

**Management Board Report on Operations
of ING Bank Hipoteczny S.A.
for a six-month period ending on
30 June 2023**

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1. 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 on 16 January 2018.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A. which as at 30 June 2023 held 100% shares in the share capital of ING Bank Hipoteczny S.A. The latter is a member of the Group which in this document is referred to as the ING Bank Śląski S.A. Group (the Group).

As at 30 June 2023, the share capital of ING Bank Hipoteczny S.A. amounted to PLN 380,000,000 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 covered bonds.

The Bank continuously monitors the development of events related to the ongoing armed conflict in Ukraine and analyses its impact both on the macroeconomic environment and on the Bank itself. The direct impact of the above may translate into credit, market, liquidity and operational risks in the future. Poland and the global economy have partly adjusted to the Russian war situation, but continue to be heavily influenced by it (high price of food, raw materials and energy). Throughout the first half of 2023, the Bank monitored the number and volume of loans for which borrowers requested a suspension of instalment payments (the so-called 'credit holiday') and monitored the impact of this solution, as well as the increasing cost of servicing loans due to high interest rate levels, on issues related to the collateral for the issuance of covered bonds, the cost of risk and the Bank's result. The Bank also analyses the market situation regarding covered bonds and changes in the regulatory and economic environment on an ongoing basis. Moreover, it is monitored all the time whether the suppliers are able to provide services.

In the first half of 2023, the Bank did not record a major deterioration in portfolio quality.

2. Business landscape

2.1 Macroeconomic environment

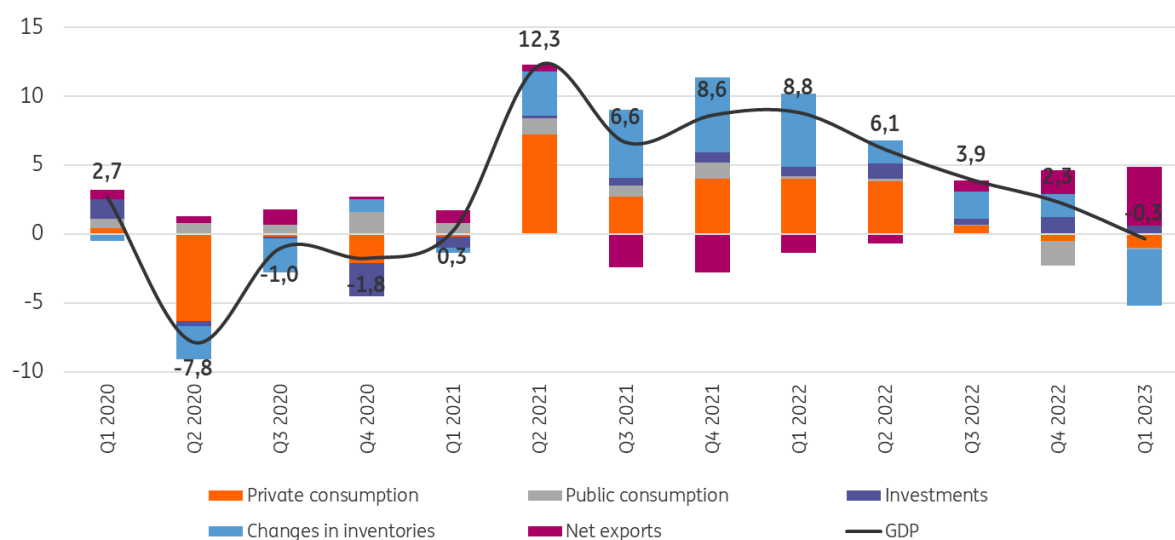
Gross Domestic Product

The first half of 2023 was marked with a significant downturn in Poland's economy. In the first quarter, GDP contracted by 0.3% y/y, following an increase of 2.3% y/y in the last quarter of the previous year. The poor first quarter result is mainly due to the reversal of the inventory trend. While in 2022 companies were rebuilding inventories as a consequence of the improved permeability of supply chains, facing weakening global demand the companies changed their behaviour. As a result, the negative contribution of inventory change to annual GDP was as high as 4.6 percentage points.

The second major factor weighing on economic activity was the decline in consumption, resulting from high inflation, which eroded households' real purchasing power. In the first quarter, household consumption fell by 2.0% y/y. On the other hand, there were more optimistic figures for fixed asset investment, which grew by 5.5% y/y in the first quarter 2023, supported by strong corporate profits, particularly in the energy and mining sectors. At the same time, it is worth noting that mainly large companies decided to invest.

As for the foreign exchange balance, weakening domestic demand (-5.2% y/y) led to a significant decline in imports (-4.6% y/y), which, against the backdrop of sustained export growth (3.2 y/y), was reflected in a positive contribution of net exports to growth in the first quarter of this year (+4.8 p.p.).

Decomposition of GDP growth (%)



Source: Central Statistical Office, ING forecast



ING Bank Śląski economists estimate that the second quarter of 2023 did not bring a significant improvement in GDP on an annual basis. Annual household consumption dynamics remained negative in 2Q2023. This is indicated by higher-frequency data, such as the 6.8% y/y decline in retail sales in May.

All the while, consumer spending is negatively impacted by high inflation, past interest rate rises and uncertainty related to the war in Ukraine. In the coming quarters, rising fiscal transfers combined with declining inflation should lead to an increase in real disposable income.

In addition, the 2% safe credit programme and the interest rate cuts announced by the President of the National Bank of Poland mean that financing conditions are loosening. These factors should lead to a revival of consumer demand in the second half of 2023 and beyond. As a result, private consumption is forecast to decline slightly throughout 2023, compared to an increase of 3.3% in 2022.

Labour market and payroll

Estimated by the Ministry of Family and Social Policy, the registered unemployment rate in June 2023 was at a historically low level of 5%. Similarly, the LFS unemployment rate was at a record low of 2.9% in 1Q2023. At the same time, the growing level of labour force participation and the increasing number of working immigrants (1.085 million in May 2023 according to the data of Social Insurance Institution (ZUS)) are worth noting. This means that there are significant supply constraints for further employment growth, especially given the deteriorating demographic structure (decline in the working-age population). Therefore, ING Bank Śląski economists expect the registered unemployment rate to remain around 5% despite relatively low GDP dynamics in the coming years.

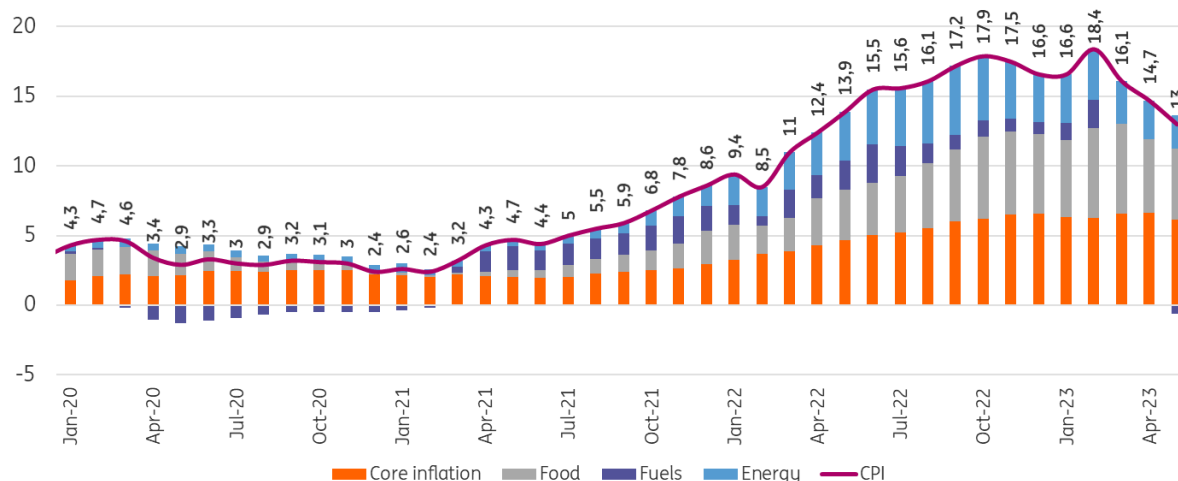
Despite sustained double-digit growth in nominal wages in the corporate sector since February 2022, there has been a decline in real wages over the past year, linked to even higher consumer price dynamics. In May 2023, nominal wage dynamics was 12.2% y/y, implying a continued decline in real wages in the corporate sector. According to ING Bank Śląski economists, the average annual growth of average wages in the coming years will be around 10% (12.2% and 11.2% in 2023 and 2024, respectively), which will be due to the fewer employees on the labour market (by reason of unfavourable demographic changes) and a high increase in the minimum wage (20.5% in 2024). This means that a return to positive real wage dynamics is expected in the second half of 2023.

Inflation

Annual CPI inflation, after rising sharply from 2.4% in February 2021 to a peak of 18.4% in February 2023, began to decline and stood at 11.5% y/y in June 2023. The reduction in the annual dynamics of fuel prices (from 30.8% in February to -18.0% in June) and food and non-alcoholic beverage prices (from 24.0% in February to 17.8% y/y in May) contributed most to the decline in inflation in recent months. At the same time, core inflation excluding food and energy prices has been relatively stable and still high for several months. Its

decline has been rather symbolic, especially in an environment of weakening domestic demand. Core inflation has declined from 12.0% y/y in February and 11.5% y/y in May. At the same time, it is worth mentioning that inflation expectations, despite the decline in recent months, are still at elevated levels. For example, participants in the NBP's June 2023 Macroeconomic Survey expected CPI inflation for eight quarters to be at 4.6% y/y, clearly above the inflation target.

Inflation (CPI) - decomposition (%)



Source: Central Statistical Office, ING forecast

According to ING Bank Śląski economists, average annual inflation will remain well above the fluctuation around the inflation target (2.5% +/- 1 percentage point) and will reach 11.8% and 5.8% in 2023 and 2024, respectively. The delayed effects of declines in energy commodity prices and weak consumer demand will contribute most to lower inflation. On the other hand, the main factors hindering the return of inflation to the target will be the persistently high dynamics of nominal wages, fiscal transfers (e.g. the valorisation of the 500+ programme) and the delayed adjustment of energy prices to changes in commodity prices and emission allowances, which are currently hampered by the government's shielding programmes (inter alia the energy price freeze). Given the current geopolitical situation and the associated progressive deglobalisation process, or the threat of renewed increases in commodity prices, the balance of risks is tilted towards higher inflation.

Monetary policy

September 2022 was the last time when the National Bank of Poland raised interest rates, bringing the benchmark to 6.75%. However, the NBP did not formally end the rate hike cycle until July this year.

ING Bank Śląski economists expect the Monetary Policy Council to begin loosening its policy in September 2023, cutting rates by a total of 50 bps in 2023. According to ING economists, further rate cuts will not take place until the second half of 2024, due to persistently high



core inflation. Bringing inflation down to the 2.5% y/y target is likely to be a long-term process. In response to the monetary tightening that has taken place, the decline in core inflation in Poland is the slowest in the region. This goes hand in hand with a tight labour market situation (Poland has the second lowest unemployment in the EU), combined with a high increase in the minimum wage in 2024. This makes it easier to pass on costs to final consumers.

NBP interest rates (after the July 2023 MPC meeting) are as follows:

- deposit interest rate - 6.25%,
- benchmark - 6.75%,
- bill discount rate - 6.85%,
- bill rediscount rate - 6.80%,
- lombard rate - 7.25%.

