

**Management Board Report on Operations
of ING Bank Hipoteczny S.A.
for the period from 1 January 2019
to 31 December 2019.**

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1. Letter from the Supervisory Board Chairman

Dear Stakeholders,

2019 brought both shareholders and clients and employees of ING Bank Hipoteczny S.A. numerous reasons to be satisfied.

The pursued by the Management Board strategy of acquisition and later gradual increase of the share of long-term funding in the Bank's balance sheet – through issue of covered bonds – proved a success.

In the past reporting period, the Bank acquired a portfolio of mortgage loans worth approx. PLN 3.2 billion. By increasing gradually the portfolio of mortgage loans, the Bank may deliver its strategy, that is to become one of the major issuers of covered bonds in the Polish market.

Further, past year brought about the issue of green covered bonds which was much appreciated by investors. This we may attribute to a high quality of collateral for covered bonds in the lending portfolio which was also affirmed with a high rating Aa3 assigned by the Moody's Investor Service and the certification awarded to the Bank by the Climate Bonds Initiative (CBI) in connection with satisfaction of top positive environmental impact standards. The green covered bonds issued in the Polish market totalled PLN 400 million. By issuing green covered bonds, the Bank supports funding of green flats and houses.

As in previous years, in the past year, the Supervisory Board carefully observed and analysed the financial standing and business development of the Bank. The Board was regularly contacting the Management Board, taking part in the consultations of all material aspects of the Bank business. The Supervisory Board are assisted by the Audit and Risk Committee, formed by the Supervisory Board Members. In keeping with the approved work calendar, between 1 January 2019 and 31 December 2019, the Board and the Audit and Risk Committee met five times each.

Both the strategy of ING Bank Hipoteczny S.A. and the activity of the Management Board assisted by the Supervisory Board enable the Bank to continue to develop and support the ING Bank Śląski S.A. Group in the delivery of its goals.

Yours faithfully,

Brunon Bartkiewicz

Chairman of the Supervisory Board

2. Letter from the President of the Management Board

Dear Sirs,

Below please find the annual report of ING Bank Hipoteczny S.A. (the Bank) for 2019. For the Bank, it was the first full operational year after its inception.

The strategic objective of Bank Hipoteczny is to acquire and later gradually increase the share of long-term funding in the Bank's balance sheet – through issue of covered bonds – as well as becoming one of the major issuers of debt instruments in the Polish market. This will enable the ING BSK Group to improve its funding stability, diversify funding sources as to funding of the current portfolio of retail mortgage loans, match the maturity structure of assets with that of liabilities in the balance sheet, and also reduce the funding costs of the lending campaign for the part of the lending portfolio funded with other long-term instruments.

We believe that the first operational year of the Bank plus its commercial results show that the actions taken by the Management Board are appropriate and make it possible to deliver.

In the reporting period, the Bank acquired a portfolio of mortgage loans worth approx. PLN 3.2 billion, thus building the balance sheet total of over PLN 3.3 billion as at 2019 yearend. It was also the time when the Bank issued green covered bonds for the first time. The issue was much appreciated by investors. The book built considerably went over the initially assumed levels. This may be attributed *inter alia* to a high quality of collateral for covered bonds in the lending portfolio which was also affirmed with a high rating Aa3 assigned by the Moody's Investor Service (the Country Ceiling) and the certification awarded to the Bank by the Climate Bonds Initiative (CBI) in connection with satisfaction of top positive environmental impact standards. The green covered bonds issued in the Polish market totalled PLN 400 million. By issuing green covered bonds, the Bank supports funding of green flats and houses.

In 2020, the Management Board intend to continue the actions taken to foster accomplishment of the Bank's objectives. We want to be a trustworthy partner to our clients and investors, as we want to keep long-term relationships with them.

We want to thank our investors and clients for their trust and Bank employees for their input and commitment to building the position of the Bank. We also want to thank employees of ING Bank Śląski S.A. for their support in our Bank development.

Yours sincerely,

Mirostaw Boda

President of the Management Board



3. Introduction

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

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

As at 31 December 2019, the share capital of ING Bank Hipoteczny S.A. amounted to PLN 210,000,000.00 and was fully taken up by ING Bank Śląski S.A. ING Bank Hipoteczny S.A.'s shares were paid in cash.

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

4. Business landscape

4.1 Macroeconomic environment

Gross Domestic Product

Since the peak in 2018 the Polish economy has been experiencing a gradual slowdown. In 2019, it grew at the rate of 4.0% y/y (2018: 5.1%). The slowdown was first and foremost driven by impeded investments (7.1% y/y versus 9.0% in 2019). Public spending (infrastructural investment projects) also noted lower dynamics due to a slower absorption of EU funds. On the other hand, private spending bounced back relatively late in that cycle and it was short-term only. Companies were not eager to draw new loans (their growth dropped by over 50% from 2018); they accumulated their savings instead. Economic growth was fuelled by households spending which in 2019 went up by 4.1% y/y (2018: 4.3%). The propensity for shopping was however lower than suggested by the rise in households income, driven by high pay dynamics and social transfers. In turn, consumers were building up their savings. The highest growth in deposits – approximately 10% y/y – has been reported since 2011.

ING economists expect the GDP growth rate to go down to approximately 3% y/y in 2020, due to further slowdown in investment projects (dynamics down to 2.7% y/y), and those public ones in particular, in consequence of a poorer financial standing of local governments and lower absorption of EU funds. The investments made by private firms will probably remain low – polls show that their propensity for investing, and especially among the smallest firms, becomes more and more contained. This will probably translate into further slowdown of corporate lending growth. Corporate deposits will also grow at a slightly slower pace than in 2019. ING economists expect that consumption growth – supported by a high minimum salary rise – will remain high (dynamics of approximately 3.9% y/y). Neither the lending dynamics nor the growth rate of retail deposits in 2019 will prove possible to preserve most probably. Polish export sectors seem to tolerate the Eurozone downturn pretty well, leveraging on the strong internal demand of its member states. This suggests that net exports should deteriorate only slightly in 2020.

Low interest rate landscape

The Monetary Policy Council has not changed interest rates since March 2014. In the past year, the Council resolved not change the policy parameters despite an expansive economic policy of the government (extending the access to social benefits, for example), constant GDP growth and resultant inflation rise risk. The Monetary Policy Council argued that the threat to stable prices was of regulatory character first and foremost (garbage collection fees, for example) and that it was beyond its control.

ING economists are of the opinion that the Monetary Policy Council will keep interest rates at the present level (the reference rate of 1.5%, the lombard rate of 2.5%) in 2020 and, most probably, also in 2021. In their positions, the Council underlines that regulatory changes are among the key price increase drivers. They believe that a gradual slowdown will also suppress the rise in prices in the second half of the year. Although ING economists expect a higher inflation path (over 4% y/y in Q1 2020) than suggested by the NBP projection and recognise structural sources of increase in prices (minimum pay rise, for example), they find those factors insufficient to convince the Monetary Policy Council to change interest rates in the said time horizon. Thus, real rates (after inflation) will remain among those being the lowest in Europe.

ING economists believe that the Monetary Policy Council will prioritise economic growth risks, stressing the mild attitude of main central banks and interim – in their opinion – rise in prices. The negative level of real interest rates of the National Bank of Poland is a negative factor for the Polish zloty. Its impact has been small so far.

Condition of public finance

In 2019, the condition of the public finance sector was slightly worse than in 2018. This was the consequence of a rise in public spending in the election year (on the programme of 13th pensions and extension of the 500+ programme to cover every child, for example) and lower income dynamics (namely: excise tax and VAT). ING economists expect that the deficit of the sector of state and local government institutions (according to the EU methodology) stood at 0.7% of the GDP (2018: 0.2% of the GDP). The public debt amount went down from 48.9% to 45.9% of the GDP.

ING economists assess that 2020 will see the balance of public funding arrive at 0.5% of the GDP in Poland. Although a cut in PIT rates and economic slowdown will negatively affect the growth rate of tax income, the state budget gap will be replenished with one-off income – on open-ended pension funds liquidation fee (approximately PLN 18 billion) and the NBP profit contribution (approximately PLN 7 billion). Public spending will remain elevated: the benefits under the extended 500+ programme will be paid out for the first time for the entire year and 13th pensions for pensioners will reappear. Lack of new long-term funding sources for those fixed expenditures will cause the structural deficit of public finance to go up. The European Commission envisages that it will be 1.9% of the GDP versus 1.4% and 2.2% of the GDP in 2018 and 2019 respectively.

International business landscape

In 2019, global business activity slowed down visibly. The Far East and Eurozone states were affected by it first and foremost. The situation was driven by many factors; i.e., the trade war between the United States of America and China, lower demand for electronic appliances (due to market saturation most probably) and many problems suffered by the motor industry (like low car imports from Europe to Asia).

This year brings about slightly improved sentiments in the ZEW surveys in Germany or Sentix ones in the Eurozone. Entrepreneurs' expectations also rise, as shown by the Market PM surveys and European Commission indicators. Still, ING economists project that rebuilding of business activity in European economies will be a long process – in 2020, the GDP in the Eurozone will grow at a slow pace and will not go over 1% y/y most probably. For the United States of America, they expect a slight slowdown, from 2.3% to 1.7% y/y.

2020 will also bring about key political developments of global impact, with the presidential election in the USA in November being among them. Donald Trump may be opposed by a representative of the left wing of the Democratic Party. Such choice will mean confrontation of two contradictory directions of the economic and international policy of the United States of America. This year will also probably see another stage of trade negotiations between the United States of America and China, and potentially also the European Union. The latter was exited by the United Kingdom in February 2020. Yet, since a transition period for negotiating the final trade deal was agreed upon, this event will not trigger any important changes to the trade relations between both economies in 2020.

Macroeconomic projections

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020F |
|--|------|------|------|------|------|------|-------|
| GDP growth (%) | 3.3 | 3.8 | 3.1 | 4.9 | 5.1 | 4.2 | 3.0 |
| General government debt as per the EU methodology (% of GDP) | 50.4 | 51.3 | 54.2 | 50.6 | 48.9 | 45.9 | 44.9 |
| Average annual inflation (CPI) (%) | 0.0 | -0.9 | -0.6 | 2.0 | 1.7 | 2.3 | 3.5 |
| Unemployment rate (%) | 11.4 | 9.7 | 8.2 | 6.6 | 5.8 | 5.2 | 5.4 |
| USD/PLN exchange rate (yearend) | 3.51 | 3.90 | 4.18 | 3.48 | 3.76 | 3.80 | 3.81 |
| EUR/PLN exchange rate (yearend) | 4.27 | 4.26 | 4.42 | 4.17 | 4.30 | 4.26 | 4.30 |
| 3M WIBOR (yearend) | 2.5 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |

4.2 Residential estate market

One of the regular elements characterizing the Polish social and economic situation is insufficient supply of apartments. In 2017, there were 371 apartments available per 1,000 citizens. To compare, in the EU member states this number – conditional on the data source – is approximately 480 apartments. In Germany, France or Spain – over 500 apartments. Besides the quantitative shortage, the unsatisfactory standard of a large part of the available apartments should be named. As defined by the Eurostat, over 40% of Poles live in overcrowded houses. Both the average apartment floor area and the floor area per one citizen are below the EU average.

Depending on the methodology, the shortage of apartments is estimated to range from 1.4 million and 4.4 million in Poland. The data of the Central Statistical Office show that in the first nine months of 2019 approximately 145.7 thousand apartments or 12.3% more than a year ago were commissioned for use. The usable area of the apartments commissioned for use was 13 million square metres, or 9.7% more than in the same period last year. Additionally, one noted nearly 178.4 thousand apartments whose construction started (up by 2.6% from the same period last year) and 201.3 thousand apartments to be built (up by 3.8% from the same period last year) wherefor building permits were issued or building designs were registered.

In 2019, residential estate market prices continued to rise, whereby the trend started in 2014 was upheld. In the absence of other attractive capital investing alternatives, a gradual pay rise, low unemployment and interest rates encouraged investment in apartments.

Availability of adequate apartments is among further social and economic growth drivers. A limitless shortage of apartments in Poland is an opportunity for development of the

mortgage banking market which is based on real estate funding with long-term covered bonds.

4.3 Mortgage lending market

As at 31 December 2019, banks' receivables under residential loans in Poland totalled PLN 443.2 billion or went up by 6.6% y/y (as per the data published by the National Bank of Poland). The balance of loans awarded in PLN rose by 12.3% y/y and closed at PLN 323.1 billion.

The Polish market of mortgage loans is practically dominated by variable interest rate loans. At present, banks launch more and more fixed interest rate loans which gain more and more interest from clients.

As at the end of December, the strategic partner to the Bank, ING Bank Śląski S.A. was ranked number two and number four in terms of sale and volume of the portfolio of PLN mortgage loans respectively.

A large demand for apartments, developing economy and low interest rates are conducive to further growth of the market of mortgage loans.

4.4 Covered bonds market

As at the end of December 2019, there were four mortgage banks in Poland:

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

The Polish market of covered bonds is small when compared with developed EU economies where covered bonds are an important source of mortgage lending funding. Still, it grew dynamically over previous years. Polish issuers place covered bonds both in the Polish market and abroad. Public issues prevail; variable interest rate ones in Poland and fixed interest rate ones abroad.

As at the end of Q4 2019, the mortgage bonds in trading in Poland totalled approximately PLN 26 billion (up by PLN 4.8 billion from December 2018). For the time being, PKO Bank Hipoteczny is the largest issuer of covered bonds in Poland. The ratio of mortgage loans funding with covered bonds still remains low.

In 2019, PKO Bank Hipoteczny and ING Bank Hipoteczny issued first green covered bonds. The funds obtained by the Bank under the issue were earmarked for financing or refinancing of real estates from the group of 15% of the most energy-efficient buildings.

Operations of mortgage banks make it possible to: strengthen funding stability within the group, diversify funding sources for the portfolio of retail mortgage loans, better match the maturities of assets and liabilities in the balance sheet (as a rule, Polish banks finance long-term mortgage loans with short-term deposits) as well as reduce the funding costs of the lending campaign for the portion of the lending portfolio funded with other long-term instruments.

4.5 Regulatory and legal landscape

In 2019, the following regulatory and legal changes impacting the Bank's business took effect:

- a. the Act amending certain acts to ensure compliance with the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the GDPR). The Act serves to bring the Polish legal order into line with the GDPR, notably by deletion of the provisions which contradict the GDPR or which copy the GDPR solutions, as well as to adapt the GDPR to the specific nature of the Polish legal order. The Act amends some hundred and several dozen acts. Labour law and banking law are among them.
- b. the Act amending the Act on the Bank Guarantee Fund, deposit guarantee scheme and compulsory resolution and certain other acts of 17 January 2019 – under the Act, mortgage banks were excluded the deposit guarantee scheme and provisions of the Banking Law Act pertaining to the mortgage transfer due to the sale of the banking debt were adjusted.
- c. the Act amending the Act on the Commercial Companies and Partnerships Code and certain other acts of 30 August 2019 – the amendment introduces *inter alia* the obligatory dematerialisation of shares and their registration in the register of shareholders maintained by the entities authorised to keep securities accounts for non-public companies. Most provisions take effect on 1 January 2021; some on 1 January 2020.
- d. the Act amending the Act on the Civil Procedure Code and certain other acts. A thorough revision of the civil procedure providing for multiple amendments to the civil procedure code; they apply to both various proceedings and institutions. Further, the Polish legislator also introduced new solutions.
- e. Polish Financial Supervision Authority Recommendation L concerning the role of statutory auditors in the process of supervision over banks and credit unions. The recommendation lays down generic rules concerning liability of the bank for

selection of a statutory auditor, relationship of the internal audit unit with statutory auditors, making the documentation concerning contacts of the banks with the PFSA available to the statutory auditor, any matters concerning documentation from the statutory audit and its availability, and also disclosure and interchange of information between statutory auditors and the PFSA.

