Management Board Report on Operations of ING Bank Hipoteczny S.A.

for the period from 1 January 2023 to 31 December 2023

ING

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1. Letter from the Supervisory Board Chairwoman

Dear Sirs/Madams

2023 was a period of dynamic changes in the Polish economy, with both falling inflation and a downward trend in interest rates.

The average annual inflation rate in our country during the reporting period was 11.4%, recording a peak in February at 18.4%, before falling to 6.2 per cent in December. In response to falling inflation, the Monetary Policy Council decided to embark on a cycle of interest rate cuts, deciding in September to slash rates by 75 basis points and then cutting rates by a further 25 basis points in October. At the same time, the National Bank of Poland's rates were followed by the WIBOR 6M benchmark, which fell from 7.14% to 5.82% during the year.

It was also a year in which, due to ongoing armed conflicts around the world, the ongoing conflict in Ukraine included, further uncertainty persisted, following a period of pandemics and energy shocks, negatively affecting attempts to return to a stable operating environment for both the global and Polish economies.

The banking sector was confronted with legal and regulatory challenges, such as the reform of benchmarks, changes to banking regulations, the so-called CRRIII/CRDVI package, changes to the market risk requirements of the IRRBB and CSRBB, changes to the Banking Law Act, including, inter alia, the rules on the entrustment of banking and factual banking activities, the introduction of new digital operational resilience obligations - the DORA Regulation. At the same time, the credit moratoria launched in mid-2022 continued.

Despite the volatile economic and regulatory environment, the Bank shows a very good liquidity and capital position, significantly exceeding the required regulatory levels. At the end of 2023, the total capital ratio stood at 23.31%. The covered bonds issued by the Bank are characterised by a high level of safety, reflected in a rating of Aa1.

In 2023, the Bank continued to rebuild its loan portfolio by acquiring high-quality mortgaged receivables from ING Bank Śląski, thereby increasing the basis for planned future covered bond issues. The Bank also diversified its funding sources by issuing own bonds.

The Bank's business activities led to a financial result of PLN 41.3 million.

Last year, the Supervisory Board took part in decisions of fundamental importance to the Bank and exercised constant supervision over the Bank's activities, analysing both the financial standing as well as the activities carried out by the Management Board. The Audit and Risk Committee, composed of the members of the Supervisory Board, provided support in the aforementioned activities.

In the period from 1 January 2023 to 31 December 2023, there were 5 onsite meetings of the Supervisory Board and the Audit and Risk Committee. The Bank Supervisory Board, in performing its statutory duties and those arising from the law, resolutions and recommendations of the financial supervisory authority, also carried out ongoing monitoring of the Bank's risk management areas, including compliance risk, market risk, liquidity risk, capital adequacy risk, as well as the relationship with the Bank's external auditor.

Yours sincerely,
Bożena Graczyk
Chairwoman of the Supervisory Board

2. Letter from the President of the Management Board

Dear Sirs/Madams

We would like to provide you with ING Bank Hipoteczny S.A.'s annual report for 2023.

The past reporting year was a period of heightened uncertainty and ongoing geopolitical tensions. The Polish economy and the financial sector continued to face, among other things, high inflation, the effects of the war in Poland's neighbour country, the credit holiday, as well as changes in the regulatory environment, such as the reform of benchmarks, among others. At the same time, 2023 also brought positive signals in terms of the subsiding of inflationary pressures and the stabilisation of interest rates.

Despite another year of operating in an external environment full of economic and regulatory challenges, the Bank's position is stable. Capital and liquidity ratios are at safe levels, well above the levels required by the regulator.

The Bank's loan portfolio remains of high quality and the level of over-securitisation, which far exceeds regulatory requirements, translates into a high level of security for the Bank's covered bonds issued. The above is reflected in the Bank's covered bond rating, assigned at Aa1 by Moody's Investors Service Ltd. This is also the highest possible rating for Polish covered bond programmes.

During the reporting period, the Bank rebuilt its loan portfolio by carrying out transactions to transfer high-quality mortgage-backed receivables from ING Bank Śląski for a total of PLN 1.25 billion, thereby increasing the issuance potential of covered bonds. At the same time, the Bank also implemented measures to diversify its funding sources by issuing own bonds of the total nominal value of PLN 0.37 billion. The Bank's business activities were reflected in the achieved financial result, which stood at PLN 41.3 million.

In 2023, the Bank continued to operate on the basis of the model of the strategic cooperation with ING Bank Śląski, implementing solutions for our customers that are consistent across the ING Bank Śląski Group, primarily in the area of further digitalisation and remote loan servicing, as well as providing borrower support programmes implemented by the Legislator. At the same time, the Bank carried out further automation of internal processes.

On an ongoing basis, the Bank analysed the risks associated with the level of customers' use of credit holidays and the potential increase in delays in loan repayments in an environment of still relatively high interest rates. The impact of the above factors on the security of the covered bonds issued was also monitored. Given the Bank's business model that is based on the outsourcing of legally permissible activities to the extent that this is justified from the point of view of the Bank's efficient operations, the Management Board also monitored the ability of vendors to perform services on an ongoing basis.

Operating as part of the ING Bank Śląski S.A. Group (ING BSK), the Bank supports the upcoming energy transition and climate change challenges. ESG risks are included in the Bank's business strategy based on the ING BSK Group's ESG strategy. The Bank recognises the materiality of ESG risks and the need to identify, assess and integrate environmental, climate, social and corporate governance risks into its risk management system. An ESG Risk Management Policy has been implemented to comprehensively capture these risks in the Bank's operations. In 2023, we targeted all Bank employees with an ESG education programme to raise awareness in this area.

The Bank, together with other universal and mortgage banks, the supervisory authority and the legislature, participated in the last year regulatory projects as well as initiatives and activities aimed at developing the covered bond market in Poland.

The Polish banking sector is facing a number of challenges in the coming period related to the economic, regulatory and legal environment. I am convinced that thanks to the solid foundations and strategic cooperation within the ING Bank Śląski Group, the Bank is well prepared to achieve the objectives arising from the adopted strategy.

I would like to thank the Bank's employees for their commitment and professionalism, the representatives of ING Bank Śląski S.A. for their cooperation, and the investors for their trust.

I encourage you to read the annual report.

Yours faithfully,
Jacek Frejlich
President of the Management Board

3. Introduction

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

ING Bank Hipoteczny was established as part of the ING Bank Śląski S.A. (the Group). ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which held 100% of the share capital of ING Bank Hipoteczny S.A. as at 31 December 2023.

As at 31 December 2023, the Bank's share capital amounted to PLN 380,000,000 and was fully subscribed by ING Bank Śląski S.A.. The shares in ING Bank Hipoteczny S.A. were covered by a cash contribution.

The Bank's strategic objective is to acquire and then increase the share of long-term funding in the Bank's balance sheet through the issue of covered bonds, secured by high-end mortgage debt claims purchased from ING Bank Śląski S.A. The Bank's operating model is based on close, strategic cooperation with ING Bank Śląski.

4. Business landscape

4.1 Macroeconomic environment

Gross Domestic Product

According to a preliminary estimate by the Central Statistical Office (CSO), economic growth slowed to 0.2% in 2023, following a 5.3% increase in Gross Domestic Product (GDP) in 2022. The decline in private consumption (-1% y/y) and the increase in investment (8% y/y) were accompanied by a high positive contribution to GDP growth from the improvement in the foreign trade balance, due to a deeper decline in imports than in exports, and a large negative contribution from the change in inventories.

Over the course of the year, the annual growth rate rebounded from -0.5 per cent in the first half of the year to around 0.8 per cent in the second half of 2023. The rebound was linked, among other things, to the fall in inflation, which favoured an improvement in real household disposable income and improved private consumption, which rose in the second half of the year after declines in the first part of the year. Preliminary estimates for the fourth quarter of 2023 point to a renewed stagnation of private consumption. According to ING Bank Śląski Group economists, the process of rebuilding consumer demand will continue in 2024, which, with less pressure from inventories, will translate into an acceleration of GDP growth in the current year to around 3%. Access to European funds under the National Recovery Plan should sustain investment growth, despite the fact that the disbursement of funds from the European Union's 2014-20 financial perspective ended in 2023 (t+3 rule). However, the rate of investment in 2024 will be close to 3% y/y, i.e. lower than in 2023 (8% y/y) when large projects were implemented in the largest enterprises, while investment in smaller enterprises continued to decline.

According to estimates by ING Bank Śląski Group economists, GDP growth in the last quarter of 2023 was around 1.0%. Private consumption grew by around 0.1% y/y and investment by around 7.6% y/y. In 4Q2023, GDP continued to be supported by an improvement in the foreign trade balance, while the change in inventories continued to have a negative impact on the year-on-year change in GDP.

According to the bank's economists, economic conditions were improving slowly towards the end of 2023, and the beginning of 2024 should see a continuation of positive trends. The outlook for the rest of the year also looks better than the economic situation in 2023, although the economic rebound will rely mainly on domestic demand, while the health of the main trading partners and exports are uncertain.

Start of monetary policy easing cycle with still loose fiscal policy

The year 2023 was marked by the extinction of the inflationary impulse generated in 2022 by the strong increase in commodity prices, including energy prices, associated with, among other things, the pandemic and then the Russian aggression against Ukraine and the embargo on imports of raw materials from Russia. After the biggest jump in energy prices since the 1970s, last year brought a clear disinflationary trend globally and in Poland, including a normalisation of raw material prices. However, the economy entered 2023 under the weight of the inflationary impulse generated by the earlier pandemic and energy crises, which initially negatively affected real household incomes and their propensity to consume. This resulted in a declined GDP in 1Q2023 and 2Q2023 on the annual basis. Over the course of the year, falling inflation and sustained double-digit growth in nominal wages contributed to a recovery in consumers' real purchasing power.

Inflation peaked in February last year (18.4% y/y), after which a process of disinflation began, prompting the Monetary Policy Council (MPC) to cut interest rates in the second half of the year. In September, the benchmark of the National Bank of Poland (NBP) was cut by 75bps to 6.00% and in October by a further 25bps to 5.75%. At the end of 2023, the MPC's stance changed and the monetary easing cycle was halted. The change in the MPC's stance was a result of uncertainty about regulated prices, measures to protect households from rising energy prices and fiscal policy in 2024. In 2023, electricity and gas prices for households were 'frozen' at 2022 levels. The zero VAT rate on food also continued. However, the basic rates (23%) on energy and fuel were reinstated. According to the autumn fiscal notification, the general government deficit could be as high as 5.6% in 2023.

