15/19 of 15 April 2019 on approval for application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority.

The Bank has waived the following Principles from use at ING Bank Hipoteczny S.A.:

- The Principles in Art. 8.4 and Art. 9.6 do not apply due to the fact that 100 % of shares of ING Bank Hipoteczny S.A. are held by the sole Shareholder – ING Bank Śląski S.A. The number of shareholders does not justify the need to apply those principles.
- The principles in Art. 28.3 and Art. 28.4 are not applied at ING Bank Hipoteczny S.A. in view of the proportionality principle. The Bank has only one shareholder that is represented in the Bank's supervisory body and the principles of the Bank's management information system appropriately secure the shareholder's interests.
- The principles in Art. 32.1, Art. 34 and Art. 36.1 and 36.2 do not apply since the business model approved by ING Bank Hipoteczny S.A. does not provide for acquisition of customers (including by way of advertising) and only for purchase of mortgage-backed receivables from ING Bank Śląski S.A.
- The principles in Art. 19.4 and Art. 52.2 do not apply since ING Bank Hipoteczny S.A. has established internal audit and compliance functions.
- The principles set forth in Chapter 9 – *Performance of rights acquired at customers' risk* – are not applied at ING Bank Hipoteczny S.A. since the Bank may not get involved in the business as set forth in the chapter.

The Bank has restricted the application of the following Principles at ING Bank Hipoteczny S.A.:

- The principles in Art. 9.1 – they are applied to a limited extent due to having only one shareholder that is represented in the Bank's supervisory body.
- The principles in Art. 29.1-2 – they are applied to a limited extent due to the fact that they relate only to independent members of the supervisory body.
- The principles in Art. 35, Art. 37 and Art. 38.1-2 – they are applied to a limited extent concerning after sale handling of mortgage-backed receivables in line with the business model pursued at ING Bank Hipoteczny S.A.

An assessment of the application of the Principles at the Bank, as required by art. 27 of the Principles – was carried out by the Bank's Supervisory Board in the first quarter of 2020. The results of the assessment are available at the Bank's web site:

https://www.inghipoteczny.pl/_files/assetmanager/item/w0lgrlc

Rules of professional ethics of the employees of ING Bank Hipoteczny S.A.

The Bank has implemented Regulations – Rules of professional ethics of employees of ING Bank Hipoteczny S.A. which are a set of key rules of conduct by employees of the Bank that promote a corporate culture based on awareness and adherence to the law, internal regulations and market standards. The rules specified in the Regulations shall apply to the employee's all activities related to the performance of official duties. Some of the rules may also apply to the employees' private activity if such private activity may adversely affect the Bank's reputation or cause a conflict of interest.

Orange Code

The principles set forth in the Orange Code are a key element underlying the organisational culture based on the values promoted in the ING Group. This is a set of standards that are mandatory for all employees of the Bank and the adherence to which is taken into account in the employee annual assessment. The Orange Code is composed of two parts:

ING values that is a promise made to the external environment:

- We are honest,
- We are prudent/We behave rationally,
- We are responsible.

ING behaviour identifying the conduct of employees. Those are commitments that employees undertake one to another and standards to assess their actions:

- You take initiative and act effectively,
- You help others to succeed,
- You are always a step ahead.

Disclosure policy of ING Bank Hipoteczny

The Bank as a public trust institution pursues a disclosure policy as open and transparent communication to its customers, investors, media and all stakeholders. Following its disclosure policy, the Bank applies the legal requirements concerning information confidentiality and security which apply to the bank as a supervised institution. In its disclosure policy, the Bank follows corporate governance rules, in particular by providing customers, shareholders, investors, media and all stakeholders with appropriate access to information on the Bank. The full text of the Policy is available on this page.

Control system and risk management in the preparation process of financial statements

Preparation of financial statements is treated as a key element of compliance with standards. The Accounting Policies approved by the Bank's Management Board setting forth the key rules of recording economic events at the bank is a fundamental element to perform the above process. Events are recorded in the Bank's books of account that underlie the preparation of financial statements.