The NBP does not currently carry out repurchase operations for T-bonds or bonds guaranteed by the Treasury.

Summary

The European and Polish economies have adapted to the situation of the Russian war in the east of the continent. The war was a source of increased uncertainty and energy, metals or food price hikes, but starting from 4Q2022 the situation on the markets began to stabilise. In the first half of 2023, the situation normalised further, both in terms of energy commodity quotations and the functioning of global supply chains. In response to the energy shock and the risk of shortages, EU countries accelerated the diversification of natural gas suppliers in place of Russia and increased investment in renewables and energy efficiency. A good example of the limited role of Russian supplies for global energy commodity quotations, is the low reaction of markets to the attempted coup in Russia in late June 2023.

The relatively rapid disinflation in the underlying markets means that stagflationary fears will decline, but the next phase in the current business cycle will be stagnation in the US and the euro area in 2023-2024. The German economy experienced a technical recession in the first half of 2023 (a decline in GDP in deseasonalized terms in two consecutive quarters). If there is another fall in GDP in 3Q, it will be for the first time since the financial crisis in 2009. Poland's economy also went through a period of the weakest activity in the first half of 2023. During a downturn, upward pressure on prices decreases, as can be seen in the rapid decline in the headline CPI inflation rate in 2023 (peaking in February) and the passing of the peak in core inflation in spring 2023.

The war in Ukraine and the associated uncertainty remain a major source of risks for the European and Polish economies. There are still no indications for a quick end to the war, although the discussion about the future reconstruction of Ukraine and its financing is an important topic in the international debate, also in Poland. The counter-offensive by Ukrainian troops in the Donbass region, launched in late spring 2023, is making relatively slow progress in the face of Russian military resistance. Civilian targets in Ukrainian cities are still being shelled (e.g. Lviv in early July). Reconstruction and recovery in Ukraine's economy requires an end to the war.

ING Bank Śląski economists expect a gradual improvement in Poland's economy in the second half of 2023, allowing for 1% growth for the whole year, a moderate economic recovery and 2.5% GDP growth in 2024. The recovery will be linked to a recovery in domestic demand, particularly consumer demand, thanks to positive real wage growth again, after almost a year of real declines from mid-2022 to mid-2023. The Polish economy may also benefit from the relocation of foreign investment closer to Western markets and to countries belonging to the same economic or political bloc (nearshoring and friendshoring).

The experience of last year's energy crisis demonstrates the need to accelerate the green transition in Poland, partly using EU funds dedicated to green and digital transformation. In particular, recent surveys and interviews with companies conducted by ING economists point to the need for increased investment in the modernisation and expansion of distribution and transmission networks. This will allow to further increase the share of renewable energy in the Polish energy mix while maintaining the stability of the power system. Polish companies are interested in green investments and the low capacity of the grid is one of the significant barriers to these investments.

The energy transition process of the Polish economy is costly, but it can also be a lever for the development and improvement of the innovativeness of the Polish economy. In addition, investments in energy-saving technologies, renewable energy sources and nuclear energy make it possible to reduce Poland's energy dependence on imported fossil fuels. At the same time, they will serve to increase Poland's energy security and protect the climate.

Macroeconomic projections

	2020	2021	2022	2023P	2024P
GDP growth (%)	-2.0%	6.9%	5.1%	1.0%	2.4%
General government debt as per the EU methodology (% of GDP)	57.2%	53.6%	49.1%	50.2%	52.8%
Average annual inflation (CPI) (%)	3.4%	5.1%	14.4%	11.8%	5.8%
Unemployment rate (%; Central Statistical Office)	6.8%	5.8%	5.2%	5.4%	5.2%
USD/PLN exchange rate (yearend)	3.90	3.88	4.47	4.08	3.80

EUR/PLN exchange rate (yearend)	4.61	4.60	4.69	4.45	4.50
3M WIBOR (yearend)	0.21%	2.54%	7.02%	6.45%	5.95%

2.2 Residential estate market

The first half of 2023 in the residential property market was characterised by a gradual increase in the number of transactions concluded, as well as in transaction prices. According to data from Jones Lang LaSalle (JLL), a total of 34 per cent more properties were sold in the six main markets in the first quarter of 2023 than in the previous quarter. In the first half of the year, the PFSA issued a recommendation allowing a lower interest rate risk buffer than before. When calculating creditworthiness for loans with a periodically fixed interest rate, interest rates higher by 2.5 percentage points than the NBP reference rate can now be taken into account (previously a rate of 5 percentage points applied). Since the beginning of the year, the NBP benchmark has remained unchanged at 6.75 per cent after last year's increases. The housing market continues to clearly see slower price growth than was the case in 2021. At the same time, the supply of flats in 1H2023 was strongly influenced by the announcement of the launch of a new housing programme, which is aimed at buyers of their first homes and focused on a system of subsidising loan instalments for the first 10 years of repayment (2% safe loan).

Primary market

According to a report by Jones Lang LaSalle (JLL), the first three months of 2023 brought a significant increase in the number of flats sold on the primary market in the largest Polish metropolises. In Warsaw, Krakow, Wrocław, the Tri-City, Poznań and Łódź, developers sold more than 11,400 flats. The result was better by as much as 34% compared to the previous one (4Q2022) which already reflected an increase in sales. Importantly, the number of flats sold was also higher compared to the results in the same period last year (+9.7%).

The third and fourth quarters of 2022 brought a change in the structure of the flats offered by developers in the residential market. As a result of the decline in credit demand, they offered much more expensive developments, some of which characterised by higher standards. As a result, in most of the analysed markets, flats constituting the new supply reached record average quarterly prices, reaching even PLN 16,000-17,000/m² in Warsaw and Krakow.

The market environment has had a positive impact on the mood of potential buyers and sellers. Forecasts relating to economic growth are more optimistic than in previous months, there is increasing talk of the likelihood of inflation going below 10% by the end of 2023, and the last winter proved milder than expected, making energy and heating problems less acute.

However, a key factor that has already started to boost demand is the announcement of a law that will allow first-time home buyers to take out a loan with a fixed interest rate for the first ten years.

Secondary market

According to the latest NBP data, declines in price dynamics, both nominal and real, were observed in the secondary market in 1Q2023, particularly high in Gdańsk and Warsaw.

According to the latest data from the National Bank of Poland, the average unit transaction price on the secondary market in 1Q2023 for the 17 cities analysed (Białystok, Bydgoszcz, Gdańsk, Gdynia, Katowice, Kielce, Krakow, Lublin, Łódź, Olsztyn, Opole, Poznań, Rzeszów, Szczecin, Warsaw, Wrocław, Zielona Góra) was PLN 8,152 per sqm, the lowest price of PLN 6,319 per sqm was in Katowice, while the highest price of PLN 11,940 per sqm was in Warsaw.

In the rental market, rental rates remained unchanged or fell slightly in 1Q2023 compared to the previous quarter. Demand for housing generated by refugees from Ukraine has also stabilised. The pressure on the rental market is also weakening due to the return to the transaction market of those qualifying for the 2% Secure Credit Scheme, as well as those gaining creditworthiness as a result of continued strong growth in nominal incomes.

Supply and demand in the residential property market

Data from the Central Statistical Office on the performance of the housing market indicates continued reduced investor activity. Compared to the previous quarter's quotations, the number of dwellings completed in 1Q2023 was 22.99% lower (54,885 dwellings were commissioned for use). The number of started apartment construction projects increased by 8.56% - there were 38 573 dwellings in the period under review. However, the number of dwellings for the construction of which a building permit was issued or a notification with a construction project was made fell to 51,617 (decrease by 13.87%).

Compared to 1Q2022, there was a decrease in the number of started apartment construction projects (27.61% decrease y/y) and the number of dwellings for which a building permit had been issued or a notification with a construction project had been made (33.66% decrease). The number of dwellings commissioned for use was slightly higher than a year earlier, just 0.08%.

2.3 Mortgage lending market

At the end of May 2023, banks' housing loan receivables from households in Poland amounted to PLN 450.6 billion, falling by 9.3% y/y, according to data published by the National Bank of Poland. The balance of loans granted in PLN fell by 4.3% y/y to PLN 389.4 billion.

However, persistent interest rates and declining inflation resulted in an increase in new lending in 1Q2023 compared to 4Q2022.

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

The housing needs of Poles are still unsatisfied to a great extent, but further growth of the mortgage market is dependent on external developments including, inter alia, inflation and interest rates.

2.4 Covered bonds market

As at the end of June 2023, there were five mortgage banks in Poland:

- PKO Bank Hipoteczny S.A.,
- mBank Hipoteczny S.A.,
- Pekao Bank Hipoteczny S.A.,
- Millennium 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. Polish issuers place covered bonds both in the Polish market and abroad. Public issues predominate - in Poland on a floating interest rate and foreign on a fixed rate. The development of the covered bond market in Poland slowed down due to the uncertain economic situation during the pandemic period and subsequently due to the armed conflict in Ukraine.

At the end of June 2023, the total value of covered bonds in trading in Poland was approximately PLN 18.2 billion, or was down by PLN 2.7 billion compared to December 2022. 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.

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.

2.5 Regulatory and legal landscape

Significant changes in the regulatory and legal environment in 1H2023 and affecting the Bank's operations were particularly related to the following issues:

1. 2% Safe Loan.

On 26 May 2023, the Sejm passed the Law on State Aid to Housing Savings, which came into force on 1 July 2023. The Act introduces provisions setting out the rules for housing loans with the right to subsidise instalments, under the name of '2% Safe Loans'. The changes being introduced will, in effect, lead to the parallel operation of two separate credit products provided with state support, i.e. the current family housing loan, with the right to a portion of the repayment in the event of household enlargement, and the 2% safe loan added by the Act, where the financial assistance is targeted at reducing instalments.

A 2% Safe Loan is a mortgage-backed loan, including a loan whose agreement provides for mortgage security after the completion of the construction of a single-family house or the separation of ownership of a dwelling for which a subsidy is or was granted. A 2% Safe Loan may be granted to a borrower who fulfils all of the following conditions:

- has his household within the territory of the Republic of Poland or outside the territory of the Republic of Poland - if he has Polish citizenship or does not have Polish citizenship and has a household jointly with a person having such citizenship, and the loan is granted to him jointly with that person,
- on the date of submission of the application for this loan, is not and was not a party to an agreement for another mortgage loan concluded within 36 months prior to the date of submission of this application to cover expenses incurred in connection with the purchase of a dwelling, a single-family house or a cooperative right to a dwelling or a single-family house, unless this agreement was terminated in connection with an effective withdrawal from the development agreement pursuant to Art. 43(1) of the Act of 20 May 2021 on the protection of the rights of the purchaser of a dwelling or single-family home and the Developer Guarantee Fund, effective withdrawal by the borrower from the development agreement or the agreement referred to in Article 2(1)(2), 2(1)(3) or 2(1)(5) of that Act,
- on the date of granting the loan, the borrower does not have and before that date he did not have the ownership right to a flat or a single-family house, or if the person running the household together with him does not have and did not have such a right and the borrower is not entitled to and before that date he was not entitled to a cooperative right to a flat or a single-family house, or if the person running the household together with him is not and was not entitled to such a right (it should be noted that the act regulates situations where the above condition is considered fulfilled despite having the ownership right or being entitled to the cooperative right to a flat or a single-family house),
- the borrower is under 45 years of age at the date of the loan application (the condition is also deemed to be fulfilled if the 2% Safe Loan is granted jointly to two persons running a household and only one of them is under 45 years of age).