International business landscape

In 2023, the global economy grew below its long-term growth rate. This was due, among other things, to an earlier inflation shock and was the result of aggressive monetary tightening in the US and Western Europe and the exposure of structural weaknesses in the Chinese economy. Geopolitical tensions were fuelled by the continuation of the Russian war in Ukraine, which necessitated further support for Ukraine from the West and further tightening of sanctions against Russia. In contrast, following the Hamas attack on Israel on 7 October 2023, the Gaza war began. Tensions in the Middle East also included attacks by pro-Palestinian militants in Yemen on ships in the Red Sea or drone attacks on a US military base in Jordan, which caused new disruptions in international trade after supply chains returned to normal during 2023.

After the EU and UK countries intervened strongly in the energy market in the crisis year 2022 (price caps and energy demand reduction measures), the natural gas and electricity markets normalised in 2023. In addition to the fall in global commodity prices (energy, metals, food), this was a strong disinflationary factor. The process of falling inflation was also supported by the rapid tightening of monetary policy by central banks, including the Fed and the ECB. Throughout 2023, central banks tightened monetary policy, with interest rates reaching the target level for the tightening cycle in mid-2023 (Fed rate ranging from 5.25% to 5.50% in July 2023) and for the ECB in autumn 2023 (refinancing rate of 4.5% in September 2023). At that time, the Fed and the ECB adopted a 'rates higher for longer' approach, emphasising the determination to bring inflation down to the 2% target. The disinflation process was supported by a slower-than-expected recovery in China following the abolition of the Zero-Covid policy at the end of 2022, while the effects of the real estate crisis and fiscal stress, led to a decline in the country's GDP growth rate and a downward revision of medium-term forecasts.

In its January 2024 forecasts, the International Monetary Fund (IMF) expects global economic growth in 2024 to be 3.1%, similar to 2023 but below the 3.5% of 2022. The IMF expects a slowdown in the US economy to 2.1% in 2024 from 2.5% in 2023 and an acceleration - albeit from a very low level - of GDP growth in the euro area to 0.9% in 2024 from just 0.5% in 2023. Low growth in the euro area as a whole has been driven by weakness in its largest economies, in particular Germany, struggling with weakening external demand, fiscal uncertainty and an increased propensity to save among consumers experiencing high inflation. In 2022 and the first half of 2023, high inflation led to a stronger erosion of real consumer income in Europe than in the US, with a gradual recovery. A factor supporting growth in both areas, particularly in the US, is the good health of the labour market and the low unemployment rate.

2023 was a period of disinflation in the underlying markets. US CPI consumer inflation peaked at 9.1% y/y in June 2022 - since then it has fallen steadily and rapidly - to 3.0% in June 2023, then rebounded slightly to 3.4% in December 2023. Consumer inflation in the euro area (10.6% y/y) peaked in October 2022 and since then formed a clear downward trend to 2.4% y/y in November 2023 and rebounded to 2.9% in December 2023. In addition to the cessation of supply shocks (normalisation in supply chains and the energy market in 2023), disinflation was supported by restrictive monetary policy, which led to weaker domestic demand, and a moderate recovery in China, which lowered commodity prices.

The aggressive tightening of monetary policy in response to powerful supply shocks was aimed at containing the un-anchoring of inflation expectations and counteracting so-called second-round effects in other goods and services prices, as illustrated by changes in core inflation. The response from the Fed was more decisive than from the ECB, with the US rate hike cycle (March 2022) starting a few months earlier than in the euro area (July 2022) and interest rates rising higher (5.5% - the Fed's rate cap) than in the euro area (4.5%). Against the backdrop of falling inflation and a favourable inflation outlook for 2024, as well as a weakening of the economy in 4Q2023 and a further slowdown in 2024, market participants expect faster and deeper interest rate cuts this year in the US than in the euro area.

ING group economists expect the cycle of interest rate cuts to begin in the second quarter of 2024 and a tapering of the quantitative tightening programme. Similar to the valuations in financial instruments at the beginning of 2024, for the year as a whole ING group economists expect cumulative cuts of 150 bps, clearly deeper than the Fed's December projection indicating cumulative cuts of around 75 bps. In contrast, the ECB's first rate cut is possible, according to ING economists, in June 2024, and by 75 bps in total for the year. This expectation is based on the marked disinflation of the headline consumer price index and the favourable inflation outlook for 2024 amid an expected slowdown in US GDP growth or continued stagnation in the euro area.

Inflation

In 2024, average inflation will be around 5%. The beginning of 2024 will be a period of further disinflation, but inflation will rise again in 2Q2024 and its level will be determined by fiscal and regulatory decisions. The zero VAT rate on food has been extended until the end of March 2024, and electricity, gas and heating prices will remain frozen at 2022 levels until the end of June this year. Combined with the high baseline at the beginning of 2023, when there was a rapid increase in consumer prices, this means that inflation will fall towards the NBP's target in 1Q2024, but this will be a transitional process. ING Bank economists assume that VAT on food will be reinstated from April and that there will be a partial 'unfreezing' of energy prices for households from July. In such a scenario, CPI inflation could return to around 5-6% in the second half of 2024.

Core inflation excluding food and energy prices will remain at elevated levels. This will mainly be the result of high wage growth and related increases in service prices. In the global disinflationary environment, the elevated level of inflation in Poland will be mainly driven by domestic factors - both market (tight labour market) and administrative (decisions on regulated energy prices).

Monetary policy

In the opinion of ING Bank Śląski Group economists, the MPC will keep NBP interest rates unchanged in the first months of 2024, but in the medium term it may resume the monetary easing cycle started in the second half of 2023. Given the expectation that inflation will rise again in the second half of 2024, the room for interest rate cuts appears limited to around 25 bps. The MPC has a very reluctant attitude towards rate cuts, but in an environment of rate cuts by major central banks, the NBP may decide to ease monetary policy if the prospects of inflation returning to target allow.

At the end of 2023, NBP interest rates were:

- deposit interest rate - 5.25%,
- benchmark - 5.75%,
- bill discount rate - 5.85%,
- bill rediscount rate - 5.80%,
- lombard rate – 6.25%.

ING economists expect inflation to remain elevated in the coming quarters and monetary easing to occur gradually. The NBP's own projections indicate that inflation will not return to the vicinity of the central bank's target until late 2025. A pro-inflationary effect may be exerted by an improving economy in a tight labour market and a consumption-based growth structure. Strong disinflationary tendencies in the external environment and a persistent negative output gap in the Polish economy should have an opposite impact.

Macroeconomic projections

	2021	2022	2023	2024P	2025P
GDP growth (%)	6.9	5.3	0.2	3.0	3.5
General government debt as per the EU methodology (% of GDP)	53.6	49.3	50.7	55.0	55.7
Average annual inflation (CPI) (%)	5.1	14.4	11.4	4.5	4.3
Registered unemployment rate (%; Central Statistical Office)	5.8	5.2	5.1	4.9	4.7
USD/PLN exchange rate (yearend)	4.06	4.40	3.94	3.65	3.77
EUR/PLN exchange rate (yearend)	4.60	4.69	4.35	4.20	4.22
3M WIBOR (yearend)	2.5	7.0	5.9	5.7	5.0

According to ING Bank Śląski Group economists, the economic recovery in the eurozone will be relatively slow in 2024 due to the gradual recovery of real incomes after the high inflation of previous years. This experience may induce consumers to refrain from higher spending, in addition, geopolitical instability and relatively high interest rates will discourage investment. A positive factor is the stabilisation of energy prices, including a slight reaction of energy commodity markets to developments in the Middle East. In 2023 and probably also in 2024, the German economy will be the weak link in the euro area when it comes to recovery. In recent quarters, the economy has been balancing between recession (GDP decline) and stagnation (growth around 0%), while moderate GDP growth has been recorded in southern European countries such as Spain, Portugal and Italy. Weakness in Germany - where around 30% of Polish exports go - will limit the scale of the economic recovery in Poland.

We expect private and public consumption to be the main driver of growth in the Polish economy in 2024, which will stem from the recovery of real household income. Investment growth in 2024 will depend on the efficiency in the use of EU funds, including grants and loans, the inflow of foreign investment and the unlocking of the investment potential of Polish companies, which have been holding back on investment projects over the past years. A major challenge will be the reduction in the inflow of cohesion policy funds after the end of the previous EU long-term budget, but an opportunity is created by the use of the National Recovery Plan funds. The net balance of EU funds to be received by Poland (grants and loans combined) will be as much as 2.7% of GDP compared to 2.1% of GDP in 2023. An additional factor supporting investment may be the investment attractiveness of Poland internationally for European and American companies in times of geopolitical instability.

4.2 Residential estate market

2023 will see a definite upturn in the housing market, particularly in the second half of the year, after a significant slowdown we saw in 2022.

As early as the beginning of 2023, the OPFSA relaxed its approach to the application by banks of the interest rate buffer included in the interest rate at which the bank counts the customer's creditworthiness, which has definitely increased the credit opportunities of Poles. Other factors that boosted demand were the introduction of the government's 2% Safe Credit programme in the second half of the year, steadily rising wages and falling inflation. In addition, a positive impulse was provided by the Monetary Policy Council's reduction of the NBP benchmark in September 2023, from 6.75% to 6%, and a month later by a further 0.25 basis points.

The first half of the year was marked with strong interest in the housing market from cash customers, who opted to buy a flat due to fears of rising prices and a contraction in supply caused by the announcement of the government's 2% Secure Credit scheme. The growing demand peaked after the programme was launched. However, the high demand was not matched by the available housing supply, which resulted in price increases. The situation on the residential rental market was completely different. In Q4, a seasonal drop in demand was noted, accompanied by a moderate increase in the offer of flats for rent. As a result, a stabilisation or even a slight decrease in rents was recorded on the residential rental market in the largest Polish cities.