In the preparation process of financial statements, the Bank has identified the following key risks to the Bank:

- processing risk – a risk of financial loss, regulatory sanctions and/or loss of reputation due to irregularities/errors in the Bank's tax or financial reporting,
- IT risk – a risk of financial/reputation loss due to breached data integrity or confidentiality as a result of errors in applications or unauthorised access,
- compliance risk – a risk of financial loss, regulatory sanctions and/or loss of reputation as a result of: (1) incompliance of internal tax-related regulations, including regulations relating to transfer pricing with applicable laws; (2) failure to comply with the guidelines of the ING Group in relation to taxes, and (3) material errors in financial statements and/or tax returns due to: insufficient awareness of changes to tax laws and regulations; or incorrect interpretation of tax laws and regulations; or lack of transaction reporting in dedicated financial systems of ING Bank Hipoteczny S.A. (e.g. incorrect application of transfer pricing regulations).

For all the identified risks, controls have been developed to mitigate the risks.

Controls mitigating processing risk cover inter alia verification of the data generated by applications and four-eye verification of tax reports/returns sent by the Bank. Financial statements are approved by the Bank's Management Board and are consulted with the Audit and Risk Committee and reviewed by the Bank's Supervisory Board.

In order to mitigate IT risk, controls have been implemented with respect to the management of access to data, inter alia mechanisms limiting unauthorised access, matrices of application roles with the principle of minimum required rights and no toxic combinations, a tool to grant access and assign roles which embeds the requirements of approval by a superior.

The controls mitigating compliance risk cover inter alia the annual attendance by the staff of the Accounting and Tax Team in training or external meetings on changes to tax, accounting and reporting regulations as well as verification of annual and semi-annual financial statements by an independent external auditor.

The manager of the Accounting and Tax Team – Bank's Chief Accountant is responsible for compliance with control mechanisms in financial reporting. The external auditor periodically verifies and independently reviews the adequacy and effectiveness of control in the preparation process of financial statements and assesses risk management in the process (within the approved audit plan).

Shareholders that directly or indirectly hold significant stakes and the number of shares held by the entities and the corresponding voting rights.

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 380,000,000.00 and is split into 380,000 ordinary registered shares with par value of PLN 1,000.00 each. The share capital was fully covered with contributions in cash. Each share entitles the holder to dividend and one vote at the General Meeting.

Share capital structure

Series	Type of shares	Number of shares	Nominal value of one share (PLN)	Series value at nominal prices (PLN)	Number of votes at the GSM	Day of issue	Shareholder
A	ordinary	120,000	1,000.00	120,000,000	120,000	26.02.2018	ING Bank Śląski Spółka Akcyjna In Katowice
B	ordinary	90,000	1,000.00	90,000,000	90,000	03.01.2019	ING Bank Śląski Spółka Akcyjna In Katowice
C	ordinary	170,000	1,000.00	170,000,000	170,000	11.12.2019	ING Bank Śląski Spółka Akcyjna In Katowice

7.21 Audit firm – audit of the financial statements

The audit firm that is authorised to audit the financial statements of ING Bank Hipoteczny S.A. is BDO Spółka z ograniczoną odpowiedzialnością Sp. Komandytowa with its registered office in Warsaw.

7.3 Other information

Factors that will affect the financial statements in minimum the next quarter

Among the factors that will affect the financial statements in minimum the next quarter there are the following:

- Transfers of loan receivables from the strategic partner – ING Bank Śląski S.A.,
- Development of the local and foreign mortgage bond market in terms of demand and return anticipated by investors,
- Further development of the housing market in Poland,
- Further development of the mortgage loan market in Poland,
- Development of the regulatory environment,
- Slow-down of global economy due to the COVID – 19 pandemic.

Changes to holdings of shares in ING Bank Hipoteczny S.A. and any rights to the shares held by managing and supervising persons

In the period from 1 January 2020 until 30 June 2020 there were no changes to holdings of shares in ING Bank Hipoteczny S.A. and any rights to the shares held by managing and supervising persons.

Major agreements with the Central Bank and supervisory authorities

In the reporting period, the Bank entered into no agreements with the Central Bank and supervisory authorities.

Granted financial liabilities and guarantees

In the period under report, the Bank did not grant any guarantees and held no financial commitments under granted and undisbursed loans.

Granted financial liabilities to related entities

In the period under report, the Bank did not grant any off-balance sheet liabilities to its related entities.

Contracted loans and borrowing agreements, guarantees and sureties not related to the Bank's operations

In the period under report, the Bank did not contract any loans or borrowings, guarantees or sureties not related to the Bank's operations.

Underwriting agreements and guarantees granted to subsidiary entities

The bank did not enter into any underwriting agreements and did not grant any guarantees granted to its subsidiary entities.