- f. Polish Financial Supervision Authority Recommendation B concerning mitigation of investment risk at banks. The recommendation emphasises the role of the management board and supervisory board and formulates supervisory expectations towards those bodies in the process of management and mitigation of the investment risk for the investments made by the bank. It reads the provisions on counteracting and mitigating the investment risk, monitoring and reporting the risk of investments made, and also takes account of the supervisory expectations about the organisational framework of the bank in the context of investment made by the bank, considering the Investment Policy Committee. The recommendation formulates the supervisory expectations not only about the content (in particular: the organisational aspects, having adequately trained employees, training, having proper internal systems and procedures), but also the scopes of and the interrelationships between the investment strategy and policy.
- g. Polish Financial Supervision Authority Recommendation S concerning best practices in management of mortgage-backed credit exposures. One of the most important objectives of the amended Recommendation S is to extend its current wording to read the principles of management of mortgage-backed credit exposures bearing fixed interest rate or periodically fixed interest rate so as to factor in the risk of those loans and indicate that banks should have such loans in their offer of residential estate mortgage-backed loans for retail clients.
- h. the Act amending certain acts to limit payment backlogs of 19 July 2019. The Act introduces *inter alia* amendments to the act on payment deadlines in commercial transactions and renames it as the act on counteracting excessive delays in commercial transactions. In the Act on combatting unfair competition the catalogue of unfair competition actions was extended to read the action being unjustified prolongation of payment time for the products delivered or services provided.
- i. the Act amending the Act on counteracting money laundering and terrorist financing of 16 November 2019. The amendment to the Act on counteracting money laundering and terrorist financing includes but is not limited to:
- opening of the catalogue of entities authorised to exchange information between obligated institutions being group members;
 - waiver of client privilege for the entities maintaining books of accounts in respect of information delivery to the financial intelligence unit or other competent authorities;
 - introduction of a duty to satisfy the competence and reputation criteria by the entities rendering the services provided for by the act (formation of legal persons, being members of bodies of legal persons, or providing the office or

- address, for example) and by the persons holding managerial positions at those entities as well as introduction of sanctions for non-compliance;
- addition of provisions preventing the situations where persons being ultimate beneficial owners of intermediaries in real estate trading or persons holding managerial positions at those entities would be persons with a criminal record;
 - elimination of a gap being failure to factor in in the previous act of the body authorised to impose an administrative fine on certain obligated institutions in the event of inspection by the supervisory bodies other than the GIF;
 - introduction of an option to impose fines/penalties for failure to perform the duties by the obligated institution on the selected senior management staff responsible for performance of duties laid down in the act and the employee holding a managerial position and being responsible for ensuring compliance of the obligated institution's operations and of the institution employees and other persons performing jobs for that obligated institution with the regulations on counteracting money laundering and terrorist financing;
 - option to designate a body of the National Revenue Administration to perform the tasks pertaining to running the Central Register of Ultimate Beneficial Owners.
- j. EBA Guidelines on outsourcing arrangements – they lay down the internal governance arrangements, and in particular sound risk management that institutions should implement when they outsource functions, in particular with regard to the outsourcing of critical or important functions.

In particular, the guidelines:

- govern the risk management arrangements,
- provide for the need to identify and manage a conflict of interest for the outsourcing agreements made by them,
- list the elements of the business continuity plan,
- specify the role of the external auditor towards the outsourcing,
- require the institution to maintain proper documentation, like the outsourcing policy in particular and maintenance of a register of outsourcing agreements.

5. Financial results, capital adequacy and financial instruments

In 2019, ING Bank Hipoteczny S.A started operations and began to build the portfolio of mortgage loans forming the collateral for the future issue of covered bonds. In the first year of business, as part of its strategy, the Bank acquired the portfolio of mortgage loans from ING Bank Śląski S.A. worth over PLN 3 billion. The acquired portfolios were in principle funded with the loan drawn for the parent entity and issue of green mortgage bonds worth PLN 400 million. The above operations were the primary drivers of the financial results of the Bank. Below, the key financial facts and figures of the Bank for the period from 1 January 2019 to 31 December 2019 are presented.

5.1 Core financial ratios

| | as at 31.12.2019 | as at 31.12.2018 |
|---|---------------------|---------------------|
| ROA - return on assets (%) | -0.01% | -6.35% |
| ROE - return on equity (%) | -0.07% | -6.57% |
| DR - total debt ratio (%) | 91.87% | 3.34% |
| TCR - total capital ratio (%) | 17.7% | Not applicable* |
| LR - leverage ratio (%) | 17.7% | Not applicable* |
| LCR - liquidity coverage ratio (%) | 20580.91% | Not applicable* |

* In 2018, ING Bank Hipoteczny S.A. did not pursue banking business, and thus it was not subject to the duties arising from the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and related regulations concerning *inter alia* capital adequacy disclosures.

ROA - return on assets – net result for the shareholders of ING Bank Hipoteczny S.A. to assets as at 31 December 2019.

ROE - return on equity – net result for the shareholders of ING Bank Hipoteczny S.A. to equity as at 31 December 2019.

DR – total debt ratio – liabilities of ING Bank Hipoteczny S.A. to assets as at 31 December 2019.

TCR – total capital ratio – own funds of ING Bank Hipoteczny S.A. to risk-weighted assets as at 31 December 2019.

LR – leverage ratio – Tier 1 capital to leverage ratio exposure as at 31 December 2019.

LCR – liquidity coverage ratio – liquid assets to net outflows as at 31 December 2019.

5.2 Report of financial position

as at 31 December 2019

| | Note in the Financial Statements | as at 31.12.2019 | as at 31.12.2018 |
|--|--|---------------------|---------------------|
| Assets | | | |
| Amounts due from banks | 7.8. | 7 249.2 | 111,534.9 |
| Securities measured at fair value through other comprehensive income | 7.9. | 34 823.5 | 0.0 |
| Securities measured at amortized cost | 7.9. | 229 980.4 | 0.0 |
| Loans and advances granted to customers | 7.10. | 3 060 898.9 | 0.0 |
| Property, plant and equipment | 7.11. | 988.3 | 104.1 |
| Intangible assets | 7.12. | 1 816.7 | 2,808.5 |
| Current income tax receivables | | 0.0 | 11.9 |
| Deferred tax assets | | 1 585.1 | 1,641.8 |
| Other assets | 7.13. | 1 784.8 | 86.4 |
| Total assets | | 3 339 126.8 | 116 187.7 |
| Liabilities | | | |
| Liabilities to other banks | 7.14. | 2 488 153.6 | 0.0 |
| Covered bonds issued | 7.15. | 400 359.9 | 0.0 |
| Provisions | 7.16. | 585.7 | 382.9 |
| Income tax liabilities | | 637.00 | 0.0 |
| Capital increase liabilities | | 170 000.0 | 0.0 |
| Other liabilities | 7.17. | 8 362.3 | 3,494.3 |
| Total liabilities | | 3 067 574.7 | 3 877.2 |
| Equity | | | |
| Share capital | 7.18. | 210 000.0 | 120 000.0 |
| Reserve capital – agio | | 62 191.1 | 0.0 |
| Accumulated other income | 7.19. | -450.1 | -310.1 |
| Retained earnings | 7.20. | -188.9 | -7 379.4 |
| Total equity | | 271 552.1 | 112 310.5 |

| Total equity and liabilities | 3 339 126.8 | 116 187.7 |
|------------------------------|-------------|-----------|
| Book value | 271 552.1 | 112 310.5 |
| Number of shares | 210 000 | 120 000 |
| Book value per share (PLN) | 1 293.10 | 935.92 |

The Statement of Financial Position should be read in conjunction with the notes to the financial statements being the integral part thereof.

For details of the report of Bank's financial position, refer to notes 7.8 through 7.20 of the Financial Statements.

5.3 Income Statement

for the period from 1 January 2019 to 31 December 2019.

| | Note in the Financial Statements | period from 01.01.2019 to 31.12.2019 | period from 26.02.2018 to 31.12.2018 |
|--|----------------------------------|--------------------------------------|--------------------------------------|
| Interest income, including: | 7.1. | 54 184.8 | 947.4 |
| calculated using the effective interest method | 7.1. | 54 184.8 | 947.4 |
| Interest costs | 7.1. | -29 125.6 | 0.0 |
| Net interest income | 7.1. | 25 059.2 | 947.4 |
| Fee and commission income | 7.2. | 637.00 | 0.0 |
| Commission expenses | 7.2. | -326.9 | -3.1 |
| Net commission income | 7.2. | -115.6 | -3.1 |
| FX result | 7.3. | -36.3 | -4.6 |
| Net income on other core activities | | -133.7 | 0.0 |
| Net income on core activities | | 24 773.6 | 939.7 |
| General and administrative expenses | 7.4. | -23 835.4 | -9 888.2 |
| Expected loss/Impairment loss provisions for financial assets and provisions for off-balance sheet liabilities | 7.5. | -924.4 | 0.0 |
| Profit before tax | | 13.8 | -8 948.5 |
| Income tax | 7.6. | -202.8 | 1 569.1 |
| Profit after tax | | -188.9 | -7 379.4 |

| | | | |
|---|------|---------|---------|
| Number of shares | | 210 000 | 120 000 |
| Earnings per ordinary share - basic (PLN) | 7.7. | -0.91 | -61.50 |
| Earnings per ordinary share - diluted (PLN) | 7.7. | -0.91 | -61.50 |

There were no discontinued operations at ING Bank Hipoteczny S.A. either in 2019 or in the corresponding period between 26.02.2018 and 31.12.2018.

The Income Statement should be read in conjunction with the notes to the financial statements being the integral part thereof.

For detailed notes to the Income Statement items, refer to the Financial Statements – notes 7.1 through 7.7.

5.4 Own funds requirements – Pillar 1

In keeping with the CRR, the Bank computes own funds requirements for the following risks:

- for credit risk – using the standardised approach,
- for the CVA risk – using the standardised approach,
- for delivery and settlement risk – using the standardised approach,
- for operational risk – using the basic indicator approach,
- for market risk (FX risk) using the standardised approach.

As at the end of December 2019, the Bank reports zero values for the own funds requirements for the CVA risk, delivery and settlement risk, and market risk. Having regard to the above, as at the date of this report, the total requirement for own funds consisted of the credit risk and operational risk requirements.

| Own funds requirements | 31.12.2019 |
|--|---------------|
| <i>Credit risk (PLN million)</i> | 123.5 |
| <i>Operational risk (PLN million)</i> | 3.20 |
| Total requirement for own funds (PLN million) | 126.7 |
| <i>Common Equity Tier 1 ratio (CET1)</i> | 17.03% |
| <i>Tier 1 ratio (T1)</i> | 17.03% |
| Total capital ratio (TCR) | 17.03% |

Pillar 1 has been discussed in detail under item 7.40 of the financial statements concerning the Total Capital Requirement.

The Bank maintains own funds at the level not lower than the higher of the below values:

- a. capital requirement,
- b. internal capital

Capital management

The process of capital management is carried out in the Bank based on the implemented Capital Management Policy at ING Bank Hipoteczny S.A. that was developed on the basis of applicable regulations.

Capital management at ING Bank Hipoteczny S.A. is to make possible and facilitate development of the Bank in accordance with the accepted strategy and business model, while keeping, on an ongoing basis, its own funds on the level adequate to the scale and profile of risk inherent in the Bank's operations, taking into account supervisory requirements. Furthermore, it makes it possible to manage the capital actively, keeping in mind volume and dynamics of current and future changes.

The main objective of this process is to have sufficient and effective capitalisation of the Bank to effect its business strategy and development plans specified in the financial plans, while meeting at the same time all internal and external capital requirements. It stands for financial flexibility in the present and future landscape in order to adjust to the changing market and regulatory conditions. In that context, to manage capital, the Bank employs all available capital instruments and transactions, both in the base and stress scenarios.

External regulations govern keeping a proper level of capital adequacy. The main capital constraints result from internal resistance to risk that is assessed, among others, in stress tests, in Supervisory Review and Evaluation Process (SREP), regulatory minimum levels of capital and leverage ratios and internal risk appetite.

This management includes:

- Pillar 1: minimum capital requirements provided for in the regulations,
- Pillar 2: internal capital, determined with the Bank's own models, for the risks deemed to be material and permanently material.

Under capital management, the Bank:

- a. plans internal capital and capital requirement as well as own funds;
- b. sets internal limits in order to curtail the generated capital requirements and internal capital;
- c. monitors potential threats to capital adequacy;
- d. identifies and assesses materiality of the risk types inherent to its operations;

- e. takes actions in order to assess and monitor internal capital, capital requirement and own funds;
- f. allocates internal capital;
- g. pursues dividend policy resulting from a long-term capital objective and preferred capital structure;
- h. develops contingency capital plans which define the procedure for the risk of capital adequacy deterioration below the “inadmissible” levels;
- i. analyses the impact of the macroeconomic factors on capital adequacy in line with the “Stress Testing Policy at ING Bank Hipoteczny S.A.”

As at 31 December 2019, the total capital ratio of the Bank was 17.03%.

5.5 Internal capital – Pillar 2

In keeping with the binding laws, internal capital is defined as the amount estimated by the bank which is indispensable for covering all identified material risks occurring in the bank’s business and changes in the business environment, considering the envisaged risk level.

The Bank estimates internal capital. The internal capital estimation process is an integral element of the capital management and Bank governance system. It warrants proper identification, measurement, monitoring and aggregation of the risk taken. At the same time, it enables the Bank to maintain the requisite own funds and manage risk and capital in an effective but cautious manner.

The above process covers:

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

For the Bank, internal capital is estimated for material and permanently material risks in the following categories:

- a. credit risk encompassing default risk and counterparty risk, concentration risk, residual risk and risks of other non-credit assets;
- b. market risk encompassing the interest rate risk in the banking ledger;
- c. business risk encompassing macroeconomic risk;
- d. funding and liquidity risk;

- e. operational risk encompassing control risk, abuse risk, processing risk, improper staffing practice and workplace risk, information risk, internal and external fraud risk, business continuity risk, physical safety and resource risk, compliance risk and legal risk; the possibility of occurrence of conduct risk, reputational risk and concentration risk (for operational risk) are also in scope of operational risk;
- f. model risk;

The total internal capital is the total of internal capital indispensable for covering all material and permanently material risks of the Bank. The Bank applies a prudent approach to estimating the internal capital and does not use the diversification effect.

| Internal capital structure | 31.12.2019 |
|--------------------------------|---------------|
| For credit risk | 66.5% |
| For market risk | 23.7% |
| For business risk | 1.0% |
| For funding and liquidity risk | 0% |
| For operational risk | 8.8% |
| For model risk | 0% |
| Total | 100.0% |

5.6 Disclosures – Pillar 3

Taking into account the scale and specifics of the Bank's operations, the Bank discloses selected information concerning capital adequacy in its financial statements and in the Management Board Report on Operations of the Bank. The information refers in particular to:

- risk management goals and strategy,
- own funds for the needs of capital adequacy,
- capital requirements,
- capital buffers,
- financial leverage,
- credit risk related adjustments,
- applied credit risk mitigation techniques,
- operational risk, in accordance with the requirements provided for in Recommendation M,
- liquidity risk management system and liquidity position, in accordance with Recommendation P,

- requirements referred to in Article 111a of the Banking Law and in Recommendation H,
- remuneration policy concerning persons whose professional activities are considered to have a material impact on the risk profile of the Bank (risk takers).