Primary market

According to a report by Jones Lang LaSalle (JLL), the last two years have been quite unusual in terms of new supply. In 2022, developers put many more flats on the market than they sold. In 2023, we observed a different situation. Sales skyrocketed and the supply side, despite the remaining supply from the previous year, failed to keep up with demand. In the whole last year developers offered approximately 43,000 flats for sale in the six largest markets (Tri-City, Krakow, Łódź, Poznań, Warsaw and Wrocław), i.e. 12% less than in the previous year. This was the lowest result in ten years.

According to NBP data on prices of flats in 4Q2023, an average of PLN 12,679 was paid for 1m2 of a flat in the seven largest markets (Gdańsk, Gdynia, Krakow, Łódź, Poznań, Warsaw and Wrocław) , compared to 4Q2022, an increase of around 11%. Of the cities mentioned, the largest increase was recorded in Wrocław (+20%). In second place ex aequo were Gdańsk and Warsaw with an increase of 16% y/y. The most expensive flats were in Warsaw, where an average of PLN 14,800 was paid per m2 , while in Poznań it was PLN 12,400. Poznań came last on the podium, with a price of PLN 11,000.

Secondary market

According to NBP data, increases in transaction prices are also visible in the secondary market. However, not as large as in the case of new flats. The average increase in 2023 in the transaction prices of flats in the seven largest markets was around 5.5%.

There was a big change in the Krakow flat market, where one had to pay PLN 12,300 per square metre, compared to PLN 11,800 in 4Q2022 (an increase of 11% y/y). The situation was different in Warsaw at the end of last year. One square metre of a flat cost on average PLN 13,300, which meant only a 2% increase y/y.

Supply and demand in the residential property market

The demand to supply is a fundamental factor influencing changes in property prices over time. The main factor influencing supply and demand in 2023 was the introduction of the government's 2% Secure Credit scheme. The announcement of the launch of the programme meant that a decrease in the supply of flats on the secondary market could already be observed from April. The situation lasted until September. Only the last quarter of 2023 brought stabilisation on the supply side, which, however, did not go hand in hand with stabilisation of property prices. Based on the Amron-Sarfin report, 220,000 flats were handed over for use in 2023, or 7.6 per cent less than in 2022. Developers handed over for use 136,500 flats - 5.2 per cent less than a year ago, while individual investors handed over 79,600 flats, or 12.3 per cent less. In 2023, permits were issued or construction notifications made for 241,100 flats, or 19.1% less than in 2022. Building permits for the largest number of flats were obtained by developers (161,800, down by 20.6% y/y) and individual investors (72,500, down by 19%).

Forecasts for the housing market

According to reports by the Polish Economic Institute, the situation on the residential property market in 2024 will largely depend on the date of the introduction of the new housing loan subsidy programme and its conditions. The launch of the programme may result in a further increase in demand for housing purchases. At the same time, a low supply of new residential sales is forecast. In 2024, premises whose construction was started in 2022 will appear on the market. Due to the fact that the average construction time of a flat is just over 2 years, it is expected that there will be decrease in the supply of flats for sale in the following quarters of 2024. In the whole 2022, there were around 200,000 started construction projects, down by 27% from 2021 and it was the worst performance since 2017.

Due to the mismatch between demand and supply, a further increase in housing prices is expected, especially in large cities. Price increases in the housing market in 2024 will also depend on the Apartment for a Start Programme, interest rates, inflation and the general market situation in Poland. The mood in the construction sector is not good. The problem for entrepreneurs is mainly the rising costs of employment and the cost of materials.

4.3 Mortgage lending market

As of 31 December 2023, banks' housing loan receivables from households in Poland amounted to PLN 447.5bn, down by 3.3% y/y, according to data published by the NBP. The balance of loans granted in PLN increased by 4.6% y/y to PLN 409.3bn.

Thanks to the '2% Safe Credit' programme, the mortgage market performed significantly better in 2023 than in 2022, the year of the credit crunch. In addition to the launch of the government's '2% Safe Credit' programme, the revival of the mortgage market was also influenced by the Monetary Policy Council's decision to cut interest rates. This resulted in a reduction in the value of the WIBOR index. In 2023, banks concluded 162 thousand mortgage loan agreements of the total value of PLN 62.8 billion, of which more than 100,000 outside the '2% Safe Credit' programme (according to the Amron-Sarfin report). Compared to 2022, loan sales were higher by 36,000 (up 28.5%) and in value terms by PLN 19.1 billion (up by 43.8%).

ING Bank Hipoteczny S.A. is acquiring mortgaged receivables from ING Bank Śląski S.A., which at the end of December was fourth in the market in terms of new sales and third in terms of the size of its mortgage portfolio in PLN.

4.4 Covered bonds market

As at the end of December 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.

At the end of the fourth quarter of 2023, the total value of covered bonds in trading in Poland was approximately PLN 18.5 billion, or were down by PLN 2.5 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. One important element limiting the scale of covered bond issuance is the high overliquidity recorded in the banking sector.

4.5 Regulatory and legal landscape

Significant changes in the legal and regulatory landscape in 2023, which affected the Bank's operations, refer in particular to:

- Amendment to the Banking Law Act regarding outsourcing
- Amendment to the Bond Act
- Amendment to Recommendation S concerning best practices related to mortgage-backed credit exposures.
- Amendment to Recommendation J regarding the rules for the collection and processing of real property data by banks.
- New position of the PFSA regarding the assessment of creditworthiness when granting floating and periodically fixed interest rate loans
- PFSA's position on mortgages with periodic fixed interest rates.
- The work of the Steering Committee of the National Working Group for Benchmark Reform
- PFSA's assessment of the WIBOR benchmark as being in line with market conditions
- Planned extension of the so-called credit holiday in 2024.

1. Changes in banking law regarding outsourcing

On 29 September 2023, the Act of 16 August 2023 amending certain acts in connection with ensuring the development of the financial market and the protection of investors in that market (Journal of Laws, item 1723) also entered into force, including significant changes to the banking law, which increase the possibility of entrusting activities by mortgage banks whose sole shareholder is a domestic bank. The additionally permitted activities that can be entrusted by mortgage banks require notification to the PFSA, which has the right to object. Mortgage banks are at the same time fully liable for the obligations arising from the entrustment of the activities indicated in the amendment to the Banking Law.

The amendment also removes the previous restriction limiting the outsourcing chain to only one sub-outsourcer. Further sub-outsourcing will be allowed, i.e. further outsourcing of activities by entrepreneurs to whom activities have been sub-outsourced. This will be possible with respect to the activities specified in the agreement concluded with the bank (without limitation to ancillary activities), upon specific or general written consent of the bank. In the case of a general written authorisation, the entrepreneur, is obliged to inform the bank of any intended changes concerning the addition or substitution of other entrepreneurs or foreign entrepreneurs, thus giving the bank the opportunity to object to such changes.

In addition, the amendments to the regulations on banking outsourcing included the introduction of an obligation to notify the PFSA in advance in cases where a permit was previously required, i.e. in the event of outsourcing of activities not listed in the Act and the conclusion of an outsourcing or sub-outsourcing agreement with a foreign entrepreneur who does not have a permanent place of residence or seat on the territory of a Member State or an agreement providing that the outsourced activities will be performed outside the territory of a Member State. However, the PFSA will have the right to object to the outsourcing of activities in the above cases. The bank will also be required to notify the PFSA of its intention to materially amend, terminate or expire the agreements that required notification. In particular, a change in the scope of the activities entrusted to the trader or in the place where they are performed is deemed to be a material amendment to the contract.

2. Amendment to the Act on Bonds

On 1 October 2023, the Act of 14 April 2023 amending the Act on Mutual Funds and Management of Alternative Mutual Funds, the Act on Bonds, the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution and certain other acts entered into force, introducing amendments to, among others, the Act on Bonds of 15 January 2015. The amendment introduced the possibility of issuing a new debt instrument - capital bonds, which may be redeemable or convertible into shares in certain situations. The issuer of capital bonds may be banks, certain brokerage houses, insurance and reinsurance undertakings. Under the new rules, if the articles of association or a charter of the issuer so provide, the issuer will be able to issue the above-mentioned bonds for the purpose of qualifying them as, inter alia, banks' own funds (Additional Tier 1 instruments pursuant to Article 52 of Regulation 575/2013 or Tier 2 instruments pursuant to Article 63 of Regulation 575/2013). The conclusion of a contract involving a capital bond and the intermediation of such a contract shall only be possible where the subscriber or purchaser of that bond is a specific professional client. The nominal value of a capital bond shall be at least PLN 400,000 or the equivalent of that amount expressed in another currency, determined using the average exchange rate of that currency announced by the National Bank of Poland on the day the resolution to issue a capital bond is adopted by the issuer.

3. Amendment to Recommendation S

On 19 June 2023, the Polish Financial Supervision Authority unanimously adopted an amendment to Recommendation S concerning best practices related to mortgage-secured credit exposures. The adoption of the amendment was dictated by the need to adapt Recommendation S to changing legislation and to implement the regulatory and supervisory policy of the Polish Financial Supervision Authority. The changes introduced in Recommendation S concern:

a) the inclusion in Recommendation S of a guaranteed housing loan covered by a government programme;
b) the inclusion in Recommendation S of a housing loan covered by the government's interest rate subsidy programme;
c) a buffer against rising interest rates, which is taken into account in determining a customer's creditworthiness;
d) the introduction of new expectations regarding the inclusion of models estimating the risk of early repayment of loans (prepayment models);
e) 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.

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

On 24 March 2023, the Polish Financial Supervision Authority unanimously adopted an amendment to Recommendation J on the rules for the collection and processing of property data by banks. Recommendation J is a set of best practices for the collection and processing by banks of real estate market data contained in internal and external databases, supporting the risk management process related to mortgage-backed credit exposures. The new wording of Recommendation J introduces, inter alia, the following changes:

- the scope of the mandatory property characteristics that banks should obtain and collect in the interbank real estate database has been clarified
- the scope of data collected by the bank to be representative "for the property market financed by the bank" and not, as before, "for the entire property market" has been narrowed;
- the scope of data collected by banks has been extended to include the mortgage lending value of real estate;
- an amendment has been introduced to allow banks to use the value from a bank's assessment of the value of real estate collateral as a reference value;
- the concepts of carport, garage and parking space have been separated.

