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

for the period
from 1 January 2022 to 31 December 2022

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1. Letter from the Supervisory Board Chairwoman

Dear Sirs/Madams

In 2022, we hoped for a return to a normal economic situation, following the disruption caused by the COVID-19 pandemic. Ultimately, economic conditions and the conduct of business proved even less predictable and stable last year. This was due to the Russian invasion of Ukraine, high inflation and interest rates, as well as rising energy prices.

Skyrocketing inflation was a particularly negative factor. In October, it reached a record high of 17.9%, while the average for the year was 14.4%. In order to bring inflation growth to a halt, the Monetary Policy Council continued in 2022 the cycle of the started interest rate increases, raising the benchmark to its highest level in 20 years, or to 6.75%. The National Bank of Poland's rates were followed by the WIBOR 6M benchmark, which exceeded 7% during the year.

The unfavourable economic trends affected both our customers and businesses entities. The banking sector additionally faced challenges related to the changing legal and regulatory environment, which was directly reflected in a deterioration of the banks' performance. A significant regulatory event that took a toll on ING Bank Hipoteczny's performance was the government's universal credit holiday programme. The above programme caused the Bank to close the year 2022 with a net loss of PLN 46 million. Keeping in mind these developments, the Bank shows a very good liquidity and capital position, exceeding the required regulatory levels by far. At the end of 2022, the total capital ratio stood at 36.06%. The covered bonds issued by the Bank are characterised by a high level of safety, reflected in a rating of Aa1.

Despite a number of unfavourable external factors, ING Bank Hipoteczny continued to pursue its business strategy, focusing on the preparation of debt portfolio acquisitions as collateral for future covered bond issues and implementing borrower support solutions in cooperation with the Group. At the same time, the Bank continued its efforts to maintain diversified sources of funding by issuing own bonds of the total nominal value of approximately PLN 0.4 billion.

Social issues are always at the heart of ING Group's attention. In 2022, Russia's brutal aggression against Ukraine triggered a huge wave of aid to our neighbours. Since the first days of the war, ING Group, ING Bank Hipoteczny included, have been involved in various activities for Ukraine and have provided assistance to refugees in Poland.

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 2022 to 31 December 2022, there were 6 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 legal regulations, resolutions and recommendations of the financial supervisory authority, conducted also ongoing monitoring of the market risk management area, liquidity and capital adequacy.

Yours faithfully,
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 2022.

The reporting year was full of challenges. The Polish economy and the financial sector had to cope with further unfavourable developments, such as the ongoing war in Poland's neighbouring country, the energy crisis, high inflation and interest rates.

Despite another year of operating in an unfavourable external economic environment, observed changes in macroeconomic indicators and regulatory challenges, the Bank's situation is stable. The Bank has strong footing and is in a very good position in terms of liquidity and capital. Capital and liquidity ratios are at safe levels, well above the standards required by the regulator.

The very good quality of the Bank's lending portfolio and the level of over-securitisation, which far exceeds regulatory requirements, is reflected in a consistently high level of safety of the covered bonds issued by the Bank. The said safety is reflected in the rating of the Bank's covered bonds by Moody's Investors Service Ltd, which is Aa1. This is also the highest possible rating for Polish covered bond programmes.

The Bank faced significant challenges in 2022 as a result of changing market conditions and altering regulatory environment. The Act on crowdfunding for business ventures and assistance to borrowers, which introduced 'credit holidays' for borrowers with mortgages, had a negative impact on the Bank's core business performance and caused us to close the year 2022 with a net loss of PLN 46 million. The generated one-off loss related to the entry into force of the 'credit holidays' was simultaneously reflected in reduced own funds. The Bank has already reported on the negative effects of the above event in its interim financial statements. In the Management Board's opinion, keeping in mind, among other things, the above-mentioned solid capital base, this event, which is of an external nature and beyond the Bank's control, does not affect the possible continuation of the Bank's operating strategy.

Due to rising inflation and measures taken by the MPC to curb it, the year under review was characterised by an upward trend in interest rates, which in the perspective of the current and subsequent periods means an increase in the level of principal and interest instalments repaid by customers holding a loan. On an ongoing basis, the Bank analysed the risks associated with a potential increase in delays in loan repayments, and the level of use of "credit holidays" by customers, as well as the impact of the above factors on the security of issued covered bonds. It also analysed the potential decline in property prices.

In 2022, the Bank continued to operate based on the cooperation model with ING Bank Śląski, implementing solutions for our customers that are consistent across the ING Bank Śląski Group. Given the Bank's business model 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.