Each time, the Bank assesses adequacy of the disclosed information in terms of providing the market participants with complex information about the risk profile of the Bank.

The Bank, being a part of the ING Bank Śląski S.A. Group, provides the information also to the parent company in order to include it in the consolidated data.

Specific information about the scope of disclosed information, method of its verification and publication is presented in the document called: "Policy of Disclosure of Qualitative and Quantitative Information About Capital Adequacy and Other Information to be Disclosed at ING Bank Hipoteczny S.A."

5.7 Financial instruments

Between 1 January and 31 December 2019, the Bank deposited funds in short-term deposit accounts at ING Bank Śląski S.A. For details, refer to note 7.8 of the Financial Statements of ING Bank Hipoteczny S.A. The Bank did not apply hedge accounting in the reporting period.

The Bank was making Treasury transactions on the wholesale financial market. For details, refer to note 7.9 of the Financial Statements of ING Bank Hipoteczny S.A. Credit debt acquisition from ING Bank Śląski S.A. is in principle funded from the issue of covered bonds. In the reporting period, credit debt acquisition from ING Bank Śląski S.A. was funded from the credit line and the issue of covered bonds. The Bank adhered to the norms defined in the Act on covered bonds and mortgage banks concerning the admissible amount of liabilities due to loans and credit facilities (including the liabilities due to acquired debt) and issue of bonds to own funds of the Bank. The Bank did not issue debt instruments.

For future issues of covered bonds, the potential IR risk and FX risk will be hedged with appropriate derivatives. The Bank plans to apply hedge accounting in the future.

The Bank Management Board is of the opinion that as at 31 December 2019 there were no conditions which could indicate presence of default risk for the liabilities assumed by the Bank.

6. Development lines and operations of ING Bank Hipoteczny S.A.

6.1 Development lines

The strategic objective of Bank Hipoteczny S.A. is to acquire and later gradually increase the share of long-term funding in the ING Bank Śląski S.A. Group's balance sheet – through issue of covered bonds – as well as joining the group of major issuers of those instruments in the Polish market.

The objective will be delivered by:

- strengthening the funding stability within the ING Bank Śląski S.A. Group,
- diversification of funding sources for the current portfolio of retail mortgage loans,
- matching the maturities of assets and liabilities in the balance sheet of the ING Bank Śląski S.A. Group,
- freeing the liquidity of the ING Bank Śląski S.A. Group,
- reducing the funding costs of the lending campaign for the portion of the lending portfolio funded with other long-term instruments.

6.2 Acquisition of mortgage-backed debt and lending portfolio structure

The main element of the business pursued by ING Bank Hipoteczny S.A. is acquisition of mortgage-backed residential loan portfolios with a view to issuing covered bonds. The Bank acquires debt only from ING Bank Śląski S.A. Debt is acquired under the Debt Transfer Framework Agreement to issue covered bonds, signed in 2019.

In 2019, the Bank made 9 mortgage-backed debt portfolio acquisition transactions with ING Bank Śląski S.A. The total capital as at the transfer date of the portfolios acquired was PLN 3,190.6 million. Due to the issue of covered bonds, a portion of the portfolio transferred to the Bank are receivables classified as green ones.

In the debt acquisition process, ING Bank Hipoteczny S.A. satisfies the criteria of the Act on covered bonds and mortgage banks, and also sets additional conditions to be met by the debt acquired. The main criteria were presented in the table below:

| Criterion | Value |
|---|------------------------------------|
| Amount of debt purchased/ Mortgage lending value of the real estate | Max. 100% |
| Credit collateral | Established first ranking mortgage |
| Loan currency | PLN |
| Loan purpose | Residential goals |
| Title to real estate | Ownership or perpetual usufruct |
| Repayment arrears or impairment conditions | None |

LtV-based lending portfolio structure – 31.12.2019:

| LTV (Mortgage lending value of the real estate) | Structure % |
|---|---------------|
| (0-50> | 23.4% |
| (50-60> | 18.1% |
| (60-70> | 22.0% |
| (70-75> | 10.5% |
| (75-80> | 8.8% |
| (80-100> | 17.2% |
| Total | 100.0% |

| Marked to market LTV | Structure % |
|----------------------|---------------|
| (0-50> | 35.4% |
| (50-60> | 25.3% |
| (60-70> | 32.2% |
| (70-75> | 6.3% |
| (75-80> | 0.8% |
| (80-100> | 0.0% |
| Total | 100.0% |

The average LtV for the capital-weighted mortgage lending value of the real estate was 62.85%, while the average marked to market LtV was 53.55%.

As at 31.12.2019, the carrying value of the portfolio of debt under the mortgage-backed loan agreements was PLN 3,049.5 million. All the receivables under the acquired loan agreements bear variable interest rate (6M WIBOR).

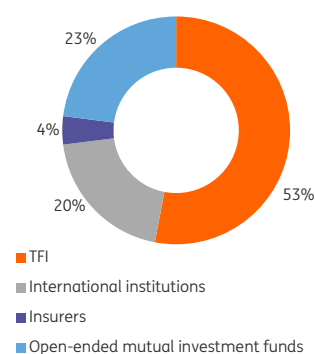
6.3 Covered bonds

On 10 October 2019, ING Bank mortgage S.A. made an inaugural issue of green covered bonds denominated in PLN of series 1. ING Bank N.V. and ING Bank Śląski S.A. were the Joint Lead Managers. The demand from local financial institutions enabled the Bank to place the papers worth PLN 400 million. Interest rate was set at 0.53% over the 6M WIBOR. The papers are to mature on 10 October 2024. The funds acquired from the issue were earmarked for refinancing PLN mortgage loans of natural persons which are secured with real estates from the group of 15% of the most energy-efficient buildings in Poland. The issue was conducted under the Programme of issue of covered bonds by ING Bank Hipoteczny S.A. accepted on 5 September 2019 by Commission de Surveillance du Secteur Financier.

The papers issued were quoted on the Stock Exchange in Luxemburg and placed in the parallel market of the Warsaw Stock Exchange. Further, they may secure the lombard and technical loans and the repo operations of the National Bank of Poland.

The Moody's Investors Service confirmed the high quality of the portfolio of mortgage loans securing the issued securities and assigned rating Aa3 (the so-called Country Ceiling) to the bonds issued.

Structure of buyers of the inaugural issue of mortgage bonds of series 1



In compliance with the long-term strategy of the Group, ING Bank Hipoteczny S.A developed a Green Covered Bond Framework – a document providing for *inter alia* the manner of use of the funds coming from the issue of green covered bonds. As per the document, the funds obtained from the issue will be used to finance or refinance the estates from the group of 15% of the most energy-efficient buildings in Poland (for additional information, refer to the Green Covered Bond Framework). The energy efficiency criteria were formulated in liaison with an external consultant. The Bank's approach was based on the international standard which ensures transparency and top quality of information rendered available to investors. The standard was formulated by the International Capital Markets Association and published in the Green Bond Principles. As per the standard, our Framework is structured into four main blocks:

- Use of proceeds
- Process for project evaluation and selection



- Management of proceeds
- Reporting

The Framework of Bank Hipoteczny was assessed by one of leading rating agencies from the sustainability area – ISS – oekom. Their works resulted in the Second Party Opinion – a document confirming compliance with top market standards. In their opinion, ISS – oekom also stated the positive impact of the approach proposed by the Bank on two areas defined by the United Nations in the Sustainable Development Goals (UN SDGs).

The Bank was also certified by the Climate Bonds Initiative – an international organisation which using the strict criteria assesses whether a financial instrument supports the decisions made in the Paris Agreement to limit the global temperature increase to below 1.5 degrees Celsius. The Climate Bonds Initiative certification is widely used by stakeholders at assess whether a given financial instrument addresses climate changes.

The funds from the issue of green covered bonds will be used to finance green projects. As computed by the external consultant, as at the project development date, the ING Bank Śląski S.A. Group's portfolio of mortgage loans made it possible to reduce the CO2 emission by over 240,000 tonnes, which corresponds to the annual emission of 52,000 cars.

6.4 Rating of the Bank and covered bonds

On 21 August 2019, the Moody's August Investor Service assigned the following ratings to ING Bank Hipoteczny S.A.:

| Moody's Investors Service Ltd. | |
|--------------------------------|--------------------|
| LT Issuer Rating | Baa1 |
| ST Issuer Rating | P-2 |
| LT Counterparty Risk | A2 |
| ST Counterparty Risk | P-1 |
| Outlook | Stable |
| CR Assessment | A2 (cr) / P-1 (cr) |

In its communication, the Agency emphasised there that the rating of the Bank reflected:

- the fact that the Bank was owned in 100% by ING Bank Śląski S.A. and that it had a stable growth outlook,



- Strategic adaptation and operational integration within the ING Bank Śląski S.A. Group,
- ING Bank Śląski S.A.'s commitment to support the capital and liability position of ING Bank Hipoteczny S.A. to satisfy the regulatory requirements.

On 10 October 2019, the Moody's Investors Service confirmed the high quality of the portfolio of mortgage loans securing the securities issued by the Bank and assigned rating Aa3 (the so-called Country Ceiling).to the bonds denominated in PLN.

7. Internal business conditions

7.1 Employee competences

In the course of the recruitment procedure, experienced and qualified employees were welcomed. Most of them come from the ING Bank Śląski S.A. Group. The Bank implemented the procedures ensuring adequate competences for all key jobs as needed for its functioning. The Bank enables its employees to upgrade their qualifications on an ongoing basis. The headcount was matched with the scale of business pursued.

7.2 Cooperation with ING Bank Śląski S.A.

In principle, the business formula of Bank Hipoteczny S.A. is based on leveraging on the synergy effect between Bank Hipoteczny and ING Bank Śląski S.A. as the strategic outsourcing partner to Bank Hipoteczny S.A., in particular by:

- outsourcing of activities admitted by law to ING Bank Śląski S.A. as far as justified from the viewpoint of the Bank's business effectiveness, based on the existing solutions hammered out by the ING Bank Śląski S.A. Group,
- sharing of IT infrastructure and systems used by the ING Bank Śląski S.A. Group,
- shaping of the organisational framework of Bank Hipoteczny in the manner ensuring effective control of the services entrusted to ING Bank Śląski S.A. and performance by the Bank of activities required by law, like taking risk management-related decisions or performing risk management processes,
- mirroring current loan service processes of ING Bank Śląski S.A., considering the indispensable modifications, including those resulting from the legal order.

Therefore, the outsourcing agreement is the key vehicle governing the cooperation of the two entities. Its key elements are:

- ensuring that ING Bank Hipoteczny S.A. performs the activities required by law; they include but are not limited to: decisions or risk management processes, and for automated or partly automated processes – their set-up using the terms and conditions defined by the Bank,
- entrusting ING Bank Śląski S.A. with: (i) intermediation in some banking activities offered by the Bank, in particular as regards administration and post-sale service of mortgage-backed loan debt acquired by the Bank and (ii) factual activities connected with the bank business of the Bank,
- taking account of limitations stemming from Article 6a.3 of the Banking Law Act (Banking Law); i.e., ensuring that the following activities are not entrusted to ING Bank Śląski S.A.: (i) bank governance within the meaning of Article 368.1 of the Commercial Companies and Partnerships Code, and notably management of the banking business risk, including management of assets and liabilities, credit capacity assessment and credit risk analysis; and (ii) internal audit of the Bank,
- ensuring that any further commissioning of activities by ING Bank Śląski S.A. to third parties satisfies the requirements of Article 6a.7 of the Banking Law – and in individual cases – that direct agreements be made between such entities and the Bank,
- development and update – both by ING Bank Śląski S.A. and the Bank – of business plans ensuring continuous and uninterrupted conduct of business covered by the outsourcing agreement,
- ensuring for the Bank the tools to effectively monitor and control performance of the agreement by ING Bank Śląski S.A.

For the client whose mortgage loan will be transferred as part of transfer of receivables to Bank Hipoteczny, both the loan service process and the credit and credit-related costs remain the same.

The terms and scope of cooperation of ING Bank Hipoteczny with ING Bank Śląski S.A. have been detailed in the Cooperation Agreement.

7.3 Internal control system

Internal control system is among the Bank governance elements. Its fundamentals, principles and objectives stem from the Banking Law and the Regulation by the Minister for Development and Finance on managing risk and internal control system, remuneration policy and detailed procedure for internal capital estimation by banks in particular.

I. Internal control system objectives

The internal audit system serves to ensure:

- 1) Operational efficiency and effectiveness of the Bank;
- 2) Reliable financial reporting;
- 3) Compliance with the risk management principles of the Bank;
- 4) Legal compliance of the Bank – internal regulations and market standards.

As part of general objective accomplishment process, the internal control system further ensures:

- 1) examination of compliance of the Bank's business and business activities performed by related persons with the regulations of the markets the Bank is active in, the regulations of the Central Securities Depository of Poland, clearing and settlement chambers referred to in Article 68a of the Act on Trading in Financial Instruments and stock exchange clearing chambers referred to in Article 2.4 of the Act on Commodity Exchanges which the Bank is the member of,
- 2) proper organisation and safe business pursuit,
- 3) functioning of appropriate administrative and booking procedures,
- 4) effectiveness of internal acts concerning circulation of confidential and privileged information and such information access protection,
- 5) reliability of non-financial reports,
- 6) effectiveness of internal acts concerning review of client complaints and requests and maintenance of complaint records,
- 7) effectiveness of internal acts concerning counteracting money laundering and terrorist financing,
- 8) investing by the Bank in compliance with the requirements and standards and in the manner adequate to the risk of such investments.

II. Roles of Bank bodies

1. Supervisory Board

As part of their tasks connected with monitoring of and supervision over the internal control system, as laid down *inter alia* in the Bank Charter and the ING Bank Hipoteczny S.A. Supervisory Board Bylaw, following the recommendation of the Audit and Risk Committee, the Supervisory Board:

- 1) approve the ING Bank Hipoteczny S.A. Internal Control System Policy;
- 2) approve the criteria for assessment of adequacy and effectiveness of the internal control system, as proposed by the Management Board;
- 3) supervise introduction and functioning of adequate and effective internal control system;
- 4) monitor effectiveness of the internal control system, based on the information provided by the Management Board, the Audit and Risk Committee, the Compliance Cell and the Internal Auditor;
- 5) annually assess the adequacy and effectiveness of the internal control system, including the adequacy and assessment of the control function performed by the first and second lines of defence, the Compliance Cell and the Internal Auditor;
- 6) approve the categorisation principles for the irregularities detected by the internal control system, covering at least high and critical irregularities.