The amount of the 2% Safe Loan may not exceed PLN 500,000, or PLN 600,000 if the borrower runs a joint household with a spouse or the borrower's household includes at least one child. The interest rate for a 2% Safe Loan is determined for a period of 60 months and is a fixed rate during the period covered by the subsidised instalments for this loan. During the period covered by the instalment subsidy, repayment of the principal portion of the 2% Safe Loan shall be in equal parts determined taking into account the entire repayment period of that loan. The subsidy shall cover the first 120 scheduled repayments of the principal-and-interest payments of the 2% Safe Loan, and the subsidised instalment shall be reduced by the subsidy amount.

The 2% Safe Loan can be granted until 31 December 2027.

2. Amendment of Recommendation S concerning best practices related to mortgage-secured credit exposures.

On 20 June 2023, Resolution No. 242/2023 of the Polish Financial Supervision Authority of 19 June 2023, amending the Resolution on the issuance of Recommendation S concerning best practices related to mortgage-secured credit exposures (PFSA Official Journal, item 14) entered into force. The changes introduced in Recommendation S concern:

- the inclusion in Recommendation S of a guaranteed housing loan covered by a government programme;
- the inclusion in Recommendation S of a housing loan covered by the government's interest rate subsidy programme;
- a buffer against rising interest rates, which is taken into account in determining a customer's creditworthiness;
- the introduction of new expectations regarding the inclusion of models estimating the risk of early repayment of loans (prepayment models);
- the introduction of new expectations regarding the information on mortgage risks that should be provided to customers.

The Polish Financial Supervision Authority expects banks to align their operations with the changes to Recommendation S by 1 July 2024.

3. Amendment of Recommendation J regarding the rules for the collection and processing of property data by banks.

On 24 March 2023, the Polish Financial Supervision Authority has adopted an amendment to Recommendation J on the rules for the collection and processing of property data by banks.

The changes introduced in Recommendation J relate to:

- covering the banks with more than 10% of mortgage-backed credit exposures in their own credit portfolios with the provisions of Recommendation J,

- harmonising standards for collecting, processing and making available in reliable databases, real estate market data,
- extending the data collected by banks to include the mortgage lending value of real estate,
- mandatory completion of the fields relating to the PHI Certificate, confirming compliance with the passive house criteria, as well as information from the energy performance certificate,
- limiting the content of the Annex only to the mandatory fields that are sufficient to ensure that banks can manage the risk of mortgage-backed exposures in a manner consistent with supervisory objectives.

The Polish Financial Supervision Authority expects banks to bring their operations into line with the amendments to Recommendation J no later than by 31 December 2023, and with regard to categories identifying properties in real estate databases no later than by 31 March 2024.

4. Evaluation of the WIBOR benchmark index.

The Polish Financial Supervision Authority conducted its own assessment of the ability of the key WIBOR interest rate benchmark to measure the market and economic realities. The assessment prepared by the PFSC of the ability of the key WIBOR interest rate benchmark to measure the market or economic realities included:

- 1) an analysis of the transactionality of the input data used in determining the WIBOR interest rate benchmark;
- 2) an analysis of the representativeness of the underlying market data and the representativeness of the panel of banks acting as input providers relative to the banking sector as a whole; and
- 3) an analysis of how the value of the key interest rate benchmark WIBOR may react to changing economic realities and liquidity conditions in the banking sector.

Taking into account the results of the qualitative analysis of the source material and the results of the quantitative analysis of the input data, the supervisor concluded that the WIBOR key interest rate benchmark had the capacity to measure the market and economic realities it was designed to measure. According to the Commission's assessment, WIBOR responds appropriately to changing liquidity conditions, changes in central bank rates and economic realities.

5. Judgment of the Court of Justice of the European Union

On 15 June 2023, the European Court of Justice (CJEU, the Court) delivered a judgment in a case concerning the answer to a question from the referring court on whether EU law precludes a judicial interpretation of national legislation according to which, where a credit agreement concluded by a bank and a consumer is declared void from the outset because it contains unfair contractual terms, the parties, in addition to the reimbursement of the money paid in performance of that contract (the bank - the principal of the credit, the consumer - the instalments, fees, commissions and insurance premiums) and statutory interest for late payment from the time of the demand for payment, may also claim any

other benefits, including dues (in particular remuneration, compensation, reimbursement of expenses or valorisation of the benefit).

With regard to consumer claims, the CJEU referred to national law and emphasised that it is for the referring court to assess, in the light of all the circumstances of the dispute, whether the allowance of such consumer claims is compatible with the principle of proportionality.

As regards the claims of the banks, the Court pointed out that the directive precludes the banks from being entitled to require the consumer to pay compensation going beyond the return of the principal paid out and beyond the payment of statutory default interest if that would lead to 'compensation for the loss of the profit which it intended to make on the contract in question'. In indicating that the principal must be returned, the Court did not prejudge whether it was the real or nominal value of the principal, which is a particularly relevant question in light of high inflation.

6. OPFSA's position on mortgages with periodic fixed interest rates.

On 27 June 2023, the Office of the Polish Financial Supervision Authority (OPFSA) issued a position paper to banks on prepayment risk in periodically fixed-rate mortgage contracts. The aim of the position paper is to reduce prepayment risk and promote fixed or periodically fixed rate loans in banks' offers. The position paper indicates that the observed increase in the value of the portfolio of residential mortgages with periodically fixed interest rates increases the materiality of the prepayment risk that may be associated with the potential refinancing of residential mortgages due to the fall in market interest rates. One of the factors allowing banks to mitigate prepayment risk may be the appropriate design of the mortgage offer with a periodically fixed interest rate by the bank. Therefore, the Office of the Polish Financial Supervision Authority allowed the use within such an offer of a solution, according to which the fixed or periodically fixed interest rate of the loan established in the contract would be replaced (contractually), before the end of the period for which it was established, by a new - lower fixed or periodically fixed interest rate. This interest rate should be fixed for a new period, running from the date of conclusion of the annex, and at the same time not shorter than the period for which the fixed interest rate was contractually fixed (i.e. in accordance with Recommendation S - not shorter than 5 years), but not longer than the remaining duration of the loan.

The position paper also points out practices that the OPFSA considers unacceptable and draws attention to selected provisions of Recommendation S.

7. Recommendation of the Steering Committee of the National Working Group for Benchmark Reform on the principles and modalities of the WIRON benchmark.

On 31 March 2023, the Steering Committee of the National Working Group for Benchmark Reform adopted a recommendation on the principles and modalities for the use of the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) when concluding new agreements for products in PLN based on the benchmark offered by financial market entities. The recommendation is the implementation of the next stage of the Roadmap for the process of replacing the WIBOR and WIBID benchmarks with the

WIRON and provides guidelines for the application of new solutions using the WIRON index in the Bank's offered products, including in mortgage loan agreements. The completion of the process is scheduled for 2025, at which time the WIRON index will be designated by a regulation of the Minister of Finance, under a statutory procedure, as a replacement for the key WIBOR benchmark. Under the regulation of the Minister of Finance, the replacement benchmark, will apply to contracts and financial instruments meeting the prerequisites indicated in the BMR. The Regulation of the Minister of Finance will also define the corrective spread and the date from which the replacement benchmark will be used.

8. Position of the Office of the Polish Financial Supervision Authority addressed to Presidents of Bank Management Boards and Directors of Credit Institutions Branches regarding the assessment of creditworthiness when granting floating and periodically fixed interest rate loans

On 7 February 2023, the PFSA published a new position paper on the expected level of the minimum interest rate change that should be adopted in the creditworthiness assessment process for loans based on floating and temporary fixed interest rates. The PFSA has recommended that the lowest minimum buffer level under Recommendation S, i.e. 2.5 p.p., should apply for loans based on a temporary fixed interest rate, while an adequately higher buffer level should apply for loans bearing a variable interest rate, taking into account an appropriate risk assessment.

Thus, OPFSA's previous position of 7 March 2022 on measures to reduce the level of credit risk, recommending that banks assume a minimum change of 5 p.p. in the interest rate level when assessing creditworthiness, is no longer valid.

9. Regulation of the Minister of Health of 14 June 2023 on the cancellation of an epidemic emergency in the territory of the Republic of Poland (Journal of Laws 2023, item 1118)

The regulation, which entered into force on 16 June 2023, revokes the state of epidemic emergency in relation to SARS-CoV-2 infections in the territory of the Republic of Poland as of 1 July 2023.

3. Financial results, capital adequacy and financial instruments

The year 2023 was the fifth year of operations for ING Bank Hipoteczny S.A. At the end of the reporting period, the Bank had a mortgages portfolio worth 3.3 billion and being in major part the potential collateral for future covered bond issues. In the first half of 2023, the Bank completed the acquisition of a mortgage-backed debt portfolio from ING Bank

Śląski S.A. in the amount of PLN 637.3 million. In addition, as part of the diversification of funding sources, the Bank issued own bonds with a total nominal value of PLN 251 million. The above events 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 2023 to 30 June 2023 are presented.

3.1 Core financial ratios

	as at 30.06.2023	as at 31.12.2022	as at 30.06.2022
ROA - return on assets	-1.03%	-1.32%	0.64%
ROE - return on equity	-8.08%	-10.06%	5.29%
DR - total debt ratio	87.55%	85.93%	86.53%
TCR - total capital ratio*	28.10%	35.53%	35.90%
LR - leverage ratio*	11.77%	14.13%	13.79%
LCR - liquidity coverage ratio	1471%	142%	1,864%

ROA - return on assets - the ratio of net profit from 4 consecutive quarters to average assets from 5 consecutive quarters.

ROE - return on equity - the ratio of net profit for 4 consecutive quarters to the average shareholders' equity for 5 consecutive quarters.

DR - total debt ratio - liabilities of ING Bank Hipoteczny S.A. to assets as at 30 June 2023.

TCR - total capital ratio - own funds of ING Bank Hipoteczny S.A. to risk-weighted assets as at 30 June 2023.

LR - leverage ratio - Tier 1 capital to leverage ratio exposure as at 30 June 2023.

LCR - liquidity coverage ratio - liquid assets to net outflows as at 30 June 2023.