In addition, due to the different nature of commercial and residential real estate financing, the revision of Recommendation J introduced the possibility for banks with material exposure not to use statistical models for credit exposures secured by mortgages on commercial real estate, provided that the methods used by the banks to assess the value of the collateral ensure its reliable and credible assessment. The revision of Recommendation J also limited the content of the Annex only to 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 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.

5. 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.

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. Recommendations and decisions of the Steering Committee of the National Working Group for Benchmark Reform on the principles and modalities of the WIRON benchmark and changes to the expected Benchmark Reform Roadmap

The benchmark reform (i.e.: WIBOR) is underway. However as at 31 December 2023 the Bank has no exposures that can be impacted by that. WIBOR is expected to be no longer published and to be replacement by WIRON after 31 December 2027. This change in the benchmark affects the Bank, its customers and the financial sector as a whole and exposes the Bank to risks. Among these risks are legal, operational and financial risks. Legal risk refers to all required changes in documentation for new as well as existing transactions. Operational risk refers to the required changes to IT systems, reporting infrastructure and operational processes for new benchmark rates. Financial risk (predominantly limited to interest rate risk), as a consequence of changes in the valuation of financial instruments referencing these benchmark rates and decreasing market liquidity may have a direct impact on transactions or may affect the ability to hedge the risk arising from these transactions. Changes in valuation, interest calculation methodology or documentation may also result in customer complaints and litigation.

In order to mitigate these risks, the Bank's representatives participate in the meetings of the highly structured implementation project set up by ING Bank Śląski S.A. Group. The progress of the project work is monitored by a steering committee. The project analyses and coordinates any and all indispensable actions to implement the required changes to internal processes and systems, taking into account pricing, risk management, legal documentation and the impact on customers. The bank continues to monitor market studies and the results of the analysis of several remaining uncertainties, such as the availability of rates in the term structure and regulatory standards for transformation, in order to assess the impact on the project, customers and related risks.

8. Assessment of the WIBOR benchmark as being in line with market conditions

On 3 July 2023, the Polish Financial Supervision Authority, pursuant to Article 23(4) of the BMR, 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. The assessment carried out by the PFSA, in accordance with Article 23(2) of the BMR, was preceded by the submission by GPW Benchmark SA of the administrator's assessment of the ability of the key benchmark developed by them to measure the relevant market or economic realities. The scope and duration of the administrator's analysis met both the requirements of the BMR Regulation and the supervisory expectations of the PFSA.

5. Financial results, capital adequacy and financial instruments

The year 2023 was the fifth year of operations for ING Bank Hipoteczny S.A. As part of its strategy, in 2023 the Bank acquired a mortgage portfolio from ING Bank Śląski in the amount of PLN 1.25 billion, thanks to which at the end of the reporting period it had a portfolio of mortgage loans worth PLN 3.6 billion, constituting the bulk of the potential collateral for future covered bond issues. However, due to unfavourable market conditions, the Bank did not issue covered bonds in 2023. In 2023, as part of the diversification of funding sources, the Bank issued own bonds of the total nominal value of PLN 376 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 31 December 2023 are presented.

5.1 Core financial ratios

	as of 31.12.2023	**as of 31.12.2022**
ROA - return on assets	1.20%	-1.32%
ROE - return on equity	9.62%	-10.06%
DR - total debt ratio	88.33%	85.93%
TCR - total capital ratio*	23.31%	35.53%
LR - leverage ratio*	10.57%	14.13%
LCR - liquidity coverage ratio	1348.48%	142.44%

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 31 December 2023.
TCR – total capital ratio – own funds of ING Bank Hipoteczny S.A. to risk-weighted assets as at 31 December 2023.
LR – leverage ratio – Tier 1 capital to leverage ratio exposure as at 31 December 2023.
LCR - liquidity coverage ratio – liquid assets to net outflows as at 31 December 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. Prior to the approval of the 2022 profit distribution,

the ratios published in the financial statements for the period from 1 January 2022 to 31 December 2022 stood at: TCR 36.06%; LR 14.13%

5.2 Statement of financial position

	Note	as of **31.12.2023**	as of **31.12.2022**
Amounts due from banks	6.8	26,143.2	13,348.0
Debt securities measured at fair value through other comprehensive income	6.9	86,293.0	84,623.0
Loans and advances granted to customers	6.10	3,660,051.8	2,901,111.1
Property, plant and equipment	6.11	1,413.5	1,306.0
Current income tax assets		416.8	6,112.7
Deferred tax assets		839.7	11,382.6
Other assets	6.13	2,084.4	2,388.1
Total assets		**3,777,242.4**	**3,020,271.5**
Liabilities to banks	6.14	2,920,927.6	2,043,049.2
Liabilities under issue of bonds	6.15	0.0	135,927.4
Liabilities under issue of covered bonds	6.16	405,303.0	406,711.6
Provisions	6.17	641.0	561.7
Other liabilities	6.18	9,748.4	9,009.2
Total liabilities		**3,336,620.0**	**2,595,259.1**
Share capital	6.20	380,000.0	380,000.0
Supplementary capital - share premium		15,997.4	62,002.2
Accumulated other income	6.21	73.5	-1,168.2
Retained earnings	6.22	44,551.5	-15,821.6
Total equity		**440,622.4**	**425,012.4**
Total equity and liabilities		**3,777,242.4**	**3,020,271.5**
Carrying amount		440,622.4	425,012.4
Number of shares		380,000	380,000
Carrying amount per share (in PLN)		1,159.53	1,118.45

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

For details of the statement of Bank's financial position, refer to notes 6.8 through 6.22 of the Financial Statements.

5.3 Income Statement

	Note	period **from 01.01.2023** **until 31.12.2023**	period **as of 01.01.2022** **until 31.12.2022**
Interest income, including:	6.1.	285,109.6	121,385.9
calculated using the effective interest method	*6.1.*	*285,109.6*	*121,385.9*
Interest costs	6.1.	-207,582.3	-148,448.0
Net interest income	**6.1.**	**77,527.3**	**-27,062.1**
Fee and commission income	6.2.	1.9	184.9
Commission expenses	6.2.	-719.9	-687.0
Net fee and commission income	**6.2.**	**-718.0**	**-502.1**
FX result		-2.3	-51.7
Net income on other basic activities	6.3	-532.3	-944.7
Net income on basic activities		**76,274.7**	**-28,560.6**
General and administrative expenses, including:	6.4.	-25,810.0	-25,626.5
operating expenses	*6.4.*	*-23,122.5*	*-22,307.1*
regulatory costs	*6.4.*	*-2,687.5*	*-3,319.3*
Expected loss provision	6.5.	1,093.4	-1,940.7
Gross profit (loss)		**51,558.1**	**-56,127.8**
Income tax	6.6.	-10,251.6	10,123.0
Net profit (loss)		**41,306.5**	**-46,004.8**
Number of shares		380,000	380,000
Profit(+)/loss(-) per ordinary share - basic (in PLN)	*6.7*	108.70	-121.07
Profit(+)/loss(-) per ordinary share - diluted (in PLN)	*6.7*	108.70	-121.07

There were discontinued operations at ING Bank Hipoteczny S.A. neither in the period that ended 31 December 2023 nor in the same period last year.

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

For detailed notes to the Income Statement items, refer to the Financial Statements – notes 6.1 through 6.7.

5.4 Own funds requirements – Pillar 1

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

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

As at 31 December 2023, the Bank reports zero values for the own funds requirements for the CVA risk, delivery and settlement risk, and market risk. Having regard to the above, as at the report date, the total requirement for own funds consisted of the credit risk and operational risk requirements.

Own funds requirements	31.12.2023
Credit risk (PLN million)	*128.05*
Operational risk (PLN million)	*7.95*
Total requirement for own funds (PLN million)	**136.00**
Common Equity Tier 1 ratio (CET1)	*23.31%*
Tier 1 ratio (T1)	*23.31%*
Total capital ratio (TCR)	**23.31%**

Pillar 1 has been discussed in detail under item 6.32 of the Financial Statements of ING Bank Hipoteczny S.A. concerning capital adequacy disclosures.

The Bank maintains own funds at the level not lower that 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 31 December 2023, the total capital ratio of the Bank was 23.31%.

5.5 Internal capital – Pillar 2

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

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

The above process covers:

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

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

a. credit risk encompassing default risk and counterparty risk, concentration risk, residual risk an d 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 in a given region 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

and/or from the liquidation of marketable assets. Economic capital reflects the cost of raising additional funding to restore the proper LCR measure levels when they are breached;

e. operational risk, in the context of the assessment for the purposes of calculating internal capital, comprising, for operational risks/events that are model risk, control risk; unauthorised activity risk, processing error risk; human resources and workplace security risk, information risk, internal and external fraud risk, business continuity risk, personal and asset security risk, compliance risk and legal risk. The scope of operational risk management also takes into account the possibility of conduct risk, reputation risk and concentration risk (in relation to operational risk) - the capital requirement is determined using the Basic Indicator Approach;
f. model risk - the Bank creates capital requirements by imposing capital charges directly on model outputs or as an additional internal capital charge for risks in the area where the model is 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	31.12.2023
For credit risk	50.2%
For market risk	35.6%
For business risk	0%
For funding and liquidity risk	0%
For operational risk	14.2%
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.

5.6 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 for the needs of capital adequacy,
- capital requirements,

- capital buffers,
- financial leverage,
- exposure to credit risk and risk of dilution,
- applied credit risk mitigation techniques,
- operational risk, in accordance with the requirements provided for in Recommendation M,
- liquidity risk management system and liquidity position, in accordance with Recommendation P,
- requirements referred to in Article 111a of the Banking Law and in Recommendation H,
- remuneration policy concerning persons whose professional activities are considered to have a material impact on the risk profile of the Bank (risk takers).

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."

5.7 Financial instruments

Between 1 January and 31 December 2023, the Bank placed its temporary surplus funds on short-term deposit accounts at ING Bank Śląski S.A. For details, refer to note 6.8 of the Financial Statements of ING Bank Hipoteczny S.A. During the reporting period, the Bank also entered into securities transactions. For details, refer to note 6.9 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.

The Bank Management Board is of the opinion that as at 31 December 2023 there were no conditions which could indicate presence of default risk for the liabilities assumed by the Bank.