2. Audit and Risk Committee

The Audit and Risk Committee consult and advise the Supervisory Board on the internal control system-related tasks. The Committee is composed of two independent Members, including a Certified Auditor with knowledge and skills in accounting and auditing the financial statements.

3. Bank Management Board

As part of the Bank governance process, the Bank Management Board:

- 1) design, introduce and ensure functioning of adequate and effective internal control system;
- 2) take action to ensure internal control system continuity;
- 3) set the criteria for assessment of adequacy and effectiveness of the internal control system;
- 4) define the actions to be taken to eliminate irregularities detected by the internal control system, including remedies and disciplinary measures;
- 5) accept the categorisation principles for the irregularities detected by the internal control system, covering at least high and critical irregularities;
- 6) approve the criteria for selection of material processes and their list along with their correlation with general and specific goals;
- 7) ensure regular review of all Bank processes for materiality;

- 8) accept the ING Bank Hipoteczny S.A. Internal Control System Policy, ensure its periodical review and update and present the review deliverables to the Audit and Risk Committee and the Supervisory Board;
- 9) ensure access of Compliance Cell employees, the Internal Auditor and also the Operational Risk Management Officer and other units coordinating performance of general objectives to indispensable source documents, including but not limited to those reading confidential information, in connection with performance of their business duties;
- 10) set the principles of control design, approval and implementation in all Bank processes and define the role of organisational units responsible for control design, approval and implementation;
- 11) are responsible for ensuring adequacy and effectiveness of controls in Bank processes;
- 12) set the adequate scope of and criteria for independent monitoring of observance of controls, covering ongoing verification and testing;
- 13) ensure functioning of the control function matrix along with allocation of tasks connected with ensuring its functioning;
- 14) set the reporting rules, at least for the effectiveness of key controls and vertical testing deliverables.

The Bank Management Board provide information; i.e.,:

advise the Supervisory Board, at least once year, on the manner of performance of internal control system tasks, considering in particular:

- a) the adequacy and effectiveness of the internal control system in ensuring accomplishment of all the internal control system goals;
- b) the scale and nature of significant and critical irregularities as well as most important actions taken to eliminate the same, including remedies and disciplinary measures,
- c) the need to ensure the independence of the Compliance Cell and the Internal Auditor,
- d) the need to ensure adequate staffing as indispensable for effective task performance and the funds necessary for regular upgrade of qualifications, experience gathering and skills learning by the employees of the Compliance Cell and the Internal Auditor.

III. Three-lines-of-defence model within the Bank's organisational framework

The internal control system covers the entire universe of the Bank and structured into three lines of defence.

| The first line of defence | The second line of defence | The third line of defence |
|---|---|---------------------------|
| Business and organisational units of the Bank which support Business operations | 1) Units from the area of: <ul style="list-style-type: none"> • operational risk • compliance risk • legal risk • credit and market risk • finance • human resources management and 2) Model validation job | Internal Auditor |

1. The first line of defence

It is an element of the control function. The first line of defence is in charge of developing, implementing and performing controls designed to ensure that general and specific goals of internal control system are achieved. This LoD also performs independent monitoring of compliance with controls by ongoing verification and/or horizontal testing.

The first line of defence is responsible for acting in compliance with the principles resulting from the approved policies, regulations, manuals and procedures. The scope of responsibilities of the first line of defence includes, among others, analysis, control and management of risks in processes.

The tasks of the first line of defence are performed by senior management and by the organisational units overseen by it which deliver business objectives and which provide direct support thereto.

2. The second line of defence

The second line of defence performs the tasks stemming from its function and supports the first line of defence in order to achieve the goals of the internal control system.

It is responsible for:

- publishing regulations and ensuring internal control system tools and methods,

- approving the decisions made by the first line of defence as to implementation, modification or removal of controls,
- monitoring application of internal control system regulations by the first line of defence,
- monitoring horizontally the compliance with controls by the second line of defence,
- monitoring vertically the first line of defence as to compliance with controls.

As part of their controls, the LoD 2 units make an independent assessment of effectiveness of functioning of the LoD 1 via: inspections, tests, reviews and other controls.

3. The third line of defence

The Internal Auditor (IA) forms the third line of defence. The IA provides management with an independent and unbiased assurance as to the adequacy and effectiveness of the risk management system and internal control system within the first and second lines of defence.

The roles, powers, scope and nature of work plus the accountability of the Internal Auditor and the terms of cooperation of Bank units with the IA are laid down in the Policy – Audit Charter of ING Bank Hipoteczny S.A. (Audit Charter).

IV. Control function

Control function is an element of the internal control system which comprises all controls implemented in bank processes, independent monitoring of their observance and control function reporting. It covers jobs, groups of people or organisational units responsible for performance of function tasks.

Within the control function, the processes which are material to the Bank were isolated and key control function controls were assigned thereto.

V. Principles of assessment of adequacy and effectiveness of the internal control system

The Internal Auditor annually assesses the adequacy and effectiveness of the internal control system, in split into the first and second lines of defence, based on:

- deliverables/ opinions from the audits performed under the annual audit plan. To formulate the annual audit plan, the Internal Auditor uses the information about the internal control system from the control function matrix;
- deliverables/ opinion of the audit by the external auditor along with regulator's recommendations which are open as at the internal control system assessment date;
- critical and high risks identified during the year, with focus placed on risks which apply as at the internal control system assessment date;
- timely implementation and progress in the implementation risk mitigants.

The final assessment of the internal control system is made by the Supervisory Board, considering the recommendation of the Audit and Risk Committee which factors in particular:

- assessment of the Internal Auditor,
- information from the Management Board on the manner of performance of internal control system tasks,
- periodical reports of the Compliance Cell,
- information material to the adequacy and effectiveness of the internal control system, information from the parent entity;
- findings of the statutory auditor or external auditor,
- findings from supervisory activities performed by authorised institutions (like the Polish Financial Supervision Authority or the Office of Competition and Consumer Protection),
- assessments and opinions material to the adequacy and effectiveness of the internal control system, provided by third parties, if made.

7.4 Risk management

Risk management at ING Bank Hipoteczny S.A. serves to ensure effective risk control and limitation within the risk appetite accepted by the Bank in volatile legal and macroeconomic conditions and considering the pre-set business targets. The assumed risk level is an important factor of the planning process.

Risk management at ING Bank Hipoteczny S.A. is based in particular on the following rules:

- risk management process, including the lending process is defined and governed by strategies, policies and procedures adopted by the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.,
- The Bank manages all identified bank risks and carries out the ICAAP process (Internal Capital Adequacy Assessment Process), where:
 - risk management matches the scale of business and the materiality, scale and complexity of a given risk and where it is tailored to new risk factors and drivers on an ongoing basis,
 - risk management methods, risk measurement models and systems and their assumptions match the scale and complexity of risk and are periodically verified and validated,
- organisational structure of risk management guarantees independence of the risk area, including independence of real estate appraisal and taking credit decisions, from business activity,

- the risk management process is integrated into the planning and controlling processes and it supports delivery of the Bank's strategy, while staying compliant with the risk management strategy, especially as far as the risk appetite is concerned,
- the risk management process is consistent with the risk management principles of the ING Bank Śląski S.A. Group, also in respect of use of group risk models, tailored to the specific operations of ING Bank Hipoteczny S.A. and approved by the competent authorities of ING Bank Hipoteczny S.A.
- stress tests are performed in the Bank based on previously approved scenarios. Stress test results are discussed at committee and Management Board meetings. Reporting of risk sources and factors as well as reporting of risk level measurement and its costs make it possible to take appropriate preventive and remedy measures.

The risk management process is supervised by the Bank Supervisory Board which regularly receive information about the risk profile at ING Bank Hipoteczny S.A. and key actions taken to manage risk.

The Bank Management Board are responsible for risk management, including but not limited to, overseeing and monitoring of actions undertaken by the Bank in this respect. The Bank Management Board take the most important decisions affecting risk level of the Bank and resolve internal regulations concerning risk management.

Risk is managed through three independent lines of defence:

For details of risk management objectives and principles at the Bank, refer to note 7.31 of the Financial Statements of ING Bank Hipoteczny S.A.

7.5 Valuation of mortgage loan collateral

ING Bank Mortgage S.A. performs the credit collateralization tasks based on the following external and internal regulations:

- the Act on covered bonds and mortgage banks,
- the Act on land and mortgage registers and mortgage,
- the Banking Law Act,
- Instructions and recommendations of the Polish Financial Supervision Authority,
- including recommendations F, S and J in particular,
- Provisions of internal banking regulations, and notably the mortgage lending value of the real estate Valuation Bylaw.

The Bank has and applies the Mortgage Lending Value of the Real Estate Valuation Bylaw, approved on 4 January 2019 by the Polish Financial Supervision Authority. The Bylaw provides for the guidelines listed in Recommendation F and concerning the basic criteria

applied by the Polish Financial Supervision Authority to approve the mortgage lending value of the real estate valuation bylaws made by mortgage banks.

The mortgage lending value of the real estate is the value set using an expert method, in line with the Act on covered bonds and mortgage banks, which in the opinion of the Bank mirrors the risk of the real estate forming the collateral for the loans acquired by the Bank.

The mortgage lending value of the real estate is set using an expert method in order to enable the Bank to take a decision whether or not to acquire the given debt. The mortgage lending value of the real estate is set in a prudent manner, considering long-term parameters.

ING Bank Hipoteczny S.A. sets the mortgage lending value of the real estate based on the real estate value. The mortgage lending value of the real estate expertise is made with due diligence and prudence. It factors in only those real estate parameters which are of long-term nature and which can be obtained by any real estate owner, when the estate is rationally used. It factors in all risks which because of the experience held and analyses made can adversely impact on the mortgage lending value of the real estate. The expertise which is developed at a certain date, evidences the assumptions and parameters used in the analysis, the process of the mortgage lending value of the real estate determination and the resultant mortgage lending value of the real estate proposal.

The expertise factors in the analyses and projections of the typical real estate parameters which considerably impact on the assessment of the credit risk of real estate acceptance as collateral. It also takes into account general factors, including, economic cycles, changes to the purchasing power of money, demography, unemployment rate or local zoning plans.

At the Bank, the mortgage lending value of the real estate determination process is performed by a dedicated team from the Risk Management Area which is independent from the business functions of the Bank.

For the debt acquisition operation, the mortgage lending value of the real estate determination process is constructed into four stages:

| | |
|---|--|
| Verification of the legal status of the real estate | ING Bank Śląski S.A. under the Outsourcing Agreement |
| Inspection documentation for the real estate on-site inspection along with market survey | Estate Appraiser who holds adequate experience and ability to estimate banking risk for residential loan collateralization |
| Mortgage lending value of the real estate expertise compilation | Dedicated organisational cell of the Bank – Valuation and Credit Decisions Team |
| Mortgage lending value of the real estate expertise verification and determination of the mortgage lending value of the real estate | Dedicated organisational cell of the Bank – Valuation and Credit Decisions Team |

The processes of the mortgage lending value of the real estate expertise compilation and mortgage lending value of the real estate determination as described above are performed by two persons independent from one another.

7.6 Register of collaterals for covered bonds

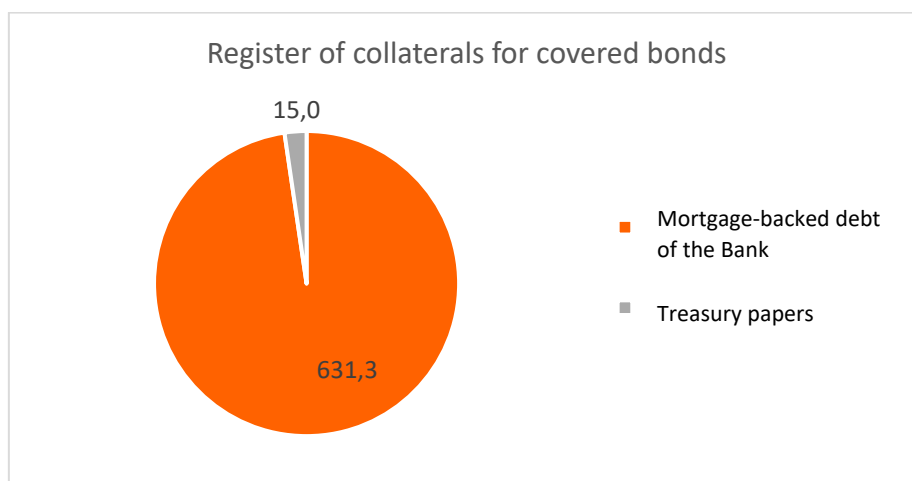
ING Bank Hipoteczny S.A. keeps and maintains the Register of collaterals for covered bonds (the register). The register is maintained as required by the Act on covered bonds and mortgage banks, Resolution No. 633/2015 of the Polish Financial Supervision Authority of 1 December 2015 on determination of the specimen of the Register of collaterals for covered bonds and Recommendation K of the Polish Financial Supervision Authority of 9 February 2016 on the terms of maintenance of the Register of collaterals for covered bonds by mortgage banks.

The Bank enters into the register all the receivables acquired under mortgage-backed residential loan agreements as well as the rights and funds used to issue covered bonds and extra funds which form the surplus for covering interest on the traded mortgage bonds to be paid within the subsequent 6 months. Covered bonds are secured with Bank debt secured with the first ranking mortgage.

Further, the Bank's funds indicated in Article 18.3 of the Act on covered bonds and mortgage banks can be also used to issue covered bonds.

As at 31 December 2019, the mortgage-backed debt and other funds referred to in the Act on covered bonds and mortgage banks closed with PLN 646.3 million. In other words, the covered bonds were secured in 160.4%.

As at the date, the structure of the register was the following:



Since mortgage-backed debt and issued covered bonds matched in terms of currency and interest rate, there were no hedging transactions in the register as at 2019 year-end.

Register maintenance is overseen by the Custodian on an ongoing basis.

For the key register data as at 31 December 2019, refer to the table below:

| | 31.12.2019 |
|---|------------|
| Register of collaterals for covered bonds | |
| Mortgage-backed debt (PLN million) | 631.3 |
| Treasury Bonds (PLN million) | 15.0 |
| Liquidity buffer (PLN thousand) PLN | 4,653 |
| Number of loans | 3,515 |
| Average loan amount (PLN thousand) | 179.6 |
| Average maturity (in months) | 245 |
| Average LtV (loan value versus the marked to market value) | 49.96% |
| Average LtV (loan value versus mortgage lending value of the real estate) | 61.30% |

7.7 Custodian

In keeping with the Act on covered bonds and mortgage banks (Act), for each mortgage bank a Custodian and at least one Deputy Custodian are appointed. The responsibilities of the Custodian are to verify whether:

- the liabilities under the traded mortgage bonds are secured by the mortgage bank in compliance with the Act,
- whether the mortgage lending value of the real estate taken by the Bank was set in compliance with the bylaw,
- the mortgage bank complies with the requirements of Article 18 of the Act,
- the coverage balance test and liquidity test confirm that the mortgage bank's debt as well as the rights and funds entered into the Register of collaterals for covered bonds suffice to fully satisfy the holders of covered bonds.
- the manner of the Register of collaterals for covered bonds maintenance by the mortgage bank satisfies the terms and conditions of the Act,
- the mortgage bank ensures – under the Act – the collateral for the planned issue of covered bonds and control of whether adequate provisions were entered into the Register of collaterals for covered bonds.