*) In accordance with supervisory recommendations, the ratios as at 31 December 2022 are recalculated after the profit distribution is approved by the General Meeting of ING Bank Hipoteczny S.A., and then they are reported to the Supervisor. The above presented ratios as at 31 December 2022 take into account the recalculation. Prior to the approval of the 2022 profit distribution, the ratios in question published in the financial statements for the period from 1 January 2022 to 31 December 2022 stood at: TCR 36.06%; LR 14.13%

3.2 Statement of financial position

	note	as at 30.06.2023	as at 31.12.2022	as at 30.06.2022
Amounts due from banks	7.7	2,959.1	13,348.0	164,394.7
Debt securities measured at fair value through	7.8	85,759.4	84,623.0	73,527.3

other comprehensive income				
Loans and advances granted to customers	7.9	3,276,745.0	2,901,111.1	3,331,360.3
Property, plant and equipment	7.10	1,207.0	1,306.0	1,036.6
Current income tax receivables		6,529.5	6,112.7	7.5
Deferred tax assets		5,470.5	11,382.6	2,936.1
Other assets	7.11	1,872.1	2,388.1	2,477.1
Total assets		3,380,542.6	3,020,271.5	3,575,739.6
Liabilities				
Liabilities to banks	7.12	2,411,794.9	2,043,049.2	2,674,361.1
Liabilities under issue of bonds	7.13	128,217.1	135,927.4	0.0
Liabilities under issue of covered bonds	7.14	406,218.5	406,711.6	404,331.1
Provisions	7.15	561.7	561.7	823.6
Current tax liabilities		0.0	0.0	1,597.0
Capital increase liabilities				
Other liabilities	7.16	12,823.7	9,009.2	12,933.7
Total liabilities		2,959,615.9	2,595,259.1	3,094,046.5
Equity				
Share capital		380,000.0	380,000.0	380,000.0
Supplementary capital - share premium		15,997.4	62,002.2	62,002.2
Accumulated other comprehensive income	7.17	-302.2	-1,168.2	-1,611.4
Retained earnings		25,231.5	-15,821.6	41,302.3
Total equity		420,926.7	425,012.4	481,693.1
Total equity and liabilities		3,380,542.6	3,020,271.5	3,575,739.6
Share information				
Carrying amount		420,926.7	425,012.4	481,693.1
Number of shares		380,000	380,000	380,000
Carrying amount per share (in PLN)		1,107.70	1,118.45	1,267.61

The interim condensed statement of financial position should be read in conjunction with notes to the interim condensed financial statements, which form an integral part thereof.

For details of the statement of Bank's financial position, refer to notes 7.7 through 7.17 of the Financial Statements.

3.3 Income Statement

	note	period from 01.01.2023 to 30.06.2023	period from 01.01.2022 to 30.06.2022
Interest income, including:	7.1	150,432.8	85,542.5
<i>calculated using the effective interest method</i>	7.1	150,432.8	85,542.5
Interest costs	7.1	-104,906.1	-53,351.7
Net interest income	7.1	45,526.7	32,190.8
Fee and commission income	7.2	0.9	87.4
Commission expenses	7.2	-443.1	-351.5
Net commission income	7.2	-442.2	-264.1
FX result		11.5	-9.7

Net income on other basic activities	7.3	-242.5	-459.8
Net income on basic activities		44,853.5	31,457.2
General and administrative expenses, including:	7.4	-16,310.0	-16,556.6
<i>operating expenses</i>	7.4	-13,621.0	-13,181.1
<i>regulatory costs</i>	7.4.	-2,689.0	-3,375.5
Expected loss provision	7.5	-848.0	-502.8
Gross profit (loss)		27,695.5	14,397.8
Income tax	7.6	-5,709.0	-3,278.7
Net profit (loss)		21,986.5	11,119.1
Number of shares		380,000	380,000
Profit(+)/loss(-) per ordinary share - basic (in PLN)		57.86	29.26
Profit(+)/loss(-) per ordinary share - diluted (in PLN)		57.86	29.26

There were discontinued operations at ING Bank Hipoteczny S.A. neither in the period that ended 30 June 2023 nor in the same period last year.

The interim condensed income statement should be read in conjunction with notes to the interim condensed financial statements, which form an integral part thereof.

For detailed notes to the Income Statement items, refer to the Financial Statements – notes 7.1 through 7.6.

3.4 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 (BIA),
- for market risk (FX risk) using the standardised approach.

As at 30 June 2023, the Bank recognised zero values for the own funds requirements in relation to the credit valuation adjustment, settlement and supply and market risks. Having regard to the above, as at the report date, the total requirement for own funds consisted of the credit risk and operational risk requirements.

Own funds requirements	30.06.2023
Credit risk (PLN million)	105.17
Operational risk (PLN million)	7.95

Total requirement for own funds (PLN million)	113.12
<i>Common Equity Tier 1 ratio (CET1)</i>	28.10%
<i>Tier 1 ratio (T1)</i>	28.10%
Total capital ratio (TCR)	28.10%

Pillar 1 has been discussed in detail under item 7.26 of the Financial Statements of ING Bank Hipoteczny S.A. concerning capital adequacy disclosures.

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. To this end, the capital management activities apply any available capital instruments and transactions both in the baseline scenario as well as in the adverse scenario.

External regulations regulate 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,
- Pillar III: disclosures on risk profile and capitalisation level in the financial statements.

Under capital management, the Bank:



- a. identifies and assesses materiality of the risk types inherent to its operations;
- b. takes actions in order to assess and monitor internal capital, capital requirement and own funds;
- c. monitors potential threats to capital adequacy;
- d. allocates internal capital;
- e. sets internal limits in order to curtail the generated capital requirements and internal capital;
- f. pursues dividend policy resulting from a long-term capital objective and preferred capital structure;
- g. plans internal capital and capital requirement as well as own funds;
- 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 30 June 2023, the total capital ratio of the Bank was 28.10%.

3.5 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; - for default and counterparty risk and residual risk the economic capital requirement is determined using the modified AIRB approach (INCAP), the requirement for settlement/delivery risk is calculated in accordance with the CRR. Residual risk is related to the application of credit risk mitigation techniques, quantified in the form of a risk measure - LGD from the downturn. Internal capital for concentration risk is estimated as the difference between the total exposure to a given group of customers and the maximum exposure (internal limit set by the bank) less loss allowances;
- b. market risk encompassing the banking book interest rate risk - the risk of losses on positions in the banking book due to changes in interest rates. The capital requirement is calculated using the VaR-based method;
- c. business risk including macroeconomic risk - the methodology for determining the capital requirement is based on internal stress testing for a mild recession scenario and the desired level of capital adequacy measures;
- d. funding and liquidity risk - the risk of being unable to meet, at a reasonable price, cash commitments arising from on- and off-balance sheet items. The Bank maintains liquidity so that cash commitments can always be met with available funds, proceeds from maturing transactions, available funding sources at market prices and/or from the liquidation of marketable assets. Economic capital represents the cost of raising additional funding to restore the proper LCR measure levels when they are breached;
- e. operational risk encompassing model risk, 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 within the scope of operational risk; - capital requirement determined using the Basic Indicator Method.

At the Bank and the Group, model risk is segregated for management purposes. The Bank applies/estimates equity cushions addressing model risk not at the overarching level (i.e. model risk) but at the level of the individual risks in which models are used.

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	30.06.2023
For credit risk	51.2%
For market risk	33.4%
For business risk	0%
For funding and liquidity risk	0%
For operational risk	15.4%
For model risk	0%

Total 100.0%

A review of the internal capital adequacy assessment process (ICAAP) is carried out once a year and a report on the review is submitted to the Bank Management Board and Supervisory Board. In addition, the Internal Audit Position periodically conducts an independent audit of the ICAAP process.

3.6 Disclosures – Pillar 3

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

- risk management goals and strategy,
- own funds in accordance with Article 437 of CRR, subject to the transitional provisions set out in Article 492 of CRR,
- compliance with the own funds requirements pursuant to Article 438 of CRR,
- compliance with countercyclical capital buffer requirements in accordance with Article 440 of CRR,
- leverage ratio and the management of the risk of excessive leverage in accordance with Article 451 of CRR,
- the Bank exposure to credit risk and dilution risk in accordance with Article 442 of CRR and Recommendation R¹,
- credit risk mitigation techniques applied by the Bank in accordance with Article 453 of CRR,
- operational risk, in accordance with the requirements provided for in Recommendation M,
- liquidity in accordance with Article 451a of CRR, as well as the liquidity risk management system and liquidity positions in accordance with Recommendation P,
- exposures covered by the measures applied in response to the COVID-19 crisis, as required by the EBA/GL/2020/07 Guidelines (published for the last time in the disclosures for 31 December 2022),
- 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, in accordance with the requirements provided for in Article 450 of the CRR and recommendation 30.1 of Recommendation Z.

¹Starting from 1 January 2022.

Information on the conflict of interest management policy adopted by the Bank, including information on how to manage material conflicts and conflicts that could arise due to the fact that the Bank is a group member or concludes transactions with other entities in the group are described in the “Conflict of Interest Policy”. This information is made public by posting it on the website.

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. If the assessment shows that the qualitative and quantitative disclosures do not provide market participants with a comprehensive view of the risk profile, the Bank shall make public other necessary information. Any change in the scope or deviation from the disclosure shall be each time subject to the approval of the Chief Accountant 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.”

3.7 Financial instruments

Between 1 January and 30 June 2023, the Bank placed its temporary surplus funds on short-term deposit accounts at ING Bank Śląski S.A. For details, refer to note 7.7 of the Financial Statements of ING Bank Hipoteczny S.A. During the reporting period, the Bank also entered into securities transactions (cash bills of the National Bank of Poland). 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 2023.

As a target, credit debt acquisition from ING Bank Śląski S.A. will be funded from 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 issued bonds to own funds of the Bank. In 2023, the Bank did not issue covered bonds, however to further diversify its existing funding sources, it made further issues of short-term bond series under the established own bond programme (series nos 10 and 11).

The Bank Management Board is of the opinion that as at 30 June 2023 there were no conditions which could indicate presence of default risk for the liabilities assumed by the Bank.

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

4.1 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.

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,
- reducing the funding costs of the lending campaign for the portion of the lending portfolio funded with other long-term instruments.

4.2 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. It is done under the *Debt Transfer Framework Agreement to issue covered bonds*, signed in 2019.

There was one acquisition of a debt portfolio from ING Bank Śląski S.A. in the first half of 2023. The capital at the time of transfer of the acquired portfolio amounted to PLN 636.03 million.

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 – 30.06.2023:

LTV (as per mortgage lending value of the real estate)	Structure %
(0-50>	31.9%
(50-60>	17.3%
(60-70>	19.1%
(70-75>	8.6%
(75-80>	7.4%
(80-100>	15.7%
Total	100.0%

Mark-to-market LTV	Structure %
(0-50>	44.9%
(50-60>	24.3%
(60-70>	22.2%
(70-75>	8.5%
(75-80>	0.1%
(80-100>	0.0%
Total	100.0%

The average LtV for the capital-weighted mortgage lending value of the real estate was 59.18%, while the average mark-to-market LtV was 49.39%.

As at 30.06.2022, the carrying value of the portfolio of debt under the mortgage-backed loan agreements was PLN 3,276.7 million. Debt claims under the acquired loan agreements are mostly based on the variable interest rate WIBOR 6M. From 30 June 2021, in accordance with the requirements of Recommendation S of the PFSA, the Bank made it possible for the borrowers to change the interest rate formula from a variable rate to a fixed rate one for a period of time. As at 30 June 2023, 322 agreements with a total principal amount of PLN 60.24 million were subject to interest rate conversion.

In the wake of the COVID-19 pandemic, the Bank continued the measures implemented in 2020 to assist customers in financial distress.

Pursuant to the *Act on crowdfunding for business ventures and assistance to borrowers of 7 July 2022* the so-called “credit holidays” were introduced. The new form of support was extended to borrowers with a loan taken out in PLN to meet their own housing goals. The assistance was based on the suspension of instalments - 8 instalments in total (2 instalments in the second and third quarters of 2022 and 1 instalment in each quarter of 2023). As at 30 June 2023, of the active loans, 12,962 active loans with a capital balance of PLN 2,480.4 million were covered by the suspension of at least one instalment.