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

6.1 Development lines

The strategic objective of Bank Hipoteczny S.A. is to acquire and then to increase the share of long-term financing in the Bank's balance sheet through the 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.

6.2 Acquisition of mortgage-backed debt and lending portfolio structure

The main element of the business pursued by ING Bank Hipoteczny S.A. is acquisition of portfolios of debt claims attributable to mortgage-backed residential loan contracts 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. On 23 November 2023, an annex to the Agreement was signed and now it concerns the transfer of debt claims of the total nominal value of PLN 12,000,000,000 (prior to the conclusion of the annex, the object of the agreement was the purchase of debt claims of the nominal value of PLN 6,000,000,000).

In 2023 the Bank purchased from ING Bank Śląski S.A. two mortgage-backed housing loans debt claims portfolios under the Debt Transfer Agreement to effect the issue of covered bonds Nos. 13 and 14 for the total amount of PLN 1,255,253,700. 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/ banking and lending value of the real estate	Max. 100%
Credit collateral	Established first ranking mortgage

Loan currency	PLN
Loan purpose	Residential goals
Title to real estate	Ownership or perpetual usufruct
Repayment arrears or impairment conditions	None

LtV-based lending portfolio structure – 31.12.2023:

LTV (as per banking and lending value of the real estate)	Structure %
(0-50>	37.1%
(50-60>	18.6%
(60-70>	17.9%
(70-75>	7.5%
(75-80>	6.0%
(80-100>	12.9%
Total	**100.0%**

Mark-to-market LTV	Structure %
(0-50>	46.3%
(50-60>	24.2%
(60-70>	22.6%
(70-75>	6.9%
(75-80>	0.0%
(80-100>	0.0%
Total	**100.0%**

The average LtV for the capital-weighted banking and lending value of the real estate was 56.7%, while the average mark-to-market LtV was 49.49%.

As at 31 December 2023, the carrying value of the portfolio of debt under the mortgage-backed loan agreements was PLN 3,660.1 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 31 December 2023, the value of the portfolio based on a periodically fixed interest rate was PLN 57.3 million, representing 1.6% of the total portfolio.

In 2022, a new form of support for borrowers was introduced in accordance with *the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers,* namely the so-called "credit holiday". Such a 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). By the end of 2023, 14,562 active loans with a total principal amount of PLN 2,847 million were covered by the suspension of at least one instalment.

The Bank monitored 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 31 December 2023, debt claims worth PLN 2,391.7 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.

6.3 Covered bonds

As at 31 December 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. In 2023, due to the unfavourable market environment, the Bank did not issue covered bonds.

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 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.

6.4 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.

7. Internal business conditions

7.1 Employee competences

The headcount in the Bank was matched with the scale of business pursued. The Bank enables all employees to upgrade their qualifications on an ongoing basis.

7.2 Cooperation with ING Bank Śląski S.A.

ING Bank Hipoteczny's business formula is based on strategic cooperation with ING Bank Śląski and exploiting synergies between the Bank and its main outsourcing partner, in particular through:

- 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,
- 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 Act and, in the future, Article 6a(7a) of the Banking Law Act.*

- development and update – both by ING Bank Śląski S.A. and the Bank – of business plans ensuring continuous and undisrupted 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.

On 29 September 2023, the Act of 16 August 2023 amending certain acts in connection with ensuring the development of the financial market and the protection of investors in that market, amending the regulations of the Banking Law Act regarding outsourcing, entered into force. Accordingly, the outsourcing rules applicable to mortgage banks were liberalised by allowing, in the relationship between a mortgage bank and a parent bank holding 100 per cent of the mortgage bank's shares, the possibility to outsource bank management activities, which was previously prohibited. At the same time, the possibility of creating a multi-entity chain of subcontractors and further subcontractors of outsourced activities was allowed.

In connection with the possibility of changing the model of cooperation with the parent bank holding 100% of the shares in the mortgage bank, and admitting other entities to subcontracted activities, the Bank is considering analysing the model of cooperation with ING Bank Śląski and updating the provisions of the Agreement linking the Banks to this aim.

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.

7.3 Internal control system

Internal control system is among the Bank governance elements. Its fundaments, 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
Business and organisational units of the Bank which provide operational and technological support to the Business area	1) Operational Risk Position 2) Credit Risk Position 3) Market Risk Position 4) Model Validation Position 5) Valuation and Credit Decision Team 6) Compliance Cell 7) Data Protection Officer	Internal Audit position

1. The first line of defence

It is an element of the control function.

This line of defence is in charge of:

- developing, implementing and performing controls designed to ensure that general and specific goals of internal control system are achieved,
- 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.

On 13 March 2024, the Supervisory Board assessed the 2023 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.

7.4 Risk management

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

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

- risk management process, including the lending process is defined and governed by strategies, policies and procedures adopted by the Management Board and/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.

7.5 Valuation of mortgage loan collateral

ING Bank Hipoteczny 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 banking and lending value of the real estate valuation bylaws made by mortgage banks.

The banking and 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 banking and 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 banking and lending value of the real estate is set in a prudent manner, considering long-term parameters.

ING Bank Hipoteczny S.A. sets the banking and lending value of the real estate based on the real estate value. The banking and 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 banking and 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 banking and lending value of the real estate determination and the resultant banking and 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 banking and 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 banking and 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 banking and lending value of the real estate expertise and determination of the banking and 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 different persons.

The Bank has aligned the process of monitoring of the mortgage lending value of the real estate with the requirements of 648/2012 CRR (annual frequency). The above change affected the possibility of preferential treatment of covered bonds issued by the Bank (pursuant to Article 129 of the CRR).

7.6 Cover register

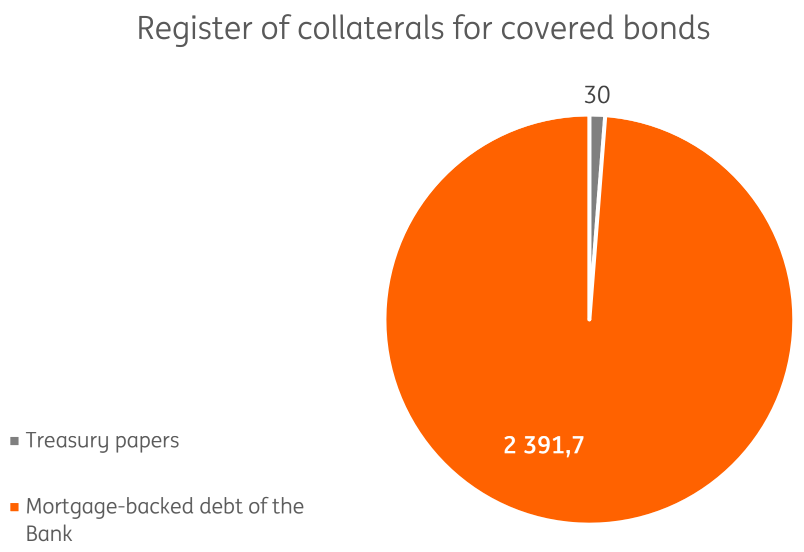
ING Bank Hipoteczny S.A. keeps and maintains the cover register (the Register). The Register is maintained in compliance with the requirements set out in the following documents:

- The Act of 29 August 1997 on covered bonds and mortgage banks (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 shall enter in the Register the acquired receivables from mortgage-backed housing loan contracts and the rights and funds that may be the basis for the issue of covered bonds (pursuant to Article 18(3) and (4)), as well as the funds constituting the surplus, in an amount not lower than the maximum cumulative net liquidity outflow over the next 180 days (pursuant to Article 18(3a)). Covered bonds are secured with Bank debt secured with the first ranking mortgage.

As at 31 December 2023, the mortgage-backed debt and other funds referred to in the Act on covered bonds and mortgage banks closed with PLN 2,421,702,400 (core assets including substitute assets).

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



T-Bonds of the nominal value of PLN 30 million may, if necessary, secure part of the interest payments on the covered bonds for a period of 6 months. The total value of the mortgage-backed 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 605.43%.

Since mortgage-backed debt and issued covered bonds match in terms of currency and interest rate, there were no hedging transactions in the Register as at 2023 yearned.

Pursuant to the 2022 amendment to the Act on Covered Bonds and Mortgage Banks, the Bank shall, no later than the end of each quarter, as at the last day of the preceding quarter, make available on its website information on the security of covered bonds.

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

For the key register data as at 31 December 2023, refer to the table below:

	31.12.2023
Cover register	

Mortgage-backed debt (PLN million)	2,391.7
T-bonds (PLN million)	30
Amount of surplus in accordance with Article 18(3a) of the Act (PLN thousand)	0
Number of (active) loans	14,833
Average loan amount (PLN thousand)	160
Average maturity (in months)	223
Average LtV (loan value to the mark-to-market value of the real estate)	47,63%
Average LtV (loan value to the banking and lending value of the real estate)	56.14%

7.7 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 banking and 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 Brejdak as the Deputy Cover Pool Monitor.

The Bank shall keep and maintain a cover register, 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 in 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.

7.8 Statutory limits

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

As at 31 December 2023, the statutory limits and their utilisation were the following:

No.	Statutory limit	Statutory limit value	Limit utilisation	Legal grounds
1.	% of debt for which the ratio of a single mortgage-backed loan to the banking and lending value of the real estate is over 100% at the acquisition date	0%	one-off, at the time of acquisition	Article 13.2 of the Act on covered bonds and mortgage banks
2.	Coverage of covered bonds with assets up to 80% of the mortgage lending value (maximum ratio of refinancing of the acquired debt (in part up to 80% of the mortgage lending value) with funds obtained from the issue of covered bonds)	100%	11.18%	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	7.38	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	1.01	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%	605.43%	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%	597.93%	Article 18.1 of the Act on covered bonds and mortgage banks
8.	Minimum ratio of income of the mortgage bank under the mortgage-backed claims and other funds (bonds, cash, cash with the National Bank of Poland, financial hedging instruments) vis-à-vis costs of interest on the traded covered bonds	100%	776.41%	Article 18.2 of the Act on covered bonds and mortgage banks
9.	Coverage of the maximum cumulative net liquidity outflow with the funds specified in paragraph 3 c of Article 18 of the Act on Covered Bonds and Mortgage Banks over the next 180 days		fulfilled	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.