Having reviewed the application of the Supervisory Board of ING Bank Hipoteczny S.A., on 4 January 2019 the Polish Financial Supervision Authority appointed Ms Grażyna Zielińska as the Custodian of ING Bank Hipoteczny S.A.

Having reviewed the application of the Supervisory Board of ING Bank Hipoteczny S.A., on 4 January 2019 the Polish Financial Supervision Authority appointed Mr Krzysztof Brejda as the Deputy Custodian of ING Bank Hipoteczny S.A.

The Bank keeps and maintains the Register of collaterals for covered bonds whereto in enters one by one its receivables as well as the rights and funds used to issue covered bonds and extra funds which form the surplus for covering interest on the traded mortgage bonds to be paid within the subsequent 6 months.

The Bank keeps the Register of collaterals for covered bonds as required by the following instruments:

- The Act on covered bonds and mortgage banks 29 August 1997 (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 determination of the specimen of the Register of collaterals for covered bonds,
- Recommendation K of the Polish Financial Supervision Authority of 9 February 2016 on the terms of maintenance of the Register of collaterals for covered bonds by mortgage banks.

Register maintenance is overseen by the Custodian And Deputy Custodian on an ongoing basis.

7.8 Statutory limits

Acting in accordance with the Act on covered bonds and mortgage banks, ING Bank Hipoteczny S.A monitors the applicable business limits.

As at 31 December 2019, the statutory limits and their utilisation were the following:

| No. | Statutory limit | Statutory limit value | Limit utilisation | Legal grounds |
|-----|---|-----------------------|-------------------|---|
| 1. | Maximum debt amount of the Bank in the portion over 60% of the mortgage lending value of the real estate vis-à-vis total amount of the mortgage-backed debt held by the mortgage bank | 30% | 10.76% | Article 13.1 of the Act on covered bonds and mortgage banks |
| 2. | Share of debt for which the ratio of a single mortgage-backed loan to the mortgage lending value of the real estate is over 100% at the acquisition date | 0% | 0% | Article 13.2 of the Act on covered bonds and mortgage banks |

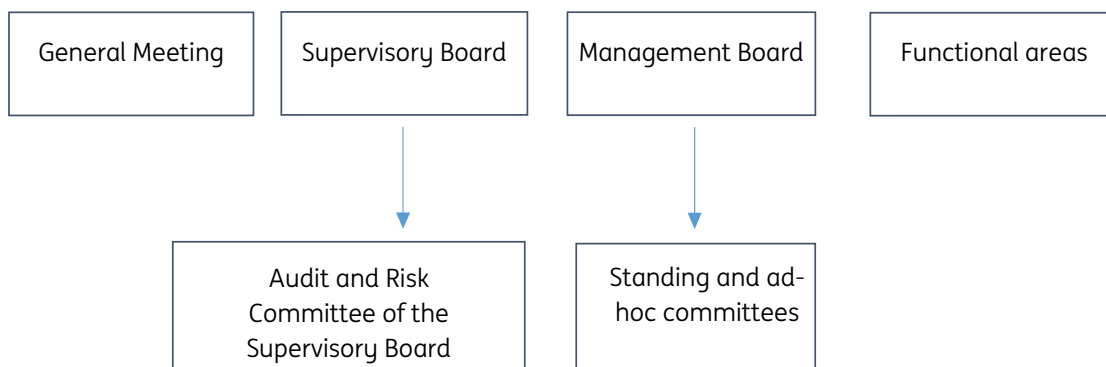
| | | | | |
|-----|---|------|---------|---|
| 3. | Maximum ratio of refinancing the acquired debt (in the portion of up to 80% of the mortgage lending value of the real estate) with the funds obtained from the issue of covered bonds | 100% | 13.30% | Article 14 of the Act on covered bonds and mortgage banks |
| 4. | Maximum volume of acquired and taken-up shares or holdings in other entities vis-à-vis own funds of the mortgage bank | 10% | 0% | Article 15.1.5 of the Act on covered bonds and mortgage banks |
| 5. | Maximum multiple of the total of drawn loans and credit facilities, issued bonds vis-à-vis own funds of the mortgage bank (in first 5 years) | 10 | 9.21 | Article 15.2.1 of the Act on covered bonds and mortgage banks |
| 6. | Maximum multiple of the total amount of nominal amounts of covered bonds traded nu the mortgage bank to own funds of the mortgage bank | 40 | 1.48 | Article 17 of the Act on covered bonds and mortgage banks |
| 7. | Minimum overcollateralisation of the issue of covered bonds with mortgage-backed debt and other funds (bonds, cash, cash with the National Bank of Poland, hedging instruments) | 110% | 160.42% | Article 18.1 of the Act on covered bonds and mortgage banks |
| 8. | Minimum overcollateralisation of the issue of covered bonds with mortgage-backed debt | 85% | 157.83% | Article 18.1 of the Act on covered bonds and mortgage banks |
| 9. | Minimum ratio of income of the mortgage bank under debt and other funds (bonds, cash, cash with the National Bank of Poland, hedging instruments) vis-à-vis costs of interest on the traded covered bonds | 100% | 245.01% | Article 18.2 of the Act on covered bonds and mortgage banks |
| 10. | Coverage with fuds (bonds, cash, cash with the National Bank of Poland) of the nominal amounts of interest on traded covered bonds to be paid out within the subsequent 6 months. | 100% | 100% | Article 18.3a of the Act on covered bonds and mortgage banks |
| 11. | Maximum ratio of debt backed with mortgages established during the construction investment project to the total amount of the mortgage-backed debt used to issue covered bonds. | 10% | 0% | Article 23.1 of the Act on covered bonds and mortgage banks |
| 12. | Maximum ratio of debt backed with mortgages on real estates earmarked for development as per the zoning plan to the total amount of the mortgage-backed debt used to issue covered bonds. | 1% | 0% | Article 23.2 of the Act on covered bonds and mortgage banks |

Throughout the reporting period, ING Bank Hipoteczny did not violate any of the limits listed in the table. Further, as at 2019 yearend, the bank had positive results of the coverage balance tests and liquidity tests.

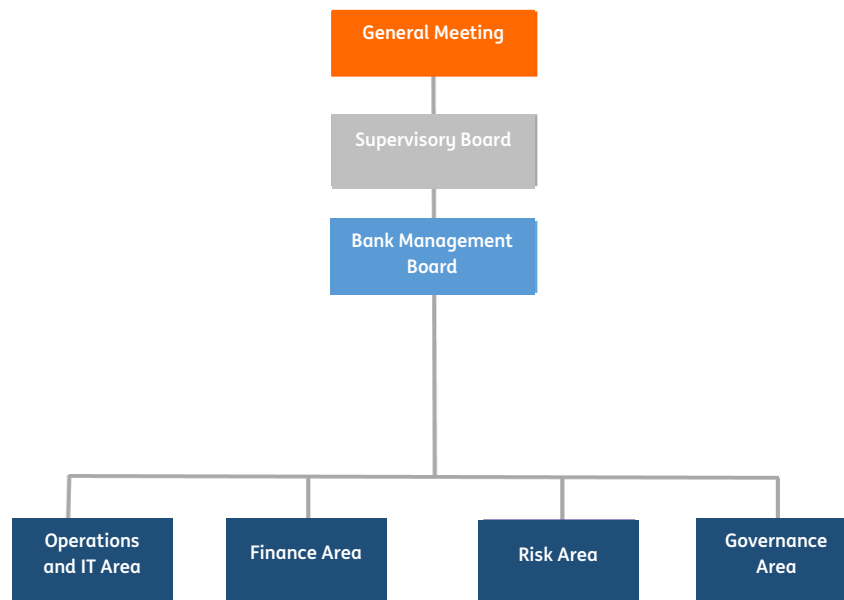
8. Organisational framework and authorities of ING Bank Hipoteczny S.A.

8.1. Organizational framework

ING Bank Hipoteczny S.A. governance is underpinned by the organisational framework presented on the diagram below and the segregation of duties among the Bank bodies discussed further on.



Organisational framework of ING Bank Hipoteczny S.A. in functional areas



8.2 Authority of bodies and committees of ING Bank Hipoteczny S.A.

The authority of individual Bank bodies has been laid down in the Banking Law, the Commercial Companies and Partnerships Code and other laws and provisions of the Bank Charter as well as in their individual bylaws.

The authority of the **Bank General Meeting** is the following:

- review and approval of the Management Bank Report on Bank Operations and the financial statements for the past financial year and acknowledgment of fulfilment of duties by the members of the Bank bodies,
- appointment and recall of Supervisory Board members,
- passing resolutions on the determination of principles of remuneration of the Supervisory Board members and other matters foreseen by the law, Charter or those submitted by the Supervisory Board, Management Board or eligible shareholders,
- passing resolutions on damage claims, for the damages caused upon Bank establishment or exercise of management or supervision,
- determination of the mode of shares redemption and of the fee for the shares redeemed as well as consent to the acquisition of Bank's shares for redemption purposes,
- formation and liquidation of special purpose funds from net profit,
- passing resolutions on the issue of convertible bonds or other instruments providing for the right to acquire to take up Bank shares,
- passing resolutions on liquidation, disposal or lease of the Bank enterprise or its organised part and establishing limited right in property thereon.

The authority of the **Bank Supervisory Board** is the following in particular:

- assessment of the Management Board Report and financial statements for the past financial year as to their compliance with the ledgers, documents and the actual state of affairs.
- assessment of Management Board motions regarding profit distribution or loss coverage,
- submission to the General meeting of the annual written report on the said assessment results,
- revision of the Bank's property and financial control,
- approval of the rules of prudent and stable Bank management and the Bank strategy developed by the Management Board as well as periodical review and verification of its delivery, and also approval of many-year development plans of the Bank and annual budgets of the Bank as developed by the Management Board,
- approval of accepted risk levels in the Bank's business areas,

- approval of Management Board motions regarding formation or liquidation of Bank's organisational units abroad,
- consent to acquisition or disposal by the Bank of shares and share rights or holdings of other legal persons, provided the amount of assets covered by one such operation exceeds the PLN equivalent of EUR 1,000,000 or the said operation concerns the assets accounting for at least 50% of the share capital of another legal person; the Supervisory Board's consent is not required for the Bank's exposure under debt conversion, liquidation of the collateral accepted by the Bank,
- appointment and recall of Management Board Members,
- conclusion with Management Board Members of agreements on performance of their duties and determination of remuneration thereunder, as well as consent to receipt by Management Board Members of other considerations from the Bank or related entities,
- approval of the Management Board Bylaw, Organisational Bylaw and internal control system of the Bank,
- selection of the entity authorised to audit the financial statements of the Bank, based on the recommendation of the Audit and Risk Committee of the Supervisory Board and provision of advice as to establishment of cooperation with that entity,
- consent to conclusion of transactions by the Bank with its shareholders or related entities or members of Bank authorities, provided the amount of the transaction exceeds EUR 1,000,000, save for typical and routine transactions made on an arm's length basis whose nature and terms arise from the daily business of the Bank or transactions foreseen in the annual budget of the Bank as approved by the Supervisory Board,
- consent to assuming a liability by the Bank or making an administrative decision whose amount in such one-off operation or on an aggregate basis for one entity or a few entities related to the entity exceeds 10% of own funds of the Bank; save for provisions of item 4) and 11), the consent is not required for the entities referred to in item 9),
- consent to acquisition, disposal or encumbering by the bank of property, plant and equipment item whose amount exceeds the PLN equivalent of EUR 1,000,000; save for provisions of item 10), the consent of the Board is not required when the property, plant and equipment item is acquired through transfer of such item by the Bank as the creditor due to the Bank's debt recovery procedure,
- submission to the General meeting of reports and assessments laid down in the regulations, recommendations of the regulator and other laws of the Bank,
- suspension – for important reasons – of the Bank Management Board Members in their capacity and delegation – for the period of up to 3 months – of Supervisory Board Members to temporarily act in the capacity of the Management Board Members incapable of discharging their duties,
- approval of the Bank's compliance risk policy,

- approval of the rules for the processes of internal capital estimation, capital management and capital planning,
- approval of the bylaw used to determine the mortgage lending value of the real estate; the bylaw takes effect upon approval by the Polish Financial Supervision Authority,
- approval of cooperation agreements with ING Bank Śląski S.A.,
- submission of application with the Polish Financial Supervision Authority for appointment of the Custodian and his/her deputy,
- approval of model risk management rules,
- approval of the code of ethics and conflict of interest management rules.

Supervisory Board resolutions may concern in particular:

- formulation of conclusions and recommendations under the supervision and control activities conducted,
- granting consents and permissions,
- rendering advice,
- reports and assessments submitted by the Board to the General meeting and in particular:
 - report on results of assessment of the financial statements and Management Board reports on Bank operations in the financial year, and also the Management Board motion on the distribution of the Bank's profit for the financial year,
 - assessment of the Bank's standing, considering the assessment of systems of internal control, risk management, compliance, and audit function,
 - report on the operations of the Board and their committees in the financial year along with the work assessment in that period by the Board,
 - report on the remuneration policy of the Bank,
 - assessment of application by the Bank of the principles of corporate governance for supervised institutions.

The authority of the **Supervisory Board Audit and Risk Committee** is the following in particular:

- supporting the Supervisory Board in monitoring and supervising the financial reporting, the internal and external audit and the governance system of the Bank, and in particular as to adequacy and effectiveness of the internal control system and risk management system and the relation between the Bank and the firm auditing the financial statements of the Bank.
- supporting the Supervisory Board in monitoring and supervising the risk management process, including for the operational risk, credit and market risk, and

also the internal capital estimation process, capital planning and management as well as the model risk and capital adequacy.

The authority of the **Bank Management Board** is the following in particular:

- representing the Bank before the authorities and third parties as well as administration and management of the property and interests of the Bank. The Management Board take action for all the matters not resting with other Bank bodies,
- issue of resolutions which under the universally effective laws and provisions of the Bank Charter require decisions by other statutory Bank bodies,
- formulation of Bank's policies, including but not limited to the lending policy, risk management policy and remuneration policy,
- determination of acquisition principles for funds from other financial institutions and the principles of their utilisation as well as determination of principles for investing funds with other banks,
- formulation of principles for setting interest for the products offered by the Bank, including but not limited to the interest for loans and credit facilities or penalty interest,
- reviewing motions regarding recognition of extraordinary losses and establishment of provisions beyond the amounts otherwise set by the Management Board,
- passing investment plans and setting investing principles,
- resolving on the matters pertaining to the acquisition, encumbering, disposal of lease of real estates and other property rights – for operations going beyond the amounts otherwise set by the Management Board,
- resolving on acquisition and disposal by the Bank of shares and holdings of other legal persons – for operations going beyond the amounts otherwise set by the Management Board,
- determination of principles of granting and revoking powers of attorney to perform certain acts or take certain actions,
- the matters going beyond the ordinary course of business, including but not limited to the matters going beyond the powers of individual Management Board members or Committees established by the Management Board,
- other matters for which decisions rest with the Management Board under other resolutions adopted by the Management Board and other matters submitted by the President of the Management Board or another Management Board Member.