The Bank monitors on an ongoing basis the number and volume of loans with suspended loan repayments and their impact on ensuring compliant collateral for the issue of covered bonds. In view of the high overcollateralisation of the covered bond issue (as at 30 June 2023, debt claims worth PLN 2,151.9 million were entered in the cover register), the position of the Bank is secure, allowing it to meet its obligations towards investors on an ongoing basis.

4.3 Covered bonds

In 2023, due to the unfavourable market environment, the Bank did not issue covered bonds. As at 30 June 2023, the nominal value of the covered bonds in trading that were issued by the Bank did not change from the end of 2022 and totalled PLN 400 million.

The covered bonds of the Bank are quoted on the Stock Exchange in Luxemburg and placed in the parallel market of the Warsaw Stock Exchange. The covered bonds of the Bank may secure the lombard and technical loans and the repo operations of the National Bank of Poland.

The rating for the PLN covered bonds issued by the Bank remains at the highest possible level for a Polish issuer, namely 'Aa1' (according to the Moody's rating agency), which confirms the high quality of the mortgage portfolio serving as collateral for the issued covered bonds.

Further issues of covered bonds will depend on the market conditions.

4.4 Rating of the Bank and covered bonds

The updated rating of ING Bank Hipoteczny S.A. and its covered bonds is as follows:

Moody's Investor Services	
Rating of covered bonds	Aa1
LT Issuer Rating	A3
ST Issuer Rating	P-2
LT Counterparty Risk	A1
ST Counterparty Risk	P-1
Outlook	Stable
CR Assessment	A1 (cr) / P-1 (cr)

In its last communication, the Moody's 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,
- the Bank's significant strategic importance and its operational integration within the ING Bank Śląski S.A. Group structures,
- 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.

5. Internal business conditions

5.1 Employee competences

The headcount in the Bank was matched with the scale of business pursued. The Bank supports employees in actively planning their professional development and provides employees with time to improve their competences. The Bank provides employees with the time necessary to complete mandatory training, including in the form of e-learning.

5.2 Cooperation with ING Bank Śląski S.A.

In principle, the business formula of ING Bank Hipoteczny S.A. is based on leveraging on the synergy effect between ING Bank Hipoteczny and ING Bank Śląski S.A. as the strategic outsourcing partner to ING 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 ING 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 transfers of receivables to ING Bank Hipoteczny, both the loan service process and the credit and credit-related costs will 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.

5.3 Internal control system

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

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) compliance of the Bank with the law, regulatory requirements, 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 functions 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 Policy – ING Bank Hipoteczny S.A. Internal Control System,
- 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 Audit Position,
- 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 Audit Position, as well as the compliance of the Bank Management Board with the obligations referred to in part B of Recommendation H,
- 6) approve the categorisation principles for the irregularities detected by the internal control system, covering at least high and critical irregularities,
- 7) as part of ensuring that the internal control system complies with laws, internal regulations and market standards, the Supervisory Board:
 - oversee the performance of the Management Board's duties concerning compliance risk management,
 - approve the *ING Bank Hipoteczny S.A. Compliance Policy*,
 - assess, at least once a year, the effectiveness of the compliance risk management by the Bank.

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 *Policy – ING Bank Hipoteczny S.A. Internal Control System*, ensure its periodical review and update and present the review deliverables to the Audit and Risk Committee and the Supervisory Board,
- 9) ensure that the Compliance Officer, the Internal Audit function and the Operational Risk function, as well as the other units coordinating the achievement of the general objectives, have access to the necessary source documents, those containing legally protected information included, in connection with the performance of their 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) as part of ensuring that the internal control system complies with laws, internal regulations and market standards, the Bank Management Board are responsible for developing the compliance policy, ensuring compliance and reporting to the Audit and Risk Committee and to the Supervisory Board on compliance risk management,
- 13) set the adequate scope of and criteria for independent monitoring of observance of controls, covering ongoing verification and testing,
- 14) ensure functioning of the control function matrix along with allocation of tasks connected with ensuring its functioning,
- 15) set the reporting rules, at least for the effectiveness of key controls and vertical testing deliverables.

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

- 16) 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 Audit Position,

- 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 Audit Position.

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
<p>Business and organisational units of the Bank which provide operational and technological support to the Business area</p>	<p>1) Units from the area of:</p> <ul style="list-style-type: none"> • operational risk • compliance risk • legal risk • credit and market risk • finance • human resources management and <p>2) Model validation position</p>	<p>Internal Audit position</p>

1. The first line of defence

It is an element of the control function.

It is responsible for:

- developing, implementing and performing controls designed to ensure that general and specific goals of internal control system are achieved,
- acting in compliance with the principles resulting from the approved policies, regulations, manuals and procedures,
- analysis, control and management of the risks in the processes, including in relation to outsourced activities,
- independent monitoring of compliance with controls by ongoing verification and/or horizontal testing,
- ensuring that action is taken on audit and non-audit recommendations.

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. The first line of defence consists of Bank organisational units not specified in the second and third lines of defence.

As part of their testing tasks (in the 1LoD area), these units have the right of access to the information covered by the testing.

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:

- issuing regulations (including analysis of compliance with external regulations) and providing methods and tools within the internal control system,
- approving the decisions made by the first line of defence as to implementation, modification or removal of controls,
- verifying the 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.

Under control activities, the units from the second line of defence perform their own independent assessment of the effectiveness of operations of the first line of defence; they do it using tests, reviews and other forms of control. Thus, they shall have access to all indispensable data, information and source documents, including those containing confidential information, where this results from their functions and the scope of their assigned tasks.

The second line of defence units have the power to escalate problems to a higher level of management (to the Bank Management Board and Supervisory Board), presenting their opinions on business decisions bearing unacceptable risks.

The units reporting to the Vice President responsible for the Risk Area and the Compliance Unit, in the areas monitored by them and in a manner that does not violate the independence of certain units in the Bank (e.g. Internal Audit Position) provided for by legal regulations, are authorised to recommend recovery actions concerning controls and risk control mechanisms to all Bank units.

3. The third line of defence

The Internal Audit position (IA) forms the third line of defence. It 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 IA position and the terms of cooperation of Bank organisational units with the IA position are laid down in the *Policy – Internal 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 positions, 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 Audit annually assesses the adequacy and effectiveness of the internal control system and risk management 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, inter alia, the information about the internal control system from the control function matrix,
- the results/opinions of the audit conducted by the external auditor together with the regulator's recommendations which are open as at the internal control system assessment date,
- the results of the Supervisory Review and Evaluation (SREP) process carried out by the Polish Financial Supervision Authority,
- 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 of risk mitigants,
- risk limits and limits under the Act on Covered Bonds and Mortgage Banks, presented at meetings of the Bank's bodies.

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 Audit,
- 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.

In February 2023, the Supervisory Board assessed the 2022 internal control system of ING Bank Hipoteczny S.A., taking into account the above factors and issued an opinion that the internal control system of ING Bank Hipoteczny S.A. was effective and adequate for the Bank business model and scale of operations.

5.4 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/or Supervisory Board of ING Bank Hipoteczny S.A. respectively,
- The Bank manages all identified bank risks and carries out the ICAAP (the 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,
- the organisational structure of risk management guarantees independence of the risk area, including independence of real estate appraisal and credit decisions taken 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, tailored to the specific operations of ING Bank

Hipoteczny S.A. and approved by the competent authorities of ING Bank Hipoteczny S.A.,

- 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 on internal regulations concerning risk management.

Risk is managed through three independent lines of defence.

The objectives, principles and organisation of risk management, as well as the specific management of individual risk categories are described in the financial statements of ING Bank Hipoteczny S.A.

5.5 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 in particular Recommendations F, S and J,
- Provisions of internal banking regulations, and notably the Banking and Lending Value of the Real Estate Valuation Bylaw.

The Bank has and applies the Banking and 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
Carrying out an inspection, on-site property inspection and local market research included.	Estate Appraiser who holds adequate experience and ability to estimate banking risk for residential loan collateralization
Banking and lending value of the real estate expertise compilation	Dedicated organisational cell of the Bank – Valuation and Credit Decisions Team
Verification of mortgage lending value of the real estate expertise 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.

5.6 Cover register

ING Bank Hipoteczny S.A. keeps and maintains the cover register (the Register). The Register is maintained in compliance with the requirements set out in the following documents:

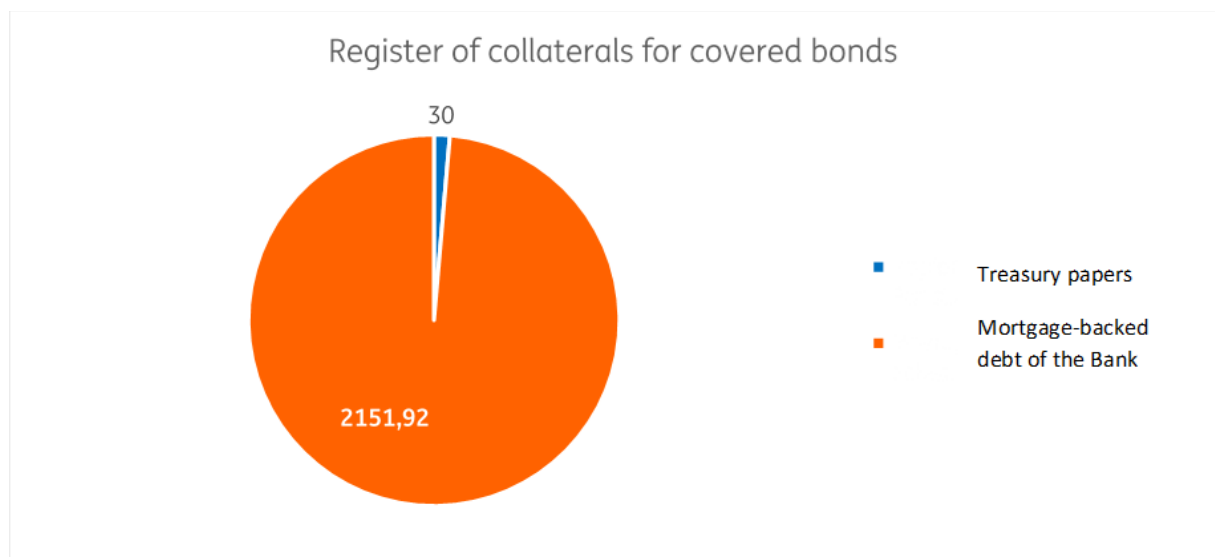
- The Act on covered bonds and mortgage banks 29 August 1997 (Journal of Laws of 2023, item 110),
- Minister for Finance Regulation of 21 June 2022 on the mortgage cover calculation and the coverage balance testing and the liquidity test (Journal of Laws 2022, item 1412),
- Recommendation K of the Polish Financial Supervision Authority of 9 February 2016 on the terms of maintenance of the cover register by mortgage banks.

The Bank enters in the Register acquired receivables from mortgage-backed housing loan contracts and the rights and funds underlying the issue of covered bonds, as well as funds representing the coverage of a surplus of not less than the maximum cumulative net liquidity outflow over a consecutive 180-day period.

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 30 June 2023, the mortgage-backed debt and other funds referred to in the Act on covered bonds and mortgage banks closed with PLN 2,181.9 million (core assets including substitute assets).

As at the date, the structure of the register was as follows (data in in PLN mio):



T-bonds of PLN 30 million partially secure the payment of interest on covered bonds for 6 months (PLN 14,919,000). The total value of the mortgage-backed debt claims and substitute collateral (in the part not used to cover the payment of interest on covered bonds) was reflected in the overall level of collateralisation of covered bonds, which was 545.48%.