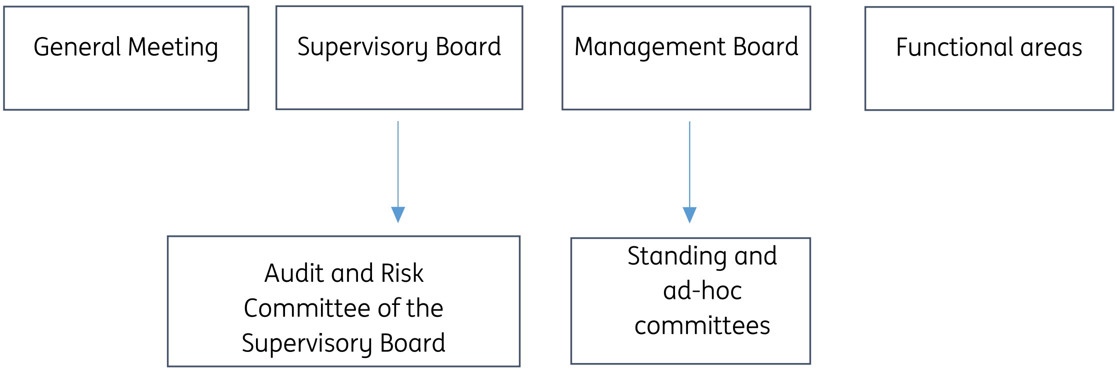
Keeping in mind the prudential approach to management, the Bank carries out coverage and liquidity balance tests, if possible for each business day.

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.

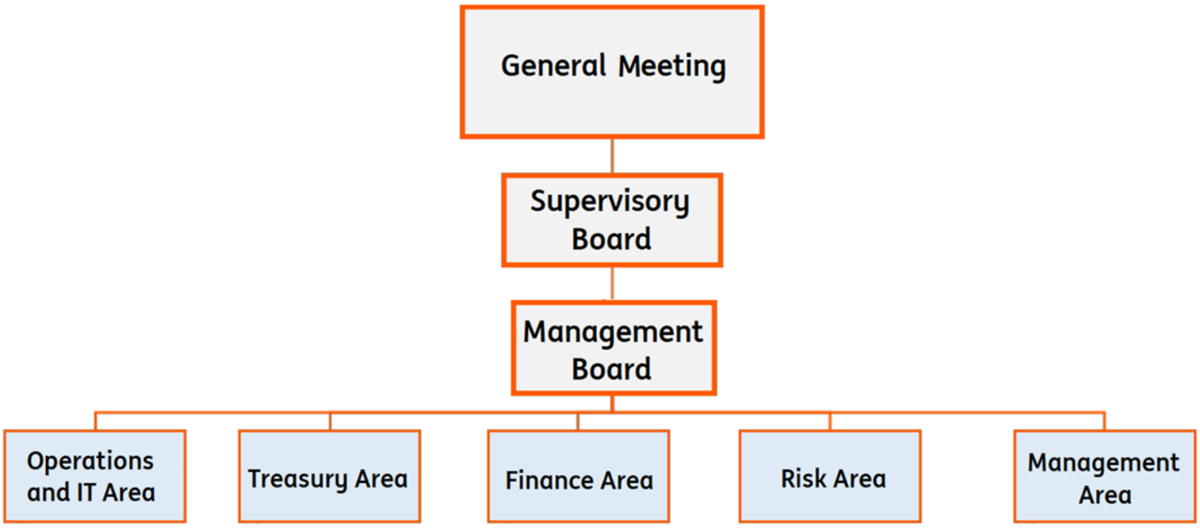
8. Organisational framework and authorities of ING Bank Hipoteczny S.A.

8.1.Organizational framework

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



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



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

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

The authority of the Bank General Meeting is the following:

- review and approval of the Management Bank Report on Bank Operations and the financial statements for the past financial year and acknowledgment of fulfilment of duties by the members of the Bank bodies,
- appointment and recall of Supervisory Board members,
- passing resolutions on the determination of principles of remuneration of the Supervisory Board members and other matters foreseen by the law, Charter or those submitted by the Supervisory Board, Management Board or eligible shareholders,
- passing resolutions on damage claims, for the damages caused upon Bank establishment or exercise of management or supervision,
- determination of the mode of shares redemption and of the fee for the shares redeemed as well as consent to the acquisition of Bank's shares for redemption purposes,
- 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 of an annual written report to the General Meeting on the results of these evaluations, and a written report on the Supervisory Board Operations for the previous financial year (Supervisory Board Report),
- 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,
- appointing and recalling Members of the Management Board, subject to Article 28 of the Charter,
- 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 banking and 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.
- The Supervisory Board's approval is not required to conclude a transaction with the parent company, the value of which, when aggregated with the value of transactions concluded with that company during the financial year, exceeds 10% of the Bank's total assets within the meaning of the accounting regulations, as determined on the basis of the company's last approved financial statements.

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 Bank 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, including an assessment of the adequacy of the internal regulations governing the functioning of the Supervisory Board.
    - 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,
    - principles for restructuring and recovery,
    - 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,
- the amount of write-downs/reserves 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), new Critical and High Risk recommendations identified by the first and second line of defence and changes in dates in case of implementation of recommendations or acceptance of high risk,
    - non-financial risk reports (NFRD included) and recommendation to the Bank Management Board of decisions for material non-financial risk issues,
    - a 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 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,
- reports related to reputational risk, customer complaints and issues relating to conduct risk and compliance risk, reports/documents on non-financial risk events, including lessons learned,
- non-financial risks, with regard to significant changes in the Bank's management structure and significant 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.

8.3 Management Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2023 to 31 December 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
Katarzyna Majchrzak	Vice-President of the Management Board	01.09.2023 - 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 – 31.08.2023

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
Katarzyna Majchrzak	(since 01.09.2023)	Chief Risk Officer
Paweł Serocki	(from 15.11.2022 to 09.02.2023)	Chief Risk Officer
Roman Telepko	(from 09.02.2023 to 31.08.2023)	Vice-President of the Management Board responsible for organisational oversight of the Risk Area

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.

On 31 August 2023, Ms Katarzyna Majchrzak was appointed Vice President of the Management Board of ING Bank Hipoteczny S.A. responsible for the Risk Area from 1 September 2023.

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.
Katarzyna Majchrzak	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.

On 31 August 2023, Mr Roman Telepko tendered his resignation from the Management Board of ING Bank Hipoteczny S.A. and at the same time from the position of Vice-President of the Management Board of ING Bank Hipoteczny S.A. with effect from the end of 31 August 2023.

On 31 August 2023, the Supervisory Board of ING Bank Hipoteczny S.A., appointed Ms Katarzyna Majchrzak to the position of Vice-President of the Management Board of ING Bank Hipoteczny S.A., responsible for overseeing the management of risks material to the Bank's operations, effective 1 September 2023.

Recruitment policy – selection and evaluation of Management Board Members

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

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 and the Policy for the Assessment of the Suitability of Supervisory Board Members, Management Board Members and Key Function Holders*.

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 in the secret ballot, considering the requirements of the Banking Law Act.
- The Bank Management Board consists of at least three members, inclusive of the President and Vice-Presidents. Upon the request of the President of the Management Board, the Supervisory Board may entrust the role of I Vice-President to one of the Vice-Presidents.
- The number of the Management Board Members 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 common term of office that starts from the date of appointment and runs for three full consecutive financial years.
- The President of the Management Board and the Vice-President supervising the management of the risk material to the Bank's business are appointed by the Supervisory Board upon the approval of the Polish Financial Supervision Authority. The earlier appointed Management Board Member may be entrusted with the capacity of the Vice-President referred to hereinabove only upon approval of the Polish Financial Supervision Authority.

Diversity Policy

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

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

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

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

Principles of remuneration of Bank Management Board Members

In December 2023, the Supervisory Board – by way of Resolution No. 74/18/2023 – approved the update of the *Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board*. The Bylaw provides for the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw remains in concordance with the values and long-term interests of ING Bank Śląski S.A. Group, whereby it fosters effective risk management by the Group. The principles of remuneration of Bank Management Board Members are set using the market data. They factor in the knowledge and skills as well as the accountability of and the risk taken by a given function. Each Bank Management Board member made an employment contract with the Bank. The contract reads *inter alia* the terms and conditions of remuneration and the competition ban.

The By-law:

1. is in line with the Bank's strategy, values and risk appetite and therefore also supports the Bank's short-, medium- and 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.

Remuneration of Management Board Members

In 2023, the total amount of emoluments due and paid out by the Bank to the Management Board Members reached PLN 2,499,000. In 2022, these emoluments were at the level of PLN 2,541,300.

Management Board					
2023					
Emoluments due to ING Bank Hipoteczny S.A. Management Board Members in 2023					
		remuneration	awards*	other benefits**	Total
TOTAL	**01.01.2023-31.12.2023**	**1,649,533.60**	**0.00**	**499,431.01**	**2,148,964.61**

*Emoluments of the ING Bank Hipoteczny S.A. Management Board Members for 2023 under the Variable Remuneration Programme have not yet been awarded. In line with the remuneration system of the Bank, Bank Management Board Members may be eligible for a 2023 bonus. The bonus will be paid out in 2024-2030. For that purpose, provisions were formed for the 2023 bonus for Management Board Members. As at 31 December 2023, they totalled PLN 990,105.60. The Bank Supervisory Board will take the final decision on the bonus amount.

**other benefits include: Employee Pension Scheme, healthcare and a company car

Management Board					
2022					
Emoluments due to ING Bank Hipoteczny S.A. Management Board Members in 2022					
		remuneration	awards*	other benefits**	Total
TOTAL	**01.01.2022-31.12.2022**	**1,571,404.86**	**0.00**	**461,064.36**	**2,032,469.22**

*Emoluments of the ING Bank Hipoteczny S.A. Management Board Members for 2022 under the Variable Remuneration Programme have not yet been awarded. In line with the remuneration system of the Bank, Bank Management Board Members may be eligible for a 2022 bonus. The bonus will be paid out in 2023-2029. For that purpose, provisions were formed for the 2022 bonus for Management Board Members. As at 31 December 2022, they totalled PLN 916,049.81. The Bank Supervisory Board will take the final decision on the bonus amount.