The Bank Management Board established the following standing committees: the list of standing committees forms Enclosure No. 4 with the Organisational Bylaw of ING Bank Hipoteczny S.A.:

- Assets and Liabilities Committee,
- Credit Policy Committee,
- Non-Financial Risk Committee,
- Green Covered Bonds Committee, established on 21 October 2019 by way of Resolution No. 109/49/19 of the Management Board of ING Bank Hipoteczny S.A.

The Assets and Liabilities Committee supervise and take decisions on:

- market and liquidity risk management at ING Bank Hipoteczny,
- management of the Bank's balance sheet (assets and liabilities), including the transfer pricing system methods and parameters,
- structure of ING Bank Hipoteczny S.A.'s ledgers,
- capital and capital adequacy management,
- valuation of financial instruments and calculation of valuation adjustments, considering the factors not accounted for in the valuation in the Bank's systems.

Credit Policy Committee

Responsibilities

- Credit risk appetite as to specific risk appetite limits and concentration limits:
 - Define limit types,
 - Set and change limit levels,

Lending Policy:

- the Credit Policy Committee take decisions on the regulations concerning the implementation of the ING Bank Hipoteczny S.A. Credit Risk Management Policy,
- the Credit Policy Committee define and modify the principles of risk, identification, assessment and control, including:
 - credit risk assessment principles,
 - standard credit analysis,
 - credit powers,
 - rating process flow,
 - principles of client and credit exposure monitoring,
 - restructuring and debt recovery principles,
 - collateral establishment and monitoring principles,
 - impairment and provisioning principles,
 - social and environmental risk assessment principles,
 - counterparty risk assessment principles.

Credit products and processes:

- the Credit Policy Committee take decisions on acceptance of implementation of new or modification of existing:
 - credit risk-bearing products,
 - types of business involving offering of lending products,
 - distribution channels for lending products,
 - IT systems used in lending.
- Relevant decisions are taken solely in the case of a material impact on the risk or the need to adapt the principles of credit risk assessment.

Credit risk models:

- the Credit Policy Committee approve regulations on development, maintenance and use of risk models, including:
 - principles of the credit risk models management,
 - methodology of building and monitoring of the models,
 - definitions of the credit risk models,
 - the scope of use of the credit risk models,
 - results of credit risk model validation.
- The Credit Policy Committee approve the reports on results of credit risk model validation.
- The Credit Policy Committee monitor credit risk, ensure compliance with laws, supervisory regulations and ING Group's standards as well as discuss and approve any other credit- and settlement risk-related matters.

The Credit Policy Committee ensure compliance with laws, supervisory regulations and ING Group's standards.

The Non-Financial Risk Committee – following the requirements of the universally applicable laws, regulator's requirements, internal regulations of the Bank and good practices of the ING Bank Śląski S.A. Group, the Committee have *inter alia* the following areas and matters in scope:

- Initiation and recommendation of changes and new solutions for the non-financial risk area,
- Approval, endorsement and recommendation of:
 - non-financial risk management plans, projects and programmes as well as control standards,
 - waivers and deviations for the non-financial risk area of at least High risk.
- Approval of:
 - annual control testing plans and results,

- the annual Risk Identification and Assessment Plan and results of Business Impact Analysis as well as scenario analyses and results of risk identification and assessment for identified unacceptable risks,
- action plans and report on the 2LoD monitoring as part of key control testing,
- non-financial risk reports and recommendation to the Bank Management Board of decisions for material non-financial risk issues,
- the list of obligatory training courses in non-financial risk,
- periodical results of Bank's organisational framework reviews for compliance with the operational risk management rules,
- results of measurement of economic and regulatory capitals for operational risk, including quarterly monitoring of the capital required for operational risk and capital change drivers.
- Supervision of:
 - non-financial risk identification, assessment, monitoring and mitigation processes (including approval of control standards, scenario analyses and stress tests),
 - the process of distribution of regulatory information to competent Bank units,
 - the quality assurance process for the non-financial risk management processes.
- Monitoring of utilisation of the limits set in the non-financial risk appetite statement (loss limits included).
- Assessment of:
 - reputational risk reports and conduct risk matters,
 - non-financial risks for considerable changes to the Bank's governance structure and essential elements of outsourcing processes.
- Responsibilities of the Reference Rates Committee.

The Green Covered Bonds Committee is responsible for all green aspects of covered bonds.

Responsibilities

- Initiation and recommendation of changes and new solutions for green covered bonds.
- Approval of:
 - *amendments to the NG Bank Hipoteczny S.A. Green Covered Bond Framework,*
 - changes to technical conditions enabling qualification of a credit debt to the portfolio of green assets,
 - allocation reporting and impact reporting,
 - periodical reports delivered to the *Climate Bonds Initiative.*

- Supervision of:
 - processes related to operational implementation of changes arising from amendments to the NG Bank Hipoteczny S.A. Green Covered Bond Framework,
 - processes relating to operational implementation of changes to technical conditions enabling qualification of a credit debt to the portfolio of green assets,
 - the process of utilisation of funds acquired from the issue of green covered bonds, considering the potential alternative investment projects laid down in the ING Bank Mortgage S.A. Green Covered Bond Framework,
 - the process of green assets portfolio building,
 - collaboration with third parties involved in the green covered bonds-related processes,
 - quality assurance for the green covered bonds-related processes,
 - reporting process to ING Group.

8.3 Management Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2019 to 31 December 2019, the Management Board of ING Bank Hipoteczny S.A. worked in the following composition:

| | Function | Function Holding Time |
|----------------|--|-------------------------|
| Mirosław Boda | President of the Management Board | 26.02.2018 - at present |
| Jacek Frejlich | Vice-President of the Management Board | 26.02.2018 - at present |
| Roman Telepko | Vice-President of the Management Board | 26.02.2018 - at present |

Segregation of key authorities within the Bank Management Board:

| | |
|----------------|---|
| Mirosław Boda | President of the Management Board responsible for the Management Area |
| Jacek Frejlich | Vice-President of the Management Board responsible for the Finance, Operations and IT Areas |
| Roman Telepko | Chief Risk Officer |

Other management functions of Management Board Members:

| | Function | Function Holding Time |
|----------------|---|----------------------------------|
| 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 the Management Board or Supervisory Board member. | Throughout the reporting period. |
| Roman Telepko | Did not hold any additional functions of the Management Board or Supervisory Board member. | |

The composition, responsibilities of and segregation of duties among the Management Board Members did not change in the reporting period.

Recruitment policy – selection and evaluation of Management Board Members

All the appointed members of the ING Bank Hipoteczny S.A. Management Board satisfy the requirements of Article 22aa of the Banking Law Act and underwent a suitability assessment before appointment as per EBA guidelines.

The process of selection and assessment of candidates for ING Bank Hipoteczny S.A. Management Board follows the terms and conditions of the Policy of selection, nomination, re-nomination and succession planning of ING Bank Hipoteczny S.A. Management Board and Supervisory Board Members.

Upon the request of the ING Bank Hipoteczny S.A., the HR unit of ING Bank Śląski S.A. prepares a list of candidates for a given position, based on the succession database. The list of candidates should satisfy the requirements of the Diversity Policy of ING Bank Hipoteczny S.A. In the absence of internal candidates satisfying the requisite criteria, external recruitment process is initiated. The Supervisory Board select at least 2 persons from the list of candidates; they are invited to the assessment process made a third party. That stage closes with the third-party report.

The Supervisory Board commission the suitability assessment process as per the Suitability assessment policy for Supervisory Board and Management Board Members and the persons holding key functions at ING Bank Hipoteczny S.A. considering the terms of the Diversity Policy applicable to the ING Bank Hipoteczny S.A. Management Board and Supervisory Board Members.

The following terms of selection, nomination and succession planning apply to Management Board Members:

- Management Board Members are appointed and recalled in the secret ballot, considering the requirements of the Banking Law Act.

- The Bank Management Board consists of at least three members, inclusive of the President and Vice-Presidents. Upon the request of the President of the Management Board, the Supervisory Board may entrust the role of I Vice-President to one of the Vice-Presidents.
- The number of the Management Board Members are determined by the Supervisory Board. At least half of the Members of the Management Board are the citizens of the Republic of Poland.
- Management Board Members are appointed for the joint term of office which commences at their appointment date and lasts for five full subsequent financial years.
- The President of the Management Board and the Vice-President supervising the management of the risk material to the Bank's business are appointed by the Supervisory Board upon the approval of the Polish Financial Supervision Authority. The earlier appointed Management Board Member may be entrusted with the capacity of the Vice-President referred to hereinabove only upon approval of the Polish Financial Supervision Authority.

Diversity Policy

The ING Bank Hipoteczny S.A. has the *Diversity Policy for ING Bank Hipoteczny S.A. Management Board and Supervisory Board Members*.

The Policy seeks to achieve a broad scope of competence upon appointment of the Supervisory Board and Management Board members so as to acquire various opinions and experience and enable individual bodies to issue independent opinions and reasonable decisions as well as to ensure top quality of duties performance by the managing bodies.

The Bank perceives diversity as one of the attributes of the corporate culture. As regards business-related criteria, the strategy of diversity ensures selection of persons with diverse knowledge, skills and experience, suitable for positions held by them and duties entrusted to them, who complement each other at the level of all the Management Board and Supervisory Board Members.

The criteria are verified in the suitability assessment process described in the *Suitability assessment policy for Supervisory Board and Management Board Members and the persons holding key functions at ING Bank Hipoteczny S.A.* Further, the *Diversity Policy* covers and employs the differences which besides knowledge and professional experience are driven by sex and age to accomplish top results.

Principles of remuneration of Bank Management Board Members

On 16 December 2019, the Supervisory Board – by way of Resolution No. 47/10/2019 – approved amendments to the Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw provides for the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw remains in concordance with the values and long-term interests of ING

Bank Śląski S.A. Group, whereby it fosters effective risk management by the Group. The principles of remuneration of Bank Management Board Members are set using the market data. They factor in the knowledge and skills as well as the accountability of and the risk taken by a given function. Each Bank Management Board member made an employment contract with the Bank. The contract reads *inter alia* the terms and conditions of remuneration and the competition ban.

Remuneration of Management Board Members

In 2019, the total amount of emoluments due and paid out by the Bank to the Management Board Members reached PLN 1,579.2 thousand, while in 2018 it was PLN 820.1 thousand.

| Management Board | | | | | |
|--|------------------------------|---------------------|------------------|------------------|---------------------|
| 2019 | | | | | |
| Emoluments due and paid out to ING Bank Hipoteczny S.A. Management Board members in 2019 | | | | | |
| | | remuneration | awards* | other benefits** | Total |
| TOTAL | 01.01.2019-31.12.2019 | 1 433 500.00 | 98 054.44 | 47 610.30 | 1 579 164.74 |

* Bonus under the 2018 Variable Remuneration Programme, deferred cash.

Emoluments of the ING Bank Hipoteczny S.A. Management Board Members for 2019 under the Variable Remuneration Programme have not yet been awarded. In line with the remuneration system of the Bank, Bank Management Board Members are eligible for a 2019 bonus. The bonus will be paid out in 2020-2025. For that purpose, provisions were formed for the 2019 bonus for Management Board Members. As at 31 December 2019, they totalled PLN 860,110. The Bank Supervisory Board will take the final decision on the bonus amount.

** other benefits include: Employee Pension Scheme, healthcare and insurance policies,

| Management Board | | | | | |
|--|------------------------------|-------------------|-------------|------------------|-------------------|
| 2018 | | | | | |
| Emoluments due and paid out to ING Bank Hipoteczny S.A. Management Board members in 2018 | | | | | |
| | | remuneration* | awards** | other benefits** | Total |
| TOTAL | 01.06.2018-31.12.2018 | 803 415.17 | 0.00 | 16 668.64 | 820 083.81 |

* Remuneration due PLN 804,440.

** Emoluments of the ING Bank Hipoteczny S.A. Management Board Members for 2018 under the Variable Remuneration Programme have not yet been awarded. In line with the remuneration system of the Bank, Bank Management Board Members are eligible for a 2018 bonus. The bonus will be paid out in 2019-2024. For that purpose, provisions were formed for the 2018 bonus for Management Board Members. As at 31 December 2019, they totalled PLN 482,664. The Bank Supervisory Board will take the final decision on the bonus amount.

** other benefits include: Employee Pension Scheme, healthcare and insurance policies,

8.4 Supervisory Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2019 to 31 December 2019, the Management Board of ING Bank Hipoteczny S.A. worked in the following composition:

| | Function on the Bank Supervisory Board Supervisory Board | Appointment date | Recall/ resignation date | Independent member* | Audit and Risk Commi ttee |
|-----------------------|--|---------------------|--------------------------------|------------------------|---------------------------------------|
| 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 | | | |
| Patrick Roesink | Member | 26.02. 2018 | | | M |
| Krzysztof Gmur | Member | 26.02. 2018 | | ✓ | Ch |
| Jacek Michalski | Secretary | 11.09.2018 | | ✓ | M |

Ch – Chairman, D – Deputy Chairman, M – Committee Member

* / as defined in the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017.

The composition of the Supervisory Board did no change in 2019. In the reporting period, the Supervisory Board and the Audit and Risk Committee had 5 onsite meetings each.

As per Article 395.2.3 of the Commercial Companies and Partnerships Code, once a year, the general meeting acknowledge fulfilment of duties by each Supervisory Board member. Acknowledgement is the assessment of the Supervisory Board members, regardless of the review of the Supervisory Board report on operations made by the general meeting.

On 3 April 2019, there was held an Ordinary General Meeting of ING Bank Hipoteczny S.A. during which the general meeting:

- approved the financial statements of ING Bank Hipoteczny S.A. for the period from 26 January 2018 to 31 December 2019;
- approved the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 26 January 2018 to 31 December 2019;
- approved the Supervisory Board Report on assessment results for the said financial statements, the Management Board Report on Operations and the Management

Board's motion regarding coverage of the loss sustained by ING Bank Hipoteczny S.A. in the period from 26 January 2018 to 31 December 2019;

- approved the Management Board's motion regarding coverage of the loss sustained by ING Bank Hipoteczny S.A. in the period from 26 January 2018 to 31 December 2019;
- acknowledged fulfilment of duties by all Supervisory Board Members in the period from 26 January 2018 to 31 December 2019;
- acknowledged fulfilment of duties by all Management Board Members in the period from 26 January 2018 to 31 December 2019;
- accepted the ING Bank Hipoteczny S.A.'s Report on observance of the *Principles of corporate governance for supervised institutions* by the Bank.

Remuneration of Supervisory Board Members

In 2019, total remuneration (defined as for the Management Board Members) due and paid out by the Bank to the Supervisory Board Members reached PLN 120.0 thousand, while in 2018 it was PLN 67.3 thousand.

| Supervisory Board | | | | |
|---|-------------------|-------------|----------------|-------------------|
| 2019 | | | | |
| Emoluments due and paid out to ING Bank Hipoteczny S.A. Supervisory Board members in 2019 | | | | |
| | remuneration | Awards | other benefits | Total |
| TOTAL | 120 000.00 | 0.00 | 0.00 | 120 000.00 |

| Supervisory Board | | | | |
|---|------------------|-------------|------------------|------------------|
| 2018 | | | | |
| Emoluments due and paid out to ING Bank Hipoteczny S.A. Supervisory Board members in 2018 | | | | |
| | remuneration | Awards | other benefits** | Total |
| TOTAL | 66 427.30 | 0.00 | 837.12 | 67 264.42 |

*costs of travel to the Supervisory Board meetings

8.5 Remuneration and human resources management policy

Headcount

As at 31 December 2019, ING Bank Hipoteczny S.A. had 39 employees (39 FTEs). This signifies headcount increase by 9 persons (9 FTEs) from 31 December 2018.

