

**Evaluation of operations of ING Bank Hipoteczny S.A. in 2021
prepared by the Supervisory Board taking into account the
evaluation of internal control systems, risk management,
compliance and internal audit function**



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

As at 31 December 2021, the share capital of ING Bank Hipoteczny S.A. amounted to PLN 380,000,000.00 and was fully taken up by ING Bank Śląski S.A. ING Bank Hipoteczny S.A.'s shares were paid in cash.

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

Business landscape

According to the data published by the National Bank of Poland on November 30, 2021, banks' receivables under housing loans in Poland amounted to PLN 503.5 billion and increased by 6.6% y/y, including the total value of housing loans at the end of the above-mentioned period granted in PLN amounted to PLN 399.7 billion, recording an increase by 12.7% y/y.

Capital Group of ING Bank Śląski S.A. has a 13.5% share in the PLN mortgage loan market and a 10.8% share in total mortgage loans (Q4 2021).

Operations of ING Bank Hipoteczny S.A.

In 2021, the Bank saw the continuation of the impact of the SARS-CoV-2 pandemic. The above impact concerned not only the financial sector, but also the entire economy, which is additionally subjected to a significant test as a result of the events taking place east of the Polish border. As a result of rising inflation, there was also an upward trend in interest rates at the end of the reporting year. Against the background of the changes, the Bank shows a very good liquidity and capital position, significantly exceeding the required regulatory levels. The Bank's goal is to continue activities aimed at acquiring and then gradually increasing the share of long-term financing through the issue of covered bonds. However, the above actions must be adapted to the external situation and market opportunities. Changes taking place on the market as a result of external factors are analysed by the Bank's Management Board on an ongoing basis. This also applies to the covered bond market and changes in the regulatory and economic environment, as well as the situation of customers. In the past reporting period, the Bank acquired a mortgage loan portfolio of over PLN 0.7 billion. As a continuation of activities aimed at diversifying the sources of financing, in 2021 the Bank carried out further issues of own bonds in the total amount of PLN 654 million. In the reporting year, in line with the S recommendation, and in order to mitigate the floating interest rate risk, the Bank introduced a fixed interest rate product in its offer in the middle of the year, thus enabling its existing clients with a floating rate loan to convert.

The Supervisory Board supervises the Bank's operations, ensuring compliance with relevant legal regulations, in particular those concerning accounting, finance and reporting. The duties of the Supervisory Board also include supervision over processes related to management of particular risks in ING Bank Hipoteczny S.A. with the support of the Audit and Risk Committee. Based on the Committee's recommendations, the Supervisory Board accept and approve the risk management strategy in the Bank's operations, the main principles of the policy in this respect as well as the risk appetite level. Further, the Supervisory Board monitors the utilisation of internal limits vis-à-vis the current strategy of the Bank. The Audit and Risk Committee provides support to the Supervisory Board in monitoring the risk management process, including operational risk, non-compliance, credit risk and market risk. The Committee also supervises: the process of internal capital estimation, capital adequacy assessment and risk assessment of models related to calculation of capital and other models. The Committee voices its opinion about the overall readiness of the Bank to take the risk in the current and long term perspective.

Similarly, it is the Committee's task to monitor the financial reporting process. In this context, the Committee analyses from time to time the Bank's financial statements and the results of the audit of those statements. The Audit and Risk Committee also analyses the results of the work of the entity authorized to audit financial statements, ensuring its independence and effectiveness. Moreover, the Committee monitors the effectiveness of internal control and internal audit systems and assesses the effectiveness of measures taken to mitigate compliance risk and assesses the quality of compliance risk management.

In the opinion of the Supervisory Board, the risk management system in ING Bank Hipoteczny S.A. covers all material risks and the processes of their identification, measurement, management and reporting use instruments and techniques appropriate to a given type of risk.

In 2021, ING Bank Hipoteczny S.A. satisfied the requirements of safe operation and capital adequacy, in particular:

- pursued a prudent credit policy - the Bank had only loans in Polish zlotys (PLN) in its portfolio. Credit processes and procedures were in line with regulatory requirements and with the best practices in the market. From July 2021, the Bank has enabled customers to convert the interest rate from a variable to a fixed interest rate. The bank had a diversified loan portfolio of very good quality. The share of non-performing loans at the end of 2021 was significantly less than the average for the entire banking sector. Throughout 2021 the designated limits for credit risk were not exceeded;
- had policies and systems in the area of market risk management that meet market standards. Throughout 2021, the level of market risk was well below regulatory and internal limits;
- maintained a stable liquidity position. In 2021, the supervisory liquidity measures were above the regulatory limits - the results of the stress tests show a good liquidity position of the Bank;
- actively managed and maintained the level of non-financial risk, risk of the models, within the limits of the risk appetite, meeting market standards in this respect;
- had an adequate level of equity to meet supervisory requirements.

ING Bank Hipoteczny S.A. has an efficient Internal Control System covering all organisational units of the Bank and all three lines of defence. The main objectives of the Internal Control System were achieved in 2021.

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

In the Compliance Unit area, adequate human resources necessary for the effective performance of tasks by this unit in 2021 were ensured. In the area of activities of the Internal Audit, employment was increased to two people, in line with the PFSA post-inspection recommendation. Also, the post-inspection recommendation regarding the division of competences of Management Board members was implemented and closed in 2021.

In 2021, no other gaps in the independence and resources of the Compliance Unit and Internal Audit Position were identified.

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

In December 2021, the total capital ratio of ING Bank Hipoteczny S.A. was at the level of 30.43%.

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

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

In the opinion of the Supervisory Board, the current strategy of increasing the scale of operations, while maintaining the Bank's conservative and safe approach, which takes into account the current analysis of the external situation, builds good foundations for the stable development of the Bank and its generation of good financial results in subsequent reporting periods.

In 2022, the Bank will keep on following the adopted strategy while maintaining adequate capital base in relation to the planned increase in the volume of mortgage loans.