**other benefits include: Employee Pension Scheme, healthcare and a company car

Management Board					
2023					
Emoluments paid out to ING Bank Hipoteczny S.A. Management Board Members in 2023					
		remuneration	awards*	other benefits**	Total
TOTAL	**01.01.2023-31.12.2023**	**1,649,533.60**	**350,039.34**	**499,431.01**	**2,499,003.95**

*Bonus under the Variable Remuneration Programme for 2022 non-deferred cash, for 2021 the first tranche of deferred cash, for 2020 the first tranche of deferred cash, for 2019 the second tranche of deferred cash, for 2018 the third tranche of deferred cash and HTM financial instruments for 2021, for 2019 the first tranche of deferred cash, for 2018 the second tranche of deferred cash.

***other benefits include: Employee Pension Scheme, healthcare and a company car*

Management Board					
2022					
Emoluments paid out to ING Bank Hipoteczny S.A. Management Board Members in 2022					
		remuneration	awards*	other benefits**	Total
TOTAL	**01.01.2022-31.12.2022**	**1,571,404.86**	**508,828.14**	**461,064.36**	**2,541,297.36**

*Bonus under the Variable Remuneration Programme for 2021 non-deferred cash, for 2019 the first tranche of deferred cash, for 2018 the second tranche of deferred cash and financial instruments held for 2020, and for 2018 the first tranche of deferred cash.

***other benefits include: Employee Pension Scheme, healthcare and a company car*

8.4 Supervisory Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2023 to 31 December 2023, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function on the Supervisory Board	Appointment date	Independent Member*	Audit and Risk Committee
Bożena Graczyk	Chairwoman	15.06.2021		M

Brunon Bartkiewicz**	Member	26.02.2018		
Joanna Erdman	Member	26.02.2018		
Marcin Giżycki	Deputy Chairman	26.02.2018		
Krzysztof Gmur	Member	26.02.2018	✓	Ch
Jacek Michalski	Secretary	11.09.2018	✓	M

Ch – Committee Chairman, M – Committee Member

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

**/ served as Chairman from 26.02.20218 to 14.06.2021.

The composition of the Supervisory Board did no change in 2023.

In the reporting period, the Supervisory Board had 5 onsite meetings and the Audit and Risk Committee had 6 such meetings. Due to pandemic, the meetings of the Bank bodies are held by means of distance communication.

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. passed resolutions on:

- consideration and approval of the financial statements of ING Bank Hipoteczny S.A. for 2022,
- consideration and approval of the Management Board Report on Operations of ING Bank Hipoteczny S.A. for 2022 inclusive of Statements of the Management Board on observance of corporate governance principles,
- acceptance of the report of the Supervisory Board of ING Bank Hipoteczny S.A. for 2022 and assessment of the functioning of the Remuneration Policy of ING Bank Hipoteczny S.A. in 2022,
- assessment of the adequacy of the internal regulations concerning the functioning of the Supervisory Board of ING Bank Hipoteczny S.A. and its effectiveness,
- acknowledgement of the fulfilment of duties by the members of the Supervisory Board of ING Bank Hipoteczny S.A. in 2022,
- acknowledgement of the fulfilment of duties by the members of the Management Board of ING Bank Hipoteczny S.A. in 2022,

- the method of covering the loss for 2022,
- the method of distribution of retained earnings for 2020 and 2021, subject to the approval of the Polish Financial Supervision Authority,
- the payment of dividend from retained earnings for 2020 and 2021 subject to the approval of the Polish Financial Supervision Authority,
- 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 starting from the new term of office of these bodies and specifying the rules for the exercise of the term of office,
- 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,
- acceptance of the information regarding the adopted amendment to the Bylaw of the Supervisory Board of ING Bank Hipoteczny S.A.

Remuneration of Supervisory Board Members

In 2023, total remuneration (defined as for the Management Board Members) due and paid out by the Bank to the Supervisory Board Members reached PLN 132,000.

Supervisory Board				
2023				
Emoluments due and paid out to ING Bank Hipoteczny S.A. Supervisory Board members in 2023				
	remuneration	Awards	other benefits	Total
TOTAL	**132,000.00**	**0.00**	**0.00**	**132,000.00**

Supervisory Board				
2022				
Emoluments due and paid out to ING Bank Hipoteczny S.A. Supervisory Board members in 2022				
	remuneration	Awards	other benefits	Total
TOTAL	**128,800.00**	**0.00**	**0.00**	**128,800.00**

8.5 Remuneration and human resources management policy

Headcount

As at 31 December 2023, ING Bank Hipoteczny S.A. had 36 employees (35,875 FTEs). This means that the same number of employees worked but there was a decrease of 0.125 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 Bank uses pay grades resulting from a job evaluation process carried out on the basis of an independent objective point-based job valuation method. 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.

For the Management Board Members and the Chief Accountant, the variable remuneration rules for Identified Staff apply in full, namely

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

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

For other Identified Staff, a limited variable remuneration policy applies

- the variable remuneration is payable entirely in cash.
- the deferral rule does not apply to variable remuneration.

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

On 8 December 2023, the Bank Supervisory Board – by way of Resolution No. 74/28/2023 – approved amendments to the *Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board*. The Bylaw contains the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw remains in concordance with the values and long-term interests of ING Bank Śląski S.A. Group, whereby it fosters effective risk management by the Group. It is also in line with the Bank's strategy, values and risk appetite and therefore also supports the Bank's short-, medium- and long-term interests, The By-law promotes and supports an effective risk management process to maintain and protect the Bank's secure capital base.

Its stipulations do not encourage taking excessive risk beyond the risk appetite accepted by the Bank Supervisory Board,

The By-law is based on performance management, which is a key business process that links individual objectives with long-term business strategy and ensures stable growth,

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

The remuneration package of the Management Board Member covers:

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

The elements of remuneration and other benefits for Bank Management Board Members in the reporting period were described in the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2023 to 31 December 2023.

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 2023 item 2488),
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 31 December 2023, the Variable Remuneration Policy for Identified Staff applied to 6 Supervisory Board Members, 3 Management Board Members and 7 jobs included in 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;
  f. development or implementation of the remuneration policy;
  g. information technology;
  h. information security;
  i. 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.

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

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

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

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

In 2023, the Bank applied the principle of deferral of variable remuneration, subject to the amount of variable remuneration that was not subject to deferral, i.e. up to PLN 40,000 or 10% of the annual total remuneration of an employee who is an Identified Staff.

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

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

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

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

By verifying performance assessment, one may determine whether there occurred some conditions necessitating performance re- assessment, considering the results of given Identified Staff – and, accordingly, the conditions providing for variable remuneration decrease or freeze. This applies in particular to the situation where employee behaviour results n 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. the occurrence of events that result in the Bank's breach, or threaten the Bank's breach, of the standards set out in Article 142 Section 1 of the Banking Law so that it is necessary to implement 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. In the settlement period, no employee of ING Bank Hipoteczny S.A. earned the remuneration of at least EUR 1 million.

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.

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.

9. Corporate governance and information for investors

9.1 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.

Upon the implementation of the Principles of 15 April 2019 by the Bank, a gap analysis was performed to identify any areas requiring adaptive measures. Furthermore, the application of the Principles by the Bank is independently reviewed by the Compliance function. The review conducted in February 2023 (for 2022) found out that the actions identified in the 2022 review had been implemented. In 2022, no cases of non-compliance with the Principles were identified. The corporate governance assessment for 2023 was conducted in March 2024. It did not identify any gaps or irregularities. As a result of the assessment of the application of the individual Principles, the qualification of the application of the Principles was changed:

- *§ 28.3. The supervisory authority prepares and presents to the governing body once a year an evaluation report on the functioning of the remuneration policy at the regulated institution.*
- *§ 28.4. The governing body shall assess whether the established remuneration policy is conducive to the development and safe operation of the regulated institution.*
- *§ 36.1. A regulated institution should endeavour to ensure that the financial products or services offered are appropriate to the needs of the customers to whom they are directed.*
- *§ 36.2. At the stage of presenting the nature and design of a recommended financial product or service, regulated institutions and entities cooperating with them should take into account the needs referred to in paragraph 1, in particular as regards the individual situation of the customer, including knowledge and experience in the financial market, and where justified, the desired duration of the investment and the level of risk acceptance.*

The assessment concluded that, according to the current interpretation, they are applicable to the Bank's activities. For all principles indicated, the Bank fulfils the requirements indicated in the description and there are no gaps. The completed assessment will be presented to the Management Board and Supervisory Board for approval.

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 stipulated therein apply to any and all employee activities related to performance of their professional duties. Some of the said rules may apply to the private activities of employees which may negatively affect Bank's reputation or give rise to a conflict of interest. In connection with the implementation of Recommendation Z of the Polish Financial Supervision Authority in the Bank, the Regulations were updated by including the principles of risk culture, as well as the annual assessment of employees' compliance with the business ethics standards. (the last assessment of the Employee

Business Ethics Standards was carried out in 2023 and was scored highly). The Regulations were also subject to review and update in April 2023. The next review of the Regulations is scheduled for 2Q2024.

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 regulatory fines, litigation losses, reputational damage due to incomplete, inaccurate and/or delayed reporting caused by *non-compliance with regulatory reporting requirements and IFRS accounting principles to present a fair picture, including appropriate disclosure;*
- Risk of financial loss, regulatory fines, reputational damage as a result of false reporting due to *failure to implement controls to prevent deliberate misstatement in regulatory and financial reporting;*
- 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 BH 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.

9.2 Auditing firm – audit of the financial statements

Selection of the auditing firm

The auditing firm to audit the separate and consolidated financial statements for 2023 was selected in accordance with the applicable regulations, inclusive of the regulations on selection of the auditing firm and auditing firm selection procedure.

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.

The independent chartered auditor of financial statements is selected by the Bank Supervisory Board on the basis of the recommendation provided by the Audit and Risk Committee.