Remuneration policy

The primary internal regulation governing the remuneration policy is the Remuneration Bylaw of ING Bank Hipoteczny S.A. which was introduced by way of Ordinance of the President of the Management Board.

As per the bylaw, the total remuneration of Bank employees comprises of the fixed and variable remuneration.

Fixed remuneration covers:

- a. base salary;
- b. benefits awarded under the universally applicable laws and internal remunerations of the Bank, and in particular additional remuneration for overtime work, cash equivalent for holidays, reimbursement of private company car use by the employee;
- c. additional benefits being an element of the overall Bank's policy like healthcare, employee pension scheme, company cars, benefits awarded to employees under the Cafeteria programme;
- d. fixed severance payments, that is
 - severance pay for the employees dismissed for other than employee-related reasons
 - cash payment due to employee becoming a pensioner or retiree
 - death gratuity.

Variable remuneration covers:

- annual bonus on the terms laid down in the ING Bank Hipoteczny S.A. Employee Evaluation Bylaw
- or the bonus set on the terms laid down in the ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

The ratio of variable remuneration to fixed one cannot be over 100%.

Base salary

The primary assumption of the base salary system is to ensure consistent and fair remuneration at ING. This can be done through a regular analysis of many aspects, financial and economic ones included. We ensure that the remuneration offered is in line with the market through its revaluation made using detailed market information. By ensuring fair and competitive remuneration, the remuneration policy seeks to acquire and keep the employees contributing to the development of our company.

The Bank applies internal job pay grades. Pay grades are set using independent and objective job scoring methods and job descriptions. Jobs are valued on an ongoing basis,



notably in the event of occurrence of important organisational changes at the Bank. The Bank verifies adequacy of base salaries through regular remuneration benchmarks, made by specialist third parties.

Variable remuneration

The main element of variable remuneration is the bonus. It is an extra remuneration which an employee can obtain by performing his or her STEP UP tasks stemming from the business strategy and ING values.

Tasks are set and evaluated in line with:

- the ING Bank Hipoteczny S.A. Employee Evaluation Bylaw, and
- the ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

The primary goal of the Step Up evaluation is to ensure that employees have adequate competences. This is achieved by providing employees with motivating feedback, setting adequate goals for them, checking their performance in a reliable manner and building their engagement to deliver business goals and keep the competitive position of ING Bank Hipoteczny S.A.

For the persons having a material impact on the risk profile of ING Bank Hipoteczny S.A., the Management Board included, the Bank has set the variable remuneration awarding process in the ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

In accordance with the ING Bank Hipoteczny S.A. Capital Management Policy, the Bank tests capital to ensure that the total remuneration pool of all employees does not limit its capacity to maintain adequate capital base. Should a limitation occur, a decision can be taken to freeze the variable remuneration pool.

For Identified Staff, variable remuneration covers:

- cash payment (not more than 50%),
- financial instruments (minimum 50%).

The above division applies to both the remuneration paid out directly after the end of the evaluation period and the deferred one. The deferral period is four years from the variable remuneration determination by the Management Board/ Supervisory Board.

Besides the bonus award system, the Bank has an employee rewarding system, formed of a reward fund. The fund is used to reward individual employees on a discretionary basis for their outstanding performance or accomplishments translating into important deliverables for the Bank.

Non-financial benefits

| | |
|------------------------------|---|
| Additional healthcare | Besides occupational health services (under the Labour Code) , the Bank ensures for its employee healthcare services grouped into different packages, dedicated to specific job groups. |
| Group insurance | Employees can access group life insurance via the bank and on preferential terms negotiated by the bank; they may choose between two insurance companies. |
| Cafeteria system | Under the system, all Bank employee may – via an online benefit platform – use freely the funds received from the In-house Welfare Benefits Fund. |

Principles of remuneration of Bank Management Board Members

On 16 December 2019, the Supervisory Board – by way of Resolution No. 47/10/2019 – approved amendments to the Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw reads the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board.

The Bylaw is revised on an ongoing basis, in response to the changing conditions and regulations of the ING Bank Śląski S.A. Group.

The Bylaw remains in concordance with the values and long-term interests of ING Bank Śląski S.A. Group, whereby it fosters effective risk management by the Group.

The principles of remuneration of Bank Management Board Members are set using the market data. They factor in the knowledge and skills as well as the accountability of and the risk taken by a given function.

The remuneration package of the Management Board Member covers:

- a. fixed remuneration, composed of the base salary and the following additional benefits: Employee Pension Scheme, healthcare, company car, employment contract termination-related benefits, other benefits awarded by the Supervisory Board's decision.
- b. variable remuneration which covers the annual bonus in line with the ING Bank Hipoteczny S.A. Variable Remuneration Policy for Identified Staff including Management Board Members.

The elements of remuneration and other benefits for Bank Management Board Members in the reporting period were described in the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019.

Variable elements of remuneration of Management Board Members and Identified Staff

As required by:

- a. the Banking Law Act of 29 August 1997 (Journal of Laws of 2015, item 128 as amended),
- b. the Regulation by the Minister for Development and Finance on managing risk and internal control system, remuneration policy and detailed procedure for internal capital estimation by banks in particular of 6 March 2017, hereinafter referred to as the Regulation of the Minister for Development and Finance,
- c. EBA Guidelines on sound remuneration policies of 27 June 2016, as referred to in Articles 74.3 and 75.2 of the Directive 2013/36/EU and disclosure of information under Article 450 of Regulation (EU) 575/2013, hereinafter referred to as the Guidelines, EBA Guidelines on sound remuneration policies of 27 June 2016, as referred to in Articles 74.3 and 75.2 of the Directive 2013/36/EU and disclosure of information under Article 450 of Regulation (EU) 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, hereinafter referred to as the RTS Regulation.

The Bank applies the following variable regulation determination-oriented regulations:

- a. Variable Remuneration Policy for Identified Staff,
- b. List of Identified Staff,
- c. ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

As at 31 December 2019, the Variable Remuneration Policy for Identified Staff applied to 7 Supervisory Board Members, 3 Management Board Members and 11 IDS jobs.

The List of Identified Staff – the list of Bank employees identified as persons having a material impact on the risk profile of ING Bank Hipoteczny S.A. based on the quantitative and qualitative criteria listed in Enclosure No. 1 with the Variable Remuneration Policy for Identified Staff, as per the effective provisions of the Regulation of the Minister for Development and Finance and RTS Regulation.

The List of Identified is updated on an ongoing basis by the President of the Management Board of ING Bank Hipoteczny S.A.

Based on the above criteria, the following persons fall into the Identified Staff category:

- Supervisory Board and Management Board members,

- managers and persons reporting to Bank Management Board members,
- persons responsible before the managing authority for the activities of the internal audit risk management function, compliance function or internal audit function,
- heads of legal, finance (tax and budgeting included), human resources, remuneration policy, IT technology or business analysis functions,
- employees responsible for the committee managing the risk category laid down in Articles 79-87 of the Directive 2013/36/EU other than credit risk and market risk or being that committee member,
- employees whose jobs fall within the same pay brackets as those of the senior management staff and persons taking conduct risk (if they have impact on the risk profile).

The following criteria are taken into account to determine whether a given job/ person has a material impact on the Bank's risk profile and whether s/he should be included in the List of Identified Staff:

- a. A person in a given job holds the powers, whereby s/he can take decisions or make binding opinions of material impact on the Bank's risk profile,
- b. A person in a given job is responsible for control functions at the Bank, including the responsibility for or participation in development of risk management systems and creation or implementation of significant risk mitigation procedures at the Bank.

Another element of the analysis of impact on the Bank's risk profile is specification of key Bank committees whose decisions impact the Bank's risk profile and inclusion in the List of Identified Staff their members with voting rights holding the right of veto or the casting vote.

The Supervisory Board approve the Variable Remuneration Policy and oversees compliance therewith.

In the reporting period, the ING Bank Hipoteczny S.A. Supervisory Board had 10 meetings (including 5 on a circulation basis).

The variable remuneration is in proper relation to fixed remuneration. The ratio of fixed remuneration to variable remuneration is 1 to max. 1.

Variable remuneration is set based on the performance assessment. The variable remuneration consists of:

- cash payment (not more than 50%),
- financial instruments (minimum 50%).

The above division applies to both the remuneration paid out directly after the end of the evaluation period and the deferred one.

The Bank applies the variable remuneration deferral rule with the reservation that in line with the proportionality principle given in the Regulation of the Minister for Development and Finance a certain amount of variable remuneration is set which is not subject to deferral (PLN 40,000).

The variable remuneration awarded in financial instruments is subject to a retention period. The period is one year from the award date.

The financial instruments awarded as variable remuneration are an instrument within the meaning of the Act on Trading in Financial Instruments. Their underlying instrument is the amount of net assets of ING Bank Hipoteczny S.A.

Deferred variable remuneration can be decreased or not paid out based on:

- verification of performance assessment or
- ex post risk adjustment and capital test.

By verifying performance assessment, one may determine whether there occurred some conditions necessitating performance re-assessment, considering the results of given Identified Staff – and, accordingly, the conditions providing for variable remuneration decrease or freeze. This applies in particular to the situation where employee behaviour results in a considerable adjustment of annual financial statements of the Bank or reputation loss by the Bank.

Based on risk adjustment ex post, the Bank has the right to reduce or not pay out the variable remuneration under the following circumstances:

- a. occurrence of events resulting in Bank's non-compliance or the risk of Bank's non-compliance with the norms and standards of Article 142.1 of the Banking Law Act and requiring the Bank to activate the Remedy Programme,
- b. payout of variable remuneration on the basis of untrue data,
- c. failure to satisfy by Identified Staff of applicable competition- and reputation-related standards,
- d. occurrence of a conflict of interest due to payout of variable remuneration in financial instruments, because of non-compliance with the confidential data usage rules and other actions which may impact the amount of assets of ING Bank Hipoteczny S.A. in the short term.

An employee does not acquire the right to an annual bonus (including the unpaid deferred portion) in the event of employment contract termination:

- a. under Article 52 of the Labour Code,
- b. upon the employer's initiative due to the termination reasons attributable to an employee.

Identified Staff are required not to apply their own hedging strategies or insurance for remuneration or responsibility, save for the mandatory insurance as required under special regulations, which would neutralise the measures taken in respect of them as part of Policy implementation. Identified Staff are required to submit to the employer – by 31 January of each function holding year – of the hedging strategy and insurance waiver representation.

The Bank does not award individual pension benefits understood as a portion of the variable remuneration package.

The Bank does not apply any variable remuneration award or payout solutions which would entail non-compliance with the Policy.

Once a year, by 31 January, ING Bank Hipoteczny S.A submits to the Polish Financial Supervision Authority the data on the number of Bank employees wherefor the total remuneration of each of them individually in the previous year went over EUR 1 million (one million) at the average rate of the National Bank of Poland from the last business day of the year for which data are submitted, along with the information on the job of the employee and the amount of the main remuneration elements, awarded bonuses and long-term rewards plus withheld pension contributions.

ING Bank Hipoteczny S.A renders into the public domain the information on the Policy as far as required by the Polish Financial Supervision Authority for the disclosure of qualitative and quantitative information about the capital adequacy and other information to be disclosed.

The primary condition of annual bonus payout to Management Board members is delivery by the Bank of at least 80% of the budget, incrementally during the year, in the year for which variable remuneration is computed.

In accordance with the ING Bank Hipoteczny S.A. Capital Management Policy, ING Bank Hipoteczny S.A tests capital to ensure that the total remuneration pool of all employees does not limit the Group's capacity to maintain adequate capital base. Should a limitation occur, a decision can be taken to freeze the variable remuneration pool.

The amount of variable remuneration elements can be decreased and their payout can be frozen when the Bank sustains a balance sheet loss.

In the event of employment contract termination by the Bank, the Management Board member is eligible for a severance pay in the amount of a three-month base salary for the last three months preceding employment relationship termination.

Management Board members and Identified Staff are covered with non-competition agreements which provide for damages payment for refraining from employment at a competition after employment with the Bank.

In the settlement period, no employee of ING Bank Hipoteczny S.A. earned the remuneration of at least EUR 1 million.

Agreements between the Bank and managers

In accordance with Article 2.1.30a. of the Minister of Finance Regulation concerning current and interim information provided by issuers of securities and terms and conditions of considering information required under the law of a non-Member State as equivalent of 29 February 2018, Management Board members are Bank managers.

Each Bank Management Board member made an employment contract with the Bank. The contract reads *inter alia* the terms and conditions of remuneration and the competition ban (Supervisory Board Resolution of 11 May 2018 as amended).

9. Corporate governance and information for investors

9.1 Corporate governance principles and applicability

ING Bank Hipoteczny S.A. Management Board report on observance of principles of corporate governance:

ING Bank Hipoteczny S.A. Management Board submits the report on observance of the corporate governance principles in 2019 in compliance with Article 70.6.5) of the Minister of Finance

Regulation concerning current and interim information provided by issuers of securities and terms and conditions of considering information required under the law of a non-Member State as equivalent of 29 February 2018 (Journal of Laws, item 757).

Principles of corporate governance for supervised institutions (the PFSA).

https://www.knf.gov.pl/knf/en/komponenty/img/principles_of_corporate_governance_39736.pdf

The Bank implemented the Principles of corporate governance for supervised institutions published by the Polish Financial Supervision Authority ("Principles") with the following decisions of Bank bodies:

Management Board Resolution No. 29/10/19 of 11 March 2019 – regarding the content of the report on observance by ING Bank Hipoteczny S.A. of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority, including the principles concerning the competence and responsibilities of the Management Board, i.e. managing the Bank affairs and representing the Bank, in accordance with the universally effective laws and the Bank Charter,

Supervisory Board Resolution No. 20/3/2019 of 22 March 2019 – regarding the content of the report on observance by ING Bank Hipoteczny S.A. of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision

Authority, including the principles concerning the competence and responsibilities of the Supervisory Board, i.e. supervising management of the Bank affairs in accordance with the universally effective laws and the Bank Charter,

General Meeting Resolution No. 18 of 3 April 2019 – regarding adoption of the report on observance by ING Bank Hipoteczny S.A. of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority, including the principles concerning the competence of the General Meeting,

Management Board Resolution No. 34/15/19 of 15 April 2019 – regarding implementation of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority.