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 the end of June 2023.

Register maintenance is overseen by the Cover Pool Monitor on an ongoing basis.

For the key register data as at 30 June 2023, refer to the table below:

	30.06.2023
Cover register	
Mortgage-backed debt (PLN million)	2,151.9
T-bonds (PLN million)	30
Amount of surplus in accordance with Article 18(3a) of the Act (PLN thousand)	0
Number of (active) loans	13,632
Average loan amount (PLN thousand)	158
Average maturity (in months)	226
Average LtV (loan value to the mark-to-market value of the real estate)	41.78%
Average LtV (loan value to the mortgage lending value of the real estate)	55.00%

5.7 Cover Pool Monitor

In keeping with the *Act on covered bonds and mortgage banks (Act)*, for each mortgage bank a Cover Pool Monitor and at least one Deputy Cover Pool Monitor are appointed. The Cover Pool Monitor shall be responsible for verifying whether:

- the liabilities attributable to the covered bonds in trading are secured by the mortgage bank in compliance with the Act,
- 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 cover register suffice to fully satisfy the holders of covered bonds.
- the manner of the cover register 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 cover register.

In addition, in accordance with the amendment to the Act, the Cover Pool Monitor shall annually, no later than 31 March, submit to the Polish Financial Supervision Authority a report for the previous year on the mortgage bank's activities with respect to the Cover Pool Monitor's tasks.

Having considered 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 Cover Pool Monitor of ING Bank Hipoteczny S.A. and Mr Krzysztof Brejda as the Deputy Cover Pool Monitor.

The Bank shall keep and maintain a register of collaterals for covered bonds, in which the Bank's claims and the rights and funds underlying the issue of the covered bonds are entered under separate headings, as well as funds covering the surplus in an amount not lower than the maximum cumulative net liquidity outflow over a consecutive period of 180 days.

Register maintenance is overseen by the Cover Pool Monitor and Deputy Cover Pool Monitor on an ongoing basis.

5.8 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 30 June 2023, the statutory limits and their utilisation were the following:

No.	Statutory limit	Statutory limit value	Limit utilisation	Legal grounds
1.	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
2.	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%	12.43%	Article 14 of the Act on covered bonds and mortgage banks
3.	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
4.	Maximum multiple of the total of drawn loans and credit facilities, issued bonds vis-à-vis own funds of the mortgage bank	10	6.37	Article 15.2.1 of the Act on covered bonds and mortgage banks
5.	Maximum multiple of the total amount of nominal amounts of covered bonds traded by the mortgage bank to own funds of the mortgage bank	40	1.00	Article 17.1 of the Act on covered bonds and mortgage banks

6.	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)	105%	545.48%	Article 18.1 of the Act on covered bonds and mortgage banks
7.	Minimum overcollateralisation of the issue of covered bonds with mortgage-backed debt	85%	537.98%	Article 18.1 of the Act on covered bonds and mortgage banks
8.	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%	344.05%	Article 18.2 of the Act on covered bonds and mortgage banks
9.	Ratio of coverage by funds (bonds, cash, funds in the NBP) of the maximum cumulative net liquidity outflow over the next 180 days.	100%	100%	Article 18.3a of the Act on covered bonds and mortgage banks
10.	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
11.	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

Additionally to monitoring of the statutory limits, the Bank - in accordance with the Act on Covered Bonds and Mortgage Banks - makes a mortgage cover calculation for each business day. The coverage balance test is performed at least every 6 months and the liquidity test at least every 3 months.

Keeping in mind the prudential approach to management, the Bank carries out coverage and liquidity balance tests, if possible for each business day.

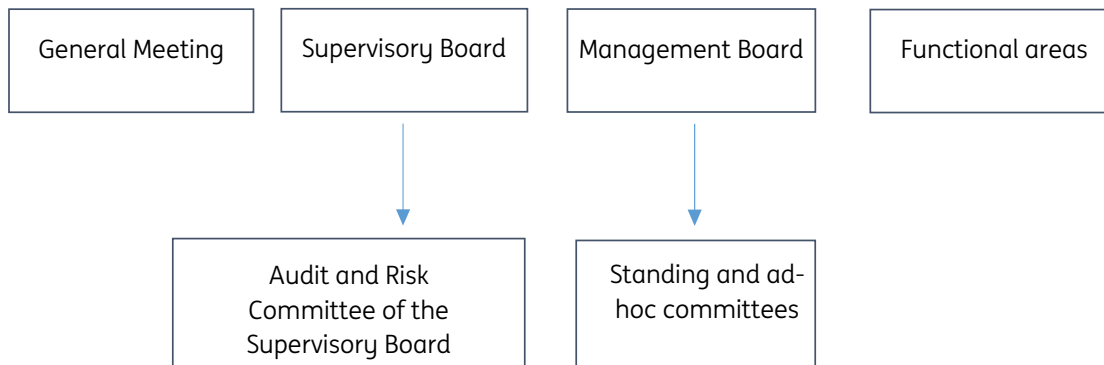
Throughout the reporting period, ING Bank Hipoteczny S.A. did not exceed any of the limits indicated in the table and the outcome of the mortgage cover calculation and coverage balance and liquidity tests was positive.

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

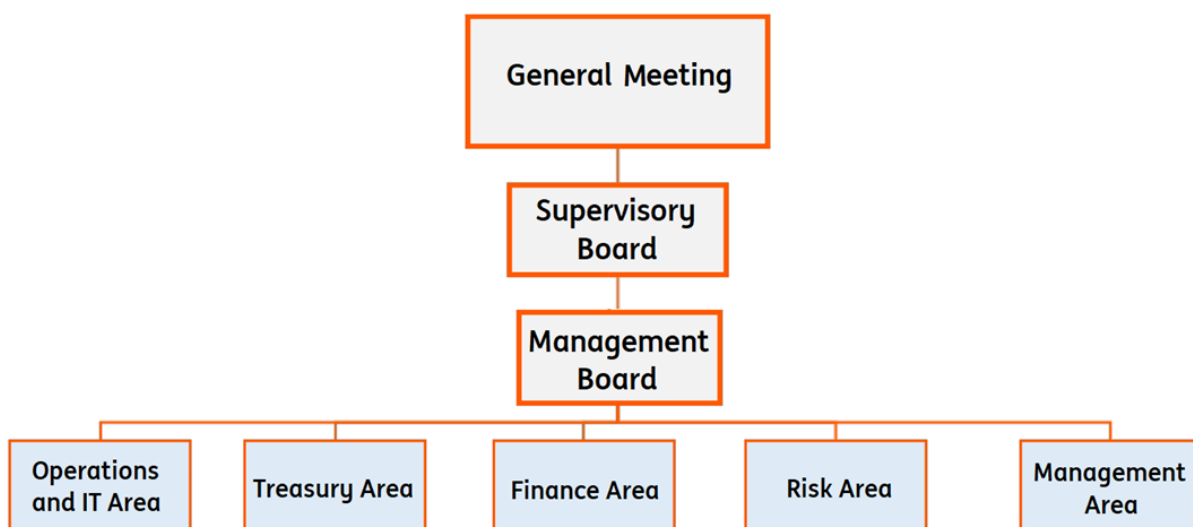
6.1. Organizational framework

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



6.2 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,
- 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 Article 26 section 1 items 4) and 11) of the Bank Charter; the consent is not required for the entities referred to in Article 26 section 1 item 9) of the Bank Charter,
- 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 Article 26 section 1 item 10) of the Bank Charter, 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,
- consent to acquisition, disposal or encumbrance by the Bank of real estate or an interest in real estate or the right of perpetual usufruct whose value exceeds the Polish zloty equivalent of EUR 1,000,000,
- submission to the Ordinary 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 a request to the Polish Financial Supervision Authority for appointment of the Cover Pool Monitor 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,
- approving strategies, policies and other documents if it is provided for in the Charter or specific regulations,
- rendering advice,
- reports and assessments submitted by the Board to the General meeting and in particular:
 - the annual report of the Supervisory Board for the previous financial year, including at least:
 - the 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 profit or coverage of loss of the Bank,
 - assessment of the Bank's standing, considering the assessment of adequacy and effectiveness of the internal control, risk management and compliance systems,
 - assessment of the implementation by the Management Board of their information obligations towards the Supervisory Board,
 - information on the total remuneration payable by the Bank for all audits commissioned by the Supervisory Board during the financial year pursuant to §37,
 - a summary of the activities of the Supervisory Board and its committees during the financial year, together with information on the composition of the Supervisory Board and its committees,
 - evaluation reports on the functioning of the Bank's remuneration policy, drawn up in the course of the ongoing supervision, monitoring and evaluation of the Bank's remuneration policy in force,
 - assessment of application by the Bank of the principles of corporate governance for supervised institutions,
 - assessment of the adequacy and effectiveness of internal governance principles adopted by the Bank,
- other matters within the Supervisory Board's powers.

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 the operational risk, credit risk, market risk and compliance 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 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 (ALCO),
- Credit Policy Committee (CPC),
- Non-financial Risk Committee,
- Green Covered Bonds Committee.

The Assets and Liabilities Committee supervise and take decisions on:

- market risk management at ING Bank Hipoteczny,
- funding and liquidity risk management at ING Bank Hipoteczny,
- management of the Bank's balance sheet (assets and liabilities), including the transfer pricing system methods,
- structure of ING Bank Hipoteczny'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.

The Committee monitor the model risk level. They approve the validation reports and the results of monitoring of the market risk, liquidity and funding risk and valuation models.

Credit Policy Committee

The scope of activities covers the following areas:

- Credit risk appetite as to specific risk appetite limits and concentration limits:
 - Define limit types,
 - Set and change limit levels,
- Credit Policy under which:
 - 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,
 - credit analysis standards,
 - credit competence,
 - rating process flow,
 - principles of client and credit exposure monitoring,
 - restructuring and debt recovery principles,
 - collateral establishment and monitoring principles,
 - impairment and provisioning principles,
 - environmental and social risk assessment principles,

- counterparty risk assessment principles.
- 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,
 - instructions and procedures describing the process of validating credit risk models.
 - CPC monitor the risk level of the above models. CPC accept validation reports and the results of credit risk model monitoring.
- 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.
- CPC do not make decisions on:
 - individual client transactions,
 - ratings for individual clients or exposures,
 - provisioning at client or individual exposure level.

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:

- Initiating and recommending the changes and new solutions for the non-financial risk area.
- Performing the tasks resulting from the use of outsourcing as described in the ING Bank Hipoteczny S.A. Outsourcing Policy and the ING Bank Hipoteczny S.A. Outsourcing Manual.
- Approving, advising on and recommending plans, projects and programmes as well as control standards for non-financial risk management.
- Approval of, inter alia:
 - operational risk management objectives for the calendar year in question,
 - waivers and deviations for the non-financial risks area,
 - annual key control testing plans and results,
 - annual Risk Identification and Assessment Plan and the results of this process when unacceptable risks are identified, crisis management plan as well as the outcome of the Business Environment Assessment,
 - lists of controls identified for independent testing by 2LoD,

- action plans and report on the second line of defence monitoring as part of key control testing (IT area included), and results of independent tests,
- non-financial risk reports (NFRD included) and recommendation to the Bank Management Board of decisions for material non-financial risk issues (including the unacceptable risks attributable to product-related changes),
- 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,
- methodologies for determining internal capital for operational risk,
- 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,
- mitigating actions.
- Monitoring of:
 - the processes of NFR identification, assessment, monitoring and mitigation, including, most notably, in the outsourcing and fraud area,
 - the quality assurance process for the non-financial risk management processes,
 - the status of mitigation and enhancement activities related to programmes and projects in the Bank (non-financial risk projects included),
 - the status of implementation of control standards,
 - risk factors arising from the Business Environment Assessment,
 - reputational risk reports, customer complaints and conduct risk as well as compliance risk matters, reports/documents on non-financial risk events, lessons learned included,
 - non-financial risks for considerable changes to the Bank's governance structure and essential elements of outsourcing processes.