The main assumptions of the developed *Policy on selection of the auditing firm to audit the financial statements, assessment of its independence and provision of other permitted services at ING Bank Hipoteczny S.A.:*

- The Audit and Risk Committee take a decision as regards granting consent to hire a statutory auditor (auditing firm carrying out the audit, an entity related thereto and by a member of the auditing firm network) to provide the permitted services, other than the audit, by them,
- the permitted services may be provided only within the scope other than the tax policy of the bank, after the Audit and Risk Committee assess the threats to and safeguards for independence of the statutory auditor and auditing firm,
- independence of the statutory auditor or of the auditing firm is verified and monitored throughout the process of selection of the auditing firm to carry out the audit of the financial statements,

Making the final decision on selection of the auditing firm, or preparing the recommendations, the Supervisory Board or the Audit and Risk Committee, respectively, bear in mind the following transparent and non-discriminating selection criteria that are applied by the bank to appraise the tenders submitted by the auditing firms:

- assessment of independence of the auditing firm to carry out the audit already at the selection stage,
- potential to provide all the services specified by the bank (audit of the separate financial statements, reviews, etc.),
- track record of the auditing firm as regards audit of financial statements of the entities of the business profile similar to the bank's,
- track record of the auditing firm as regards audit of financial statements of the public interest entities from the banking sector,
- professional qualifications, experience adequate for performance of auditing activities, and the number of persons directly involved in the audit carried out at the bank,
- audit pricing conditions offered by the auditing firm,
- commitment to ensuring the quality of the audit as required by the relevant professional standards.

On 11 January 2024, the Bank Supervisory Board selected Mazars Audyt Spółka z ograniczoną odpowiedzialnością, based in Warsaw, as the entity authorised to audit the Bank's financial statements for the years 2023 -2025 and to review the Bank's financial statements for the years 2024-2025. The selection was made on the basis of the recommendation of the Audit and Risk Committee, which was made following a selection procedure organised by the Bank that met the applicable criteria. The selection was made on the basis of the two bids submitted and the recommendation of the Audit and Risk Committee met the applicable conditions, with the proviso that, in the case of the selection of one of the bids, the Committee's recommendation included a condition for the bidder to complete the bid in accordance with the requirements contained in the request for proposals and a positive result of the Bank's verification of the completeness of the list of required consents and declarations presented in the completed bid.

The contract for the audit of the financial statements for 2023-2025 and the review of the Bank's financial statements for 2024-2025, between the bank and Mazars Audyt spółka z ograniczoną odpowiedzialnością, was signed on 15 January 2024. The audit for 2023 is the first year of cooperation with Mazars Audyt spółka z ograniczoną odpowiedzialnością (in previous years the bank did not use the services of the selected auditing firm).

According to the statement provided, the auditing firm Mazars Audyt spółka z ograniczoną odpowiedzialnością and members of the auditing team met the prerequisites to issue an impartial and independent audit report from the audit of the annual financial statements in line with the applicable regulations as well as professional and business ethics standards.

The auditor of the consolidated financial statements for the years 2023-2025 of the parent company ING Bank Śląski S.A. is Mazars Audyt spółka z o.o., while that of the ultimate parent company (ING Groep N.V.) is KPMG Accountants N.V..

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. Under current law, the maximum continuous period of employment of the same auditing firm may not exceed 10 years.

Termination of contract with auditing firm

On 20 December 2023, after 5 years of auditing the bank's financial statements, the bank terminated by mutual agreement the audit services agreement with the auditing firm BDO Spółka z ograniczoną odpowiedzialnością sp. k., covering the review and audit of the bank's financial statements for the periods 1 January 2022 to 31 December 2022 and 1 January 2023 to 31 December 2023, in respect of the audit of the statutory financial statements for the financial year 2023.

The reason for the termination of the Agreement was the risk that the services provided in the third quarter of 2023 by a company from the network to which BDO belongs, to a branch of the bank's parent company, i.e.: ING Bank N.V. Sydney Branch, could be qualified as prohibited within the meaning of Article 5 of EU Regulation 537/2014 of 16 April 2014 on specific requirements for statutory audits of public-interest entities, with the consequence that, in connection with Article 66(6) of the Accounting Act, BDO's audit of the bank's statutory financial statements for 2023 would be at risk of being invalid. Furthermore, the services in question were not authorised by the Audit and Risk Committee. The above-mentioned circumstances and the resulting termination of the Agreement occurred prior to the completion of the audit of the bank's statutory financial statements for the current financial year. The decision to terminate the Agreement on the part of the bank was taken by the Bank Management Board on the basis of the decision of the Audit and Risk Committee and the positive opinion of the Bank Supervisory Board.

Remuneration of the auditing firm (gross)

		data in PLN thousand
	period **from 01.01.2023 until 31.12.2023**	period **as of 01.01.2022 until 31.12.2022**
Audit of annual financial statements	194.3[1)]	147.6[2)]
Review of interim financial statements	49.2[2)]	49.2[2)]
Comfort Letter	0.0	0.0
Other	0.0	0.0
TOTAL	**243.5**	**196.8**

[1)]Remuneration to Mazars Audyt Spółka z ograniczoną odpowiedzialnością (remuneration does not include: supervision fee (in the amount resulting from the Act on Statutory Auditors, Auditing Firms and Public Supervision), and reimbursement of additional costs related to the performance of services - a limit of 3% of the remuneration for the audit of the annual financial statements)
[2)]Remuneration to BDO Spółka z ograniczoną odpowiedzialnością Sp. komandytowa

In 2023, the auditing firm Mazars Audyt Spółka z ograniczoną odpowiedzialnością, which audits the bank's financial statements, did not provide non-audit services.

9.3 Other information

Bank Charter Amendment Procedure

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

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

The District Court Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, after prior approval by the Polish Financial Supervision Authority of the Bank's adoption of the amendments, registered the amendments to the Bank's Charter. The registered amendments related to:

1. reduction of the term of office of the Management Board and Supervisory Board from 5 to 3 years, starting from the new term of office of these bodies, and clarification of the rules for the exercise of the term of office as a joint term of office and covering full financial years.

2. adjustment of the provisions of the Charter to the amended Commercial Companies and Partnerships Code and the Act on Covered Bonds and Mortgage Banks, in particular by:
   - extension of the Bank's foreign exchange and interest rate risk mitigation activities to include the power to enter into derivative contracts,
   - regulation of the powers of the Chairman of the Supervisory Board and the rules of his/her substiuion
   - introduction of the principle that the Supervisory Board's consent is not required for the conclusion of a transaction with the parent company, the value of which, when aggregated with the value of transactions concluded with that company during the financial year, exceeds 10% of the Bank's total assets within the meaning of the accounting regulations, as determined on the basis of the company's last approved financial statements
   - deletion of the powers of the Management Board Members to submit independent requests for disclosure of information relating to the registration of mortgage-backed claims in the cover register submitted in proceedings before the land and mortgage register courts, as this obligation is no longer binding.

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.,
- Future Credit Moratoria,
- 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,
- 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 31 December 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 31 December 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

On 13 December 2023, the Bank signed with ING Bank Śląski S.A. another amendment (No. 9) to Loan Agreement 1 dated 31 January 2019. The amendment sets the expiry date for 30 November 2034.

On 13 December 2023, the Bank signed further annexes with ING Bank Śląski S.A. to Loan Agreement 3 and to the Framework Agreement (Guarantee) both dated 14 December 2020. The amendment concerned the setting of the Availability Period to 14 December 2024.

On 14 December 2023, Loan Agreement 2, dated 14 December 2020, expired.

The Bank used the amount of PLN 2.921 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.

Significant events after the reporting period

Signing of a contract with auditing firm

On 15 January 2024, the Bank entered into an audit services agreement, including the audit of the statutory financial statements of ING Bank Hipoteczny S.A. for 2023, with Mazars Audyt Spółka z ograniczoną odpowiedzialnością based in Warsaw.

Signing of the Final Loan Agreement with ING Bank Śląski S.A.

On 12 February 2024, the Bank signed a Final Loan Agreement with ING Bank Śląski allowing for a commitment of up to PLN 1.0 billion under an unconditional credit line. The availability date of the line is until 14 December 2026 and the maximum utilisation period is 2 years.

On 3 April 2024, the Bank got PFSA's approval to include undrawn funds under the loan agreement as liquidity inflows in the LCR measurement.

Individual recommendation of the Polish Financial Supervision Authority on meeting the criteria for dividend payout from net profit for 2023

On 22 February 2024, the Bank received a letter from the Polish Financial Supervision Authority (PFSA), in which the PFSA indicated that the Bank meets the requirements to pay dividends at a level of up to 75% of the net profit for 2023, with the maximum payment amount not exceeding the amount of the annual profit less the profit earned in 2023 already included into own funds. The Bank did not count profits during 2023 as own funds, and therefore the maximum dividend amount from 2023 profit for the Bank is 75%. At the same time, the PFSA recommended mitigating the inherent risk of the Bank by not taking, without prior consultation with the supervisory authority, other actions, in particular those outside the scope of current business and operational activities, which could lead to lowering the Bank's own funds, including possible dividend payout from undivided profit from previous years and repurchase or buy-back of own shares.

It is the intention of the Bank Management Board to recommend to the General Meeting a resolution to allocate approximately 75% of the Bank's separate profit for 2023 to the payment of dividends.

Purchase of mortgage debt claims portfolio

Under the Debt Transfer Agreement to Issue Covered Bonds No. 15 that was signed with ING Bank Śląski S.A. on 11 April 2024, ING Bank Hipoteczny S.A acquired another mortgage-backed housing loans debt claims portfolio for the total amount of PLN 365.2 million.

Likely extension of credit moratoria to 2024

On 12 March 2024, the Government Bill amending the Act on support for borrowers who have taken out a housing loan and are in a difficult financial situation and the Act on crowdfunding for business ventures and assistance to borrowers was submitted to the Sejm. The legislative proposal provided for the possibility of suspending 4 loan instalments in 2024 and would cover borrowers for whom the instalment-to-income ratio exceeds 30%.

The Sejm passed a resolution to this effect on 12 April 2024, the bill will be debated by the Senate on 18 or 19 April 2024, i.e. after the date of signing and before the publication date of this report. The Bank plans to make a disclosure of the impact of the law on the Bank's results in the form of a current report when the law is signed by the President.

10. 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 31 December 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 31 December 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 31 December 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

18.04.2024	Jacek Frejlich	President of the Management Board	signed with qualified electronic signature
18.04.2024	Marek Byczek	Vice-President of the Management Board	signed with qualified electronic signature
18.04.2024	Katarzyna Majchrzak	Vice-President of the Management Board	signed with qualified electronic signature