ING Bank Hipoteczny S.A. resolved not to apply the following Principles:

- The Principles introduced under Article 8.4 and Article 9.6 do not apply since 100% of ING Bank Hipoteczny S.A.'s shares were taken up by one Shareholder – ING Bank Śląski S.A. The number of shareholders does not justify the application of the said principles.
- The Principles introduced under Article 28.3 and Article 28.4 are not applied by ING Bank Hipoteczny S.A. due to the proportionality principle. The Bank has only one shareholder who is represented in the supervisory body of the Bank. Further, the principles of the management information system used by the Bank duly secure the interests of the shareholder.
- The principles introduced under Article 32.1 through Article 34 and Articles 36.1 and 36.2 do not apply since the business model adopted by ING Bank Hipoteczny S.A. does not provide for client acquisition (including via advertising), but only for the purchase of existing mortgage-backed debt from ING Bank Śląski S.A.
- The principles introduced under Article 49.4 and Article 52.2 do not apply since ING Bank Hipoteczny S.A. has an internal audit and compliance cells.
- The principles listed in Chapter 9 of the “Principles” – *Execution of Rights Resulting from Assets Acquired at Client's Risk* – the principles are not applied by ING Bank Hipoteczny S.A., because the Bank cannot pursue the business discussed in that Chapter.

ING Bank Hipoteczny S.A. limited application of the following Principles:

- The principles introduced under Article 9.1 – the principles are used to a limited degree only, because the Bank has one shareholder whose representatives are members of the supervisory body of the Bank.
- The principles introduced under Article 29.1 through 29.2 – the principles are used to a limited degree only, as they apply to independent members of the supervision body only.

- The principles introduced under Articles 35, 37 and 38.1 through 38.2 – the principles are used to a limited degree only, in respect of post-sale service of mortgage-backed debt, because to the business model adopted by ING Bank Hipoteczny S.A.

In Q1 2020, the Supervisory Board will assess the application of the Principles by the Bank – as required under Article 27 of the Principles.

Management Board report on observance of principles of corporate governance

Taking into account the above-given explanations, the Bank Management Board hereby submit the following report on observance of principles of corporate governance:

the Management Board represent that upon implementation of the Principles of 15 April 2019 by the Bank, the Bank performed a gap analysis to identify the areas requiring adaptation measures. Additionally, observance of Principles by the Bank was independently reviewed by the Compliance Cell. The review ended in January 2020. The above actions showed that most adaptation measures were completed in 2019. In 2020, isolated procedures-related initiatives are to be closed in order to ensure full implementation of the Principles. In 2019, there were no cases of non-compliance with the Principles identified.

Code of Conduct of ING Bank Hipoteczny S.A. employees

The Bank has the Bylaw – Code of Conduct of ING Bank Hipoteczny S.A. employees. The Code is an overview of key principles of conduct for Bank employees. It promotes corporate culture which is based on knowledge and observance of the law, internal regulations and market standards. The rules stipulated therein apply to any and all employee activities related to performance of their professional duties. Some of the said rules may apply to the private activities of employees which may negatively affect Bank's reputation or give rise to a conflict of interest.

Orange Code

The principles defined in the so-called Orange Code are the key element shaping the corporate culture of the Bank which is based on the values promoted by the ING Group. Orange Code is a set of norms applicable to all Bank employees. Their observance is factored in during the annual employee appraisal process. The Orange Code is composed of two parts:

ING Values being the promise made to our external stakeholders:

- We are honest,
- We are prudent,
- We are responsible.

ING Behaviours which define the way of life of employees. These are the commitments the employees make towards one another and standards enabling assessment of their actions:

- You take it on and make it happen,
- You help others to be successful,
- You are always a step ahead.

ING Bank Hipoteczny Disclosure Policy

Being a public trust institution, the Bank pursues the disclosure policy which is based on the principles of open and transparent communication to clients, investors, the media and all stakeholders. The Bank pursues the policy as required by the provisions of the law on information confidentiality and safety applicable to the Bank as a supervised institution. The Bank abides by the corporate governance principles. The Bank ensures for its clients, shareholders, investors, the media and all stakeholders proper access of Bank information in particular. The Disclosure Policy may be found on the website.

Risk control and management system in the financial reporting process

The process of financial statements development is among the key elements ensuring compliance with the norms and standards. The primary element enabling process performance is the Accounting Policy adopted by the Bank Management Board. The Policy provides for the main principles of recording business events at the Bank. Events recorded translate in the Bank ledgers which are later used to develop the financial statements.

The Bank identified the following key risks in the financial statements development process:

- processing risk – the risk of financial loss, regulatory sanctions and/or reputation loss due to irregularities/ errors in the fiscal or financial reporting of the Bank,
- IT risk – the risk financial/reputational loss due to breach of data integrity or confidentiality caused by an application error or unauthorised access,
- compliance risk – the risk of financial loss, regulatory sanctions and/or reputation loss due to: (1) non-compliance of internal fiscal laws and regulations, including the regulations on transfer prices, with the universally effective law; (2) non-observance of principles of the ING Group guidelines on tax issues and (3) material errors in the financial statements and/or tax returns, caused by: being unaware of changes to fiscal laws and regulations or incorrect interpretation of fiscal laws and regulations

or failure to report transactions in dedicated financial systems of ING Bank Hipoteczny S.A. (incorrect application of transfer pricing regulations, for example).

Risk mitigating controls were set for all the risks identified.

The controls mitigating the processing risk include but are not limited to verification that the data generated by applications are correct and four-eye control of tax reports/returns sent by the Bank. Financial statements are accepted by the Bank Management Board, endorsed by the Audit and Risk Committee and assessed by the Bank Supervisory Board.

To limit the IT risk, the Bank implemented data access management controls. They are the mechanisms limiting unauthorised access or application role matrixes which are based on the principle of least privilege and absence of toxic combinations, and the tool to grant access and role in which the requirement of request acceptance by the superior was embedded, for example.

The compliance risk mitigating controls encompass *inter alia*: annual participation of the Accounting and Tax Team employees in training and external meetings concerning fiscal, accounting and reporting regulations as well as verification of the annual and semi-annual financial statements by an independent external auditor.

Manager of the Accounting and Tax Team – the Chief Accountant of the Bank – is responsible for ensuring application of controls. The external auditor verifies from time to time and independently assesses *inter alia* the adequacy and effectiveness of controls in the process of financial statements development as well as assesses risk management in that process (as part of the approved audit plans).

Shareholders directly or indirectly holding substantial stakes and the number of resultant shares and votes.

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 210,000,000.00 and is divided into 210,000.00 ordinary registered shares of nominal value of PLN 1,000 each. The share capital was fully paid in cash. Each ordinary share entitles its holder to dividend and one vote during the general meeting.

Structure of the share capital

| Series | Type of share | Number of shares | Face value of 1 share (in PLN) | Series nominal value (in PLN) | Number of GM votes | Issue date | 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 |

9.2 Auditing firm – audit of the financial statements

On 20 December 2018, the Supervisory Board of ING Bank Hipoteczny S.A. selected BDO Spółka z ograniczoną odpowiedzialnością Sp. Komandytowa as the auditing firm responsible for the audit and review of the financial statements of the Bank for the years 2018-2019.

BDO Spółka z ograniczoną odpowiedzialnością Sp. komandytowa with the registered office in Warsaw, at ul. Postępu 12, 02-676 Warszawa has been listed as the auditing firm by the Polish Chamber of Statutory Auditors under number 3355. In keeping with Article 26.1.8 of the Bank Charter, the Bank Supervisory Board selected the entity authorised to audit and review the financial statements in accordance with the effective laws and professional standards.

On 31 December 2018, ING Bank Hipoteczny S.A. and BDO entered into an agreement to audit the financial statements for the years ending on 31 December 2018 and 2019 and to review the financial statements for the period ending 30 June 2019.

Selection of entity authorised to audit the financial statements

The auditing firm to audit the 2019 financial statements was selected in accordance with the effective laws, including the laws on auditing firm selection and selection procedure.

The auditing firm (BDO Sp. z o.o. Spółka komandytowa) and the members of the auditing team satisfied the terms and conditions of developing an unbiased and independent report from the audit of the financial statements in accordance with the effective laws, professional standards and rules of conduct.

The Bank complies with the laws on the rotation of the auditing firm and the lead statutory auditor as well as the mandatory grace periods. The minimum two-year commissioning period ended for the current auditing firm with the review of the 2019 financial statements.

The Bank has the “Policy for selection of the auditing firm, assessment of its independence and provision of other permitted services to ING Bank Hipoteczny S.A.” The Policy covers the policy for the selection of the auditing firm and the policy for provision of additional non-audit services, including the services provisionally exempted from the ban on their provision by the auditing firm, to the Bank by the auditing firm or its related entity, or a member of its network.

In 2019, the audit firm BDO provided permitted non-audit services for the Bank, namely the issue of assurance reports. The Audit and Risk Committee of the Bank’s Supervisory Board assessed the independence of the audit firm and agreed for provision of the said services.

Bank Charter Amendment Procedure

The current Charter of ING Bank Hipoteczny S.A. can be found on the Bank’s website.

An amendment to the Bank Charter requires resolution of the General Meeting as well as registration in the entrepreneurs register of the National Court Register (KRS). Further, an amendment to the Charter has to be always approved by the Polish Financial Supervision Authority.

The amendments made in 2019 include:

- Bank’s share capital increase to PLN 210,000,000 through issue of B-series shares – 90,000 shares;
- Bank’s share capital increase to PLN 380,000,000 through issue of C-series shares – 170,000 shares;*
- change to the Bank’s representation being authorisation of the Bank Management Board to make autonomous representations of will on behalf of the Bank for the mortgage creditor change applications and the applications concerning entry of information on the mortgage-backed debt into the Register of collaterals for covered bonds, filed in the proceedings before the land and mortgage register courts.*

* amendments to the Charter adopted by the Extraordinary General Meeting on 11 December 2019, entered into the Register of Entrepreneurs with the National Court Register under the Court decision of 9 January 2020.

9.3 Other

Factors to impact the financial statements in the period of at least one quarter

From among the factors to impact the financial statements in the period of at least one quarter, the following should be listed:

- Transfers of credit debt from the strategic partner – ING Bank Śląski S.A.,
- Development of the local and foreign markets of covered bonds in terms of demand and returns expected by investors,
- Further development of the residential market in Poland,
- Further development of the mortgage lending market in Poland,
- Regulatory landscape development,
- Probable global economy slowdown.

Changes to ING Bank Hipoteczny S.A. shareholding and shareholding rights on the part of managing and supervising persons

In the period between 1 January 2019 and 31 December 2019, there occurred no changes to ING Bank Hipoteczny S.A. shareholding and shareholding rights on the part of managing and supervising persons.

Significant agreements with the Central Bank or supervision authorities

In the reporting period, the Bank did not enter into agreements with the Central Bank or supervision authorities.

Financial liabilities and guarantees extended

In the reporting period, the Bank did not extend guarantees and did not hold financial liabilities under the loans awarded but not paid.

Financial liabilities extended to related entities

In the reporting period, the Bank did not extend off-balance sheet liabilities to related entities.

Loans, credit facilities, guarantees or sureties not related to the Bank's business.

In the reporting period, the Bank did not make use of any loans, credit facilities, guarantees or sureties not related to the Bank's business.

Sub-issue agreements and guarantees extended to subsidiaries

The Bank neither entered into sub-issue agreements nor extended guarantees to a subsidiary.

Litigations pending before court, authority competent for arbitration procedure or state administration authority

As at 31 December 2019, there were no litigations pending before court, authority competent for arbitration procedure or state administration authority.

Loan and credit facility agreements made and terminated in the financial year

On 31 January 2019, ING Bank Hipoteczny S.A. entered into a credit line agreement for the amount of PLN 2,500 million with ING Bank Śląski S.A. As at 31 December 2019, the Bank used the amount of PLN 2,168,644.9 under the limit awarded.

Conclusion by the issuer or its subsidiary of one or more transactions with related entities, if significant and not made on an arm's length basis

ING Bank Hipoteczny S.A. did not make any significant transactions with related entities which would not be made on an arm's length basis.

Changes to the core principles of Bank enterprise management

In the reporting period, there were not changes to the core principles of Bank enterprise management.

Financial support agreements

ING Bank Hipoteczny S.A. did not enter into any financial support agreements with other consolidated entities operating within the same holding or closely related entities.

Deposits and guarantees and sureties extended

ING Bank Hipoteczny S.A. neither accepts deposits nor extends guarantees or sureties.

Collateral set on accounts or other assets of borrowers

In the reporting period, ING Bank Hipoteczny S.A. did not set collateral on borrowers' accounts.

Events after the reporting period

Between 1 January 2020 and the signoff date hereof, ING Bank Hipoteczny S.A. acquired under the Debt Transfer Framework Agreement to Issue Covered Bonds No. 10, signed with ING Bank Śląski S.A. on 31 January 2020, another portfolio of debt under mortgage-backed residential loans totalling PLN 562,709.0 thousand. Further, under the Debt Transfer Framework Agreement to Issue Covered th No. 11, signed with ING Bank Śląski S.A. on 31 January 2020, ING Bank Hipoteczny S.A. acquired another portfolio of debt under mortgage-backed residential loans totalling PLN 457,957.2 thousand.



Further, with a view to conducting future issues of mortgage bonds, the Bank continued to enter mortgage-backed credit debt to the Register of collaterals for covered bonds. As at the end of February, there were 6,764 debt cases entered into the Register of collaterals for covered bonds.

On 9 January 2020, an entry was made to the Register of Entrepreneurs with the National Court Register concerning increase of the share capital of ING Bank Hipoteczny S.A. by PLN 170,000,000.00 by way of issue of 170,000 ordinary C-series shares of the par value of PLN 1,000 each. The share issue price equalled their par value. The shares were fully paid in cash. Further, the Polish Financial Supervision Authority approved recognition by the Bank of the amount of PLN 170 million in own funds.

On 31 January 2020, the Bank signed an annex to the Credit Agreement with ING Bank Śląski S.A. of 31 January 2019, whereby the exposure was increased to PLN 4.2 billion.

In connection with the pandemic caused by COVID-19 and the declared epidemic emergency, the Bank is monitoring developments related to the continuing effects of the coronavirus proliferation on an ongoing basis. At present, the Bank is not able to foresee the impact of COVID-19 risks and (political, business or private) decisions related thereto on its financial situation. In the long run, a potential risk of failure to repay the loans is identified, however, the effect on financial results cannot be estimated at this point in time.

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

The Management Board of ING Bank Hipoteczny S.A. declare that to the best knowledge of the Management Board:

the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019 and the comparable data were developed in accordance with applicable accounting principles, and give a true and fair view of the assets and the financial standing of ING Bank Hipoteczny S.A. and the financial result of the Bank,

the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019 included herein is the true presentation of the development, achievements and situation of ING Bank Hipoteczny S.A. (including the description of the key risks and threats).

The Management Board of ING Bank Hipoteczny S.A. represent that the auditing firm auditing the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019 was selected in compliance with the law and that the entity and the statutory auditor performing the audit satisfied the terms and conditions to issue an unbiased and independent report from the audit of the financial statements, in adherence to the applicable laws and professional standards.

The Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019 has 70 numbered pages.

Signatures of all Management Board members

| | | | |
|---------------|----------------|--|---|
| 23 March 2020 | Mirosław Boda | President of the Management Board | <i>the original Polish document is signed with a qualified electronic signature</i> |
| 23 March 2020 | Jacek Frejlich | Vice-President of the Management Board | <i>the original Polish document is signed with a qualified electronic signature</i> |
| 23 March 2020 | Roman Telepko | Vice-President of the Management Board | <i>the original Polish document is signed with a qualified electronic signature</i> |