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 ING 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 relating to operational implementation of changes arising from the *ING 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 Hipoteczny 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.

6.3 Management Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2023 to 30 June 2023, the Management Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function	Function Holding Time
Jacek Frejlich	President of the Management Board	28.10.2022 - at present
Marek Byczek	Vice-President of the Management Board	01.10.2022 - at present
Paweł Serocki	Vice-President of the Management Board	15.11.2022 - 09.02.2023
Roman Telepko	Vice-President of the Management Board	09.02.2023 - at present

Segregation of key authorities within the Bank Management Board:

Jacek Frejlich (since 28.10.2022)	President of the Management Board responsible for the Management Area
Marek Byczek (since 01.10.2022)	Vice-President of the Management Board responsible for the Finance, Treasury, Operations and IT Areas
Paweł Serocki (from 15.11.2022 to 09.02.2023)	Chief Risk Officer
Roman Telepko (since 09.02.2023)	Vice-President of the Management Board

As of 9 February 2023, the Management Board, acting collectively, exercised substantive supervision over the management of risks relevant to the Bank's activities (Risk Area).

Mr Roman Telepko, Vice-President of the Management Board, exercised organisational supervision over the Risk Area, without prejudice to the competences of the Management Board referred to above.

Other management functions of Management Board members:

	Function	Function Holding Time
Jacek Frejlich	Did not hold any additional functions of the Management Board or Supervisory Board member.	Throughout the reporting period.
Marek Byczek	Did not hold any additional functions of the Management Board or Supervisory Board member.	Throughout the reporting period.
Paweł Serocki	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.	Throughout the reporting period.

The composition, responsibilities of and segregation of duties among the Management Board Members changed.

On 8 February 2023, for personal reasons, Mr Paweł Serocki resigned from holding a position at the Management Board of ING Bank Hipoteczny S.A. and from his function effective as of 9 February 2023.

The Supervisory Board appointed Mr Roman Telepko as Vice President of the Management Board of ING Bank Hipoteczny S.A. as of 9 February 2023, for the period until the expiry of the current joint term of office of the Management Board of the Company.

Recruitment policy for the selection 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.

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

The Supervisory Board appoints the members of the Management Board from among candidates selected on the basis of succession plans and, if necessary, from among external candidates who have passed the suitability assessment procedure and received a positive recommendation.

The President of the Management Board and the Vice-President supervising the management of the risk material to the Bank's business are appointed 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.

The process of selecting and assessing candidates for Members of the ING Bank Hipoteczny S.A. Management Board is based on the principles set out in the *ING Bank Hipoteczny S.A. Management Board Members Appointing, Onboarding and Recalling Policy*.

If a search for candidates for a position on the Management Board needs to be triggered, the Supervisory Board prepares a list of candidates based on the Succession Database. In the absence of internal candidates satisfying the requisite criteria, external recruitment

process is initiated. The Supervisory Board select one candidate from the list and commission a suitability assessment process in accordance with the applicable *Suitability Assessment Policy for Supervisory Board Members, Management Board Members and Key Function Holders at ING Bank Hipoteczny S.A.* In exceptional cases (e.g. an urgent need to replace a member of the Management Board), the suitability assessment of candidates may be carried out up to 4 weeks after the position is taken up.

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

- Management Board members are appointed and recalled, considering the requirements of the Banking Law Act.
- The Supervisory Board appoints the members of the Management Board from among candidates selected on the basis of succession plans and, if necessary, from among external candidates who have passed the suitability assessment procedure and received a positive recommendation.
- 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 Vice-President to one of the Vice-Presidents.
- The number of the Management Board members is determined by the Supervisory Board. At least half of the members of the Management Board are the citizens of the Republic of Poland.
- The Management Board Members are appointed for a joint term of office in accordance with the applicable Charter.
- 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

In April 2023, the Supervisory Board – by way of Resolution No. 43/9/2023 – approved an update of the *Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board*. The Bylaw specifies the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board. The update concerned a change in the deadline for the payment of bonuses to members of the Management Board, i.e. the payment of part of the bonus in cash for the previous year takes place no later than within seven working days from the date of the Bank Supervisory Board's assessment and verification of the assessment of the Management Board member's achievement of objectives.

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.

The By-law:

1. is in line with the Bank's strategy, values and risk appetite and therefore also supports the Bank's long-term interests,
2. promotes and supports an effective risk management process to maintain and protect the Bank's secure capital base,
3. does not encourage taking excessive risk beyond the risk appetite accepted by the Bank Supervisory Board,
4. is based on performance management, which is a key business process that links individual objectives with long-term business strategy and ensures stable growth,
5. is gender neutral, which means that it does not create conditions for any gender to be favoured in an unjustified manner with regard to employment, career development, promotions, as well as awarding and paying remuneration,

6. the average annual gross total remuneration of Management Board Members shall not exceed 40 times the average annual gross total remuneration of other employees. The ratio shall be reviewed annually as part of the review of the remuneration policy.

6.4 Supervisory Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2023 to 30 June 2023, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function on the Bank Supervisory Board	Appointment date	Recall/ resignation date	Independent Member*	Audit and Risk Committee
Brunon Bartkiewicz	Chairman	26.02.2018	14.06.2021		
Bożena Graczyk	Member	26.02.2018			Member
Joanna Erdman	Chairwoman	15.06.2021			
Marcin Giżycki	Member	26.02.2018			
Krzysztof Gmur	Deputy Chairman	26.02.2018		✓	Chairman
Jacek Michalski	Secretary	11.09.2018		✓	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 2023.

During the reporting period, 3 meetings of the Supervisory Board attended in person and 3 meetings of the Audit and Risk Committee attended in person were held.

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 27 April 2023, the Ordinary General Meeting of ING Bank Hipoteczny S.A. was held concerning the period from 1 January 2022 to 31 December 2022, at which the Annual General Meeting of ING Bank Hipoteczny S.A.:

- o approved the annual financial statements of ING Bank Hipoteczny S.A.,

- approved the Annual Management Board Report on Operations of ING Bank Hipoteczny S.A., including the Statement of the Management Board on observance of the Principles of corporate governance,
- adopted the report of the Supervisory Board of ING Bank Hipoteczny S.A. for 2022 and assessed the functioning of the Remuneration Policy of ING Bank Hipoteczny S.A. in 2022,
- assessed the adequacy of the internal regulations concerning the functioning of the Supervisory Board of ING Bank Hipoteczny S.A. and its effectiveness,
- acknowledged the fulfilment of duties by the members of the Supervisory Board of ING Bank Hipoteczny S.A. in 2022,
- acknowledged the fulfilment of duties by the members of the Management Board of ING Bank Hipoteczny S.A. in 2022,
- approved the Board's proposal on how to cover the loss for 2022,
- approved the Management Board's proposal on how to distribute undistributed profits for 2020 and 2021,
- approved the Management Board's proposal to pay a dividend from undistributed profits for 2020 and 2021,
- approved an amendment to the Charter of ING Bank Hipoteczny S.A., including a reduction of the term of office of the Management Board and the Supervisory Board from five to three years starting from the new term of office of these bodies and specifying the rules for the exercise of the term of office, (legal status changes with the entry into the National Court Register (KRS), i.e. from 21 July 2023),
- approved an amendment to the Charter of ING Bank Hipoteczny S.A., including the adaptation of its provisions to the amended Commercial Companies and Partnerships Code and the Act on Covered Bonds and Mortgage Banks, (the legal status changes with the entry into the National Court Register, i.e. as of 21 July 2023),
- adopted information regarding the adopted amendment to the Bylaw of the Supervisory Board of ING Bank Hipoteczny S.A.

6.5 Remuneration and human resources management policy

Headcount

As at 30 June 2023, ING Bank Hipoteczny S.A. had 36 employees (36 FTEs). This means no change in the number of employees and the number of FTEs compared to 31 December 2022.

Remuneration policy

The ING Bank Hipoteczny S.A. Remuneration Policy takes into account the ING Bank Śląski



S.A. Group Remuneration Policy and defines the key assumptions for the remuneration policy used to attract and retain employees by ensuring a market competitive remuneration and defines the component parts of the remuneration.

The Policy includes stipulations concerning:

- gender neutrality - which means that it does not create conditions for any gender to be favoured in an unjustified manner with regard to employment, career development, promotions, as well as awarding and paying remuneration.
- the relation of the remuneration of the members of the Management Board to the remuneration of the employees - the average annual gross total remuneration of individual Management Board Members shall not exceed 40 times the average annual gross total remuneration of other employees. The ratio shall be reviewed annually as part of the review of the remuneration policy,
- monitoring of the gender pay ratio - as part of its annual remuneration review, the Bank monitors the gender pay ratio and takes appropriate action to address any gender imbalance in this respect.

The Bank identifies social and environmental risks diagnosed as part of its sustainability strategy. The remuneration policy at ING Bank Hipoteczny S.A. is consistent with the strategy adopted by the ING Bank Śląski S.A. Group for a given period and supports corporate social responsibility, which is reflected in the objectives set for the employees for a given year. At the same time, the Policy does not support the activities which are not compatible with the sustainable growth.

The remuneration policy is designed to ensure that remuneration-related conflicts of interest are identified and adequately limited. Adequate risk mitigation measures, that is, a layered approval process, clear and transparent performance appraisal principles which are communicated to all employees, are part of the variable remuneration process.

ING Bank Hipoteczny S.A. does not provide for any form of remuneration that might encourage employees to favour their own interests or those of the Bank while acting to the detriment of clients.

The principles of remunerating persons acting on behalf of the Bank do not constitute an incentive to take excessive risk of misselling.

The primary internal regulation governing the remuneration policy is the *Employee Remuneration Bylaw of ING Bank Hipoteczny S.A.* The Bylaw is revised on an ongoing basis, in response to the changing conditions and regulations of the ING Bank Śląski S.A. Group. Amendments to the Bylaw are introduced by a resolution of the Bank 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 the costs of the employee's private car use for business purposes;
- 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 variable remuneration is in proper relation to fixed remuneration. The level of fixed remuneration in relation to variable remuneration should constitute a sufficiently large proportion to encourage the long-term and stable development of the Bank. The ratio of fixed to variable remuneration is set at 1 to a maximum of 1.

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 win over and keep the employees contributing to the development of our company.

The employee is entitled to a contractually agreed monthly basic salary based on the nature and value of the work performed and the pay grade established in the Job Classification Table, at the amount provided for in the Basic Salary Table.

Each position from the ING Group Global Tariff is assigned to: job family group, job family, job profile and global career path level. The Bank verifies the adequacy of base salaries through an annual comparison with regular benchmarks performed by an external entity.