Proceedings pending in courts, before arbitration bodies or public administration bodies

As at 30 June 2020 there were no proceedings pending in courts, before arbitration bodies or public administration bodies

Information on loan and borrowing agreements contracted and terminated in the financial year

On 31 January 2020 the Bank signed an annex to the Loan Agreement with ING Bank Śląski S.A. on 31 January 2019 increasing the maximum exposure amount to PLN 4.2 billion. Additionally, as at 30 June 2020 the Bank held a liability under the acquired receivables of PLN 421.9 million under the acquisition transactions from ING Bank Śląski S.A. of receivables portfolios with mortgage-backed housing loans. The repayment dates of the liability related to the purchased receivables is each time agreed by the parties in the Receivables Sale Agreement. With respect to the receivables acquired in the first half of 2020, the parties agreed that 90% of the price of the receivables would be payable within 30 days of the transfer while the remaining 10% of the price would be payable latest within 18 months from the transfer date. Interest accrues on the deferred part (10% of the price).

Information on any transaction(s) concluded by the Issuer or its subsidiaries or multiple transactions with related entities if they are material and were concluded otherwise than on an arm's length basis

ING Bank Hipoteczny S.A. has not entered into material transactions with related parties other than at arm's length.

Information on changes to the fundamental management principles of the Bank's enterprise

In the period under report there were no changes to the fundamental management principles of the Bank's enterprise.

Financial support agreements

ING Bank Hipoteczny S.A. has not entered into any financial support agreements with any entities that are subject to consolidated supervision in the same holding or with any related entities.

Deposits and guarantees and sureties granted

ING Bank Hipoteczny S.A. does not take deposits or grants guarantees or sureties.

Information on the value of collateral established on customers' accounts or assets

In the reporting period ING Bank Hipoteczny S.A. did not establish collateral on customers' accounts.

The overall amount of the mortgage lending value of properties accepted by the Bank as collateral to mortgage loans was PLN 6.77 billion as at 30 June 2020.

Events after the date as at which this Report was made

According to the information published by the Polish Financial Supervision Authority and the Ministry of Finance, work is now under way on the functioning model of mortgage banking in order to enhance the attractiveness for banks of restoring to long-term mortgage bonds secured with mortgage-backed receivables. As specified in the communication, potential changes may refer to three areas: a) a potential modification or change to the issuer model of mortgage bonds, b) support to issuers at operational level, concerning e.g. shorter time to make entries to land and mortgage registers, c) improved liquidity and enlarged volume of Poland's mortgage bond market by facilitating the demand side and easier access by issuers to derivative instruments hedging FX and interest rate risk in case of cross-border issues. The above may materially affect the operation and functioning of mortgage banks in Poland.

8. ING Bank Hipoteczny S.A. Management Board statement

To the best of its knowledge, the Management Board of ING Bank Hipoteczny S.A. represents as follows:

the financial statements of ING Bank Hipoteczny S.A. for the period between 1 January 2020 until 30 June 2020 and the comparable data were prepared in compliance with the applicable accounting principles and they reflect the economic and financial condition of ING Bank Hipoteczny S.A. and its financial result in a true, reliable and clear manner,

the Management report from operations of ING Bank Hipoteczny S.A. for the period from 1 January 2020 until 30 June 2020 presents a true picture of development and achievements and of the condition of ING Bank Hipoteczny S.A., including a description of core risks and hazards.

The Management Board of ING Bank Hipoteczny S.A. represents that the audit firm that audited the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2020 until 30 June 2020 was selected in compliance with applicable laws, and that the firm and the auditor who performed the audit complied with the requirements to issue an impartial and independent report from the audit of the financial statements, in compliance with applicable laws and professional standards.

This Management report on operations of ING Bank Hipoteczny S.A. for the period from 01 January 2020 until 30 June 2020 contains 70 consecutively numbered pages.

Signatures of all Management Board Members

24 August 2020	Mirosław Boda	President of Management Board	<i>[the original Polish document is signed with a qualified electronic signature]</i>
24 August 2020	Jacek Frejlich	Deputy President of the Management Board	<i>[the original Polish document is signed with a qualified electronic signature]</i>
24 August 2020	Roman Telepko	Deputy President of the Management Board	<i>[the original Polish document is signed with a qualified electronic signature]</i>