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 persons having a material impact on risk profile of ING Bank Hipoteczny S.A., the Bank regulates the process of awarding variable remuneration in the *ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw*. In case of Management Board members the bonus rules are provided for in the *Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board*.

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.

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.

Fringe benefits

Additional healthcare

Besides occupational health services (required by the Labour Code), the Bank provides for its employees different packages of healthcare services dedicated to specific job groups. Moreover, the employees can benefit from free examinations under the Cancer Prevention Programme.

Employee Pension Scheme

is an organised form of saving additional funds for a future pension; it is created by the Employer who pays contributions for his Employees to a selected financial institution that manages the funds accumulated in the

	scheme.
Group insurance	Employees can access group life insurance via the bank and on preferential terms negotiated by the bank. Employees have the option of including their family members in the insurance. Employees can subscribe to insurance from two insurance companies or choose one of them.
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

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 awarded 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 2022 to 31 December 2022.

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 2022 item 2324, as amended),
- b. Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system and remuneration policy in banks, hereinafter referred to as the Regulation of Finance, Funds and Regional Policy,
- c. The guidelines of the European Banking Authority of 2 July 2021 on sound remuneration policies,
- d. Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial

responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive.

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 30 June 2023, the Variable Remuneration Policy for Identified Staff applied to 6 Supervisory Board Members, 3 Management Board Members and 7 jobs from the List of Identified Staff.

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

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

- Supervisory Board and Management Board members,
- senior management staff,
- staff members accountable to the management body for the control function activities,
- employees who have managerial responsibilities with respect to:
 - a. legal issues;
 - b. security of accounting rules and procedures;
 - c. finance, including taxation and budgeting; carrying out economic analysis;
 - d. prevention of money laundering and terrorist financing;
 - e. human resources remuneration policy;
 - f. information technology;
 - g. information security;
 - h. the management of arrangements for the outsourcing of critical or important functions as referred to in Article 30(1) of Commission Delegated Regulation (EU) 2017/565.
- the staff members who have managerial responsibilities for any of the risk categories set out in Articles 79 to 87 of Directive 2013/36/EU or members with voting rights in the management committee of any of the risk categories set out in those Articles,

- the remuneration of the employee is at least EUR 500,000 and at least the average remuneration granted to members of the management body and senior management of the institution,
- the staff member who is within the 0.3 % of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year.

Moreover, 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 oversee compliance therewith.

In December 2022, the Supervisory Board approved amendments to the Policy of variable remuneration components effective from 1 January 2023.

As the Bank is not a large institution in accordance with the criteria set out in Article 9ca (1b) of the Banking Act, a limited variable remuneration policy is applied to Identified Staff, with the exception of the members of the Management Board and the Bank's Chief Accountant, to whom the full remuneration policy is applied.

Variable remuneration principles applicable to Identified Staff for whom a limited variable remuneration policy applies:

1. The variable remuneration is payable entirely in cash.
2. The deferral rule does not apply to variable remuneration.
3. The funds shall be paid no later than by 31 March of the following calendar year.

Variable remuneration policy applicable to Identified Staff for whom the full variable remuneration policy applies:

1. 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.

2. 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 of Finance, Funds and Regional Policy, a certain amount of variable remuneration is set which is not subject to deferral (PLN 40,000).
3. The variable remuneration awarded in financial instruments is subject to a retention period. The period is one year from the award date.
4. Payment to members of the Management Board shall be made no later than on 30 April of the following calendar year. Payment to other employees shall be made no later than by 31 March of the following calendar year.

For Identified Staff for whom the deferral rule applies, it is permissible to reduce or not pay deferrable variable remuneration on the basis of:

- 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 Recovery Plan,
- 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 – their statement on non-application of any hedging strategies or insurance.

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 variable 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 has ended.

Agreements between the Bank and managers

In accordance with Article 2.1.30a. of the Minister of Finance Regulation of 29 February 2018 on current and interim information published by issuers of securities and the conditions for recognizing as equivalent information required by the law of a non-member state, 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.

7. Corporate governance and information for investors

7.1 Corporate governance principles and applicability

The Bank implemented the Principles of corporate governance for supervised institutions ("Principles")

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

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, due to the business model adopted by ING Bank Hipoteczny S.A.

In 1Q 2023, the Supervisory Board assessed the application of the Principles by the Bank – as required under Article 27 of the Principles.

The assessment result is available on the Bank's website.

The review conducted in March 2023 (for 2022) found out that the actions identified in the 2022 review had been implemented. In 2022, no material cases of non-compliance with the Principles were identified.

ING Bank Hipoteczny S.A. Employee Business Ethics Standards

The Bank implemented the ING Bank Hipoteczny S.A. Employee Business Ethics Standards that provide an overview of key principles of conduct for Bank employees. They promote corporate culture which is based on knowledge and observance of the law, internal regulations and market standards. The rules provided for 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. The Regulations were also subject to review and update in January 2023.

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 employees' conduct. 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 S.A. Disclosure Policy

Being a public trust organisation, the Bank pursues disclosure policy which consists in keeping an open and transparent line of communication with its shareholders, investors, clients, the media and all stakeholders. In implementing its disclosure policy, the Bank is guided by the principles of corporate governance, in compliance with applicable laws, including the requirements of the Banking Law, the Commercial Companies and Partnerships Code, the Act on Public Offering and the Act on Trading in Financial Instruments as well as their implementing acts, the MAR Regulation, and the Act on the National Cybersecurity System. Most notably, the Bank adheres to the principles of bank secrecy and the principles of preventing the use and disclosure of confidential information,

as well as complying with legal requirements concerning the confidentiality and security of information, the issuer's disclosure obligations, in particular:

- the relevant Luxembourg law applicable to the issuer,
- the regulations of the companies operating the regulated market applicable to the Bank.

In implementing its disclosure policy, ING Bank Hipoteczny ensures that shareholders, investors, rating agencies, the media and all stakeholders have adequate access to the Bank's information. The full text of the Disclosure Policy is available on the Bank website.

Risk control and management system in the financial reporting process

The process of preparing financial statements 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 are reflected in the Bank ledgers which are later used to draw up the financial statements.

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

- risk of financial loss, regulatory sanctions and/or reputational damage as a result of non-compliance with applicable regulations due to *inadequate identification, assessment and interpretation of new/amended regulation on accounting and reporting policies and procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of non-compliance with applicable regulations due to *inadequate accounting and reporting policies and procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of non-compliance with applicable regulations due to *inadequate implementation of accounting and reporting policies and procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *lack of disciplined financial and regulatory reporting processes*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *errors or other inappropriate actions*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *lack of appropriate skills and knowledge*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of inaccurate/incomplete/delayed financial and regulatory reporting due to *poor data quality*;

- risk of financial loss, regulatory sanctions and/or reputational damage as a result of inaccurate/incomplete/delayed financial and regulatory reporting due to *data discrepancies between the general ledger and data sources and (financial and regulatory) reporting*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *inadequate/inconsistent review methodologies/procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *lack of management commitment to financial and regulatory reporting (unspecified management responsibility)*;
- 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 Internal 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 380,000,000 and is divided into 380,000 ordinary registered shares of nominal value of PLN 1,000.00 each. The share capital has been fully covered with pecuniary contributions. 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	Nominal value of one share (in PLN)	Series nominal value (in PLN)	Date on which a resolution was passed by AGM	Issue date	Date of registration in the National Court Register (KRS)
A	ordinary	120,000	1,000.00	120,000,000	not applicable*	26.02.2018	20.03.2018
B	ordinary	90,000	1,000.00	90,000,000	03.01.2019	03.01.2019	06.02.2019
C	ordinary	170,000	1,000.00	170,000,000	11.12.2019	11.12.2019	09.01.2020

* Issue of shares of series A stems from the Deed of Incorporation of 26 February 2018.

7.2 Auditing firm – audit of the financial statements

On 17 March 2022, 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 2022-2023, with the possibility of extension for the years 2024 - 2025 subject to the approval of the Supervisory Board. In June 2023, the Supervisory Board decided to extend the contract in question.

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 National Council 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 15 July 2022, ING Bank Hipoteczny S.A. and BDO entered into an agreement to audit the financial statements for the years ending on 31 December 2022 and 31 December 2023 respectively, and to review the financial statements for the period ending on 30 June 2022 and 30 June 2023 respectively, with the possibility of extension for the years 2024 - 2025.

Selection of entity authorised to audit the financial statements

The auditing firm to audit the 2023 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 will end for the current auditing firm with the review of the 2025 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.

Bank Charter Amendment Procedure

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

With their resolution of 20 February 2020, the Supervisory Board adopted the consolidated text of the Charter of ING Bank Hipoteczny S.A. in connection with the increase in the share capital adopted by the Extraordinary General Meeting of ING Bank Hipoteczny S.A. on 11 December 2019.

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.

In the first half of 2023, the Charter was amended to shorten the term of office of the Management Board and the Supervisory Board from five to three years starting from the new term of office of these bodies and to specify the rules for the exercise of the term of office. The legal status as at 30 June 2023 remained unchanged. Entry into the National Court Register took place on 21 July 2023.

7.3 Other information

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

The following factors will affect the financial statements within at least one quarter:

- 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,
- Development of the residential market in Poland,
- Development of the mortgage lending market in Poland,
- Regulatory landscape development,
- Developments relating to the armed conflict in Ukraine,
- Development of the macroeconomic environment.

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 2023 and 30 June 2023, 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 regulators

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

Granted financial commitments and guarantees

In the reporting period, the Bank did not grant any guarantees and had no financial liabilities under the loans awarded but not disbursed.

Financial liabilities granted to related entities

In the reporting period, the Bank did not grant any 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.

Underwriting agreements and guarantees granted to subsidiaries

The Bank neither entered into underwriting agreements nor granted guarantees to its subsidiary.

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

As at 30 June 2023, there were no material proceedings pending in court, before arbitration bodies or public administration bodies concerning liabilities or debt claims of ING Bank Hipoteczny S.A.

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

In the first half of 2023, the Bank did not sign any agreements or annexes relating to loans and advances.

The Bank used the amount of PLN 2.340 billion under the limits awarded.

Conclusion by the issuer or its subsidiary of one or more transactions with related entities, if they are material and were concluded otherwise than on an arm's length basis

ING Bank Hipoteczny S.A did not enter into any material transactions with related entities other than on an arm's length basis.

Changes to the fundamental principles of Bank enterprise management

In the reporting period, there were not changes to the fundamental 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.

Significant events after the reporting period

Issue of own bonds of INGBH012 series

On 14 August 2023, ING Bank Hipoteczny S.A. issued another series of unsecured three-month own bonds. The issue amounted to PLN 125,000,000 (i.e. 250 bonds of a nominal value of PLN 500,000 each). The price was set based on a fixed interest rate. The entire issue was redeemed by an ING Bank Śląski S.A. Group entity and was not subject to the issuer's application for listing on a regulated market.

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

The Management Board of ING Bank Hipoteczny S.A. represent that to their best knowledge:

- the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2023 to 30 June 2023 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 2023 to 30 June 2023 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 2023 to 30 June 2023 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.

Signatures of all Management Board members

18.08.2023	Jacek Frejlich	President of the Management Board//..... (signature)
18.08.2023	Marek Byczek	Vice-President of the Management Board//..... (signature)
18.08.2023	Roman Telepko	Vice-President of the Management Board//..... (signature)