In the fourth quarter of 2022, the Bank was working towards another mortgage debt portfolio acquisition of more than PLN 0.6 billion, which was completed in the first quarter of 2023, increasing at the same time the basis for planned future covered bond issues. During the reporting period, the Bank also continued its efforts to maintain diversified sources of funding by issuing own bonds of the total nominal value of PLN 0.4 billion.

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 S.A. is a subsidiary of ING Bank Śląski S.A. which as at 31 December 2022 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 2022, the share capital of ING Bank Hipoteczny S.A. amounted to PLN 380,000,000 and was fully taken up by ING Bank Śląski S.A. ING Bank Hipoteczny S.A.'s shares were paid in cash.

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

The Bank continuously monitors the development of events related to the ongoing armed conflict in Ukraine and analyses its impact both on the macroeconomic environment and on the Bank itself. In 2022, the Bank's operating, business and financial activities were still influenced by the COVID-19 epidemic. The direct impact of the aforementioned factors may translate into credit, market, liquidity and operational risks in the future. The Polish and global economy are in the period of uncertainty, and state institutions take a number of steps and offer aid programmes to limit the recession. Throughout 2022, the Bank monitored, among other things, the number and volume of loans for which borrowers requested a suspension of the execution of the loan agreement (so-called "statutory holidays") or a suspension of instalment payments (so-called "credit holidays"), as well as monitored the impact of the solutions offered to customers on issues related to securing the issue of covered bonds, the cost of risk and the Bank's result. The Bank also analyses the market situation regarding covered bonds and changes in the regulatory and economic environment on an ongoing basis. Moreover, it is monitored all the time whether the suppliers are able to provide services.

Having identified the risk relating to COVID-19 pandemic, the Bank took all measures to maintain operational continuity, ongoing customer service included. Preventive measures were also taken to protect employees' health by introducing, for instance, remote working. The Bank's standing is good in terms of its liquidity and capital position. In fact, it significantly exceeds the required regulatory levels.

In 2022, the Bank did not record a major deterioration in portfolio quality.

The further development of the situation and its impact on the Bank's operations is difficult to assess at this point in time due to the observed dynamics of change in the external environment. Thus, the Bank continues its monitoring and analysis processes on an ongoing basis.

4. Business landscape

4.1 Macroeconomic environment

Gross Domestic Product

Preliminary data from the Central Statistical Office (CSO) indicate economic growth in 2022 at 4.9%, following a 6.8% increase in Gross Domestic Product (GDP) in 2021. The increase in private consumption (3.0 p.p.) and the rebound in investment (4.6 p.p.) were followed by a high contribution to GDP growth from the change in inventories (2.9 p.p.) and a negative contribution from net exports (-0.4 p.p.).

Over the year, GDP growth declined significantly, from 8.6% in the first quarter to 2.0% in the final quarter. The worsening market outlook was linked to, among other things, higher uncertainty and the energy crisis triggered by Russia's invasion of Ukraine. According to ING economists, deteriorating global economic growth prospects, including in Poland's main export markets, will contribute to Poland's GDP growth slowing to around 1.5% in 2023. Higher inflation in 2023 will have a negative effect on real disposable income of households and, consequently, private consumption.

According to the CSO's preliminary estimate, GDP increased by 2.0% in the last quarter of 2022. Based on data for the whole of 2022 and previously published data for the first three quarters of 2022, ING economists estimate that private consumption declined by around 1.5% y/y in the last quarter, while investment grew by more than 5% y/y. Around 1.5 p.p. of the GDP growth in 4Q2022 can be attributed to a change in inventories. Whereas, foreign trade underpinned annual GDP growth in the final quarter of 2022 by around 0.9 p.p.

According to the Bank's economists, the economic situation worsened towards the end of 2022 and the beginning of 2023 will be challenging for the Polish economy, but the outlook for the rest of the year is improving due to the less-than-feared scale of the energy crisis in Europe.

Significant monetary tightening but loose fiscal policy

The increase in commodity prices, particularly energy prices, observed since autumn 2021, was reinforced by Russian aggression against Ukraine and the imposition of sanctions on Russia, which led to an energy crisis and an increase in energy prices on a scale not seen globally since the 1970s. The economy entered 2022 buoyant, with consumer demand from Ukrainian refugees and improvements in supply chains supporting the economy. At the same time, the supply shock triggered a wave of price increases not only for energy, but also for other goods and services, as companies were forced to reflect higher costs in the prices of their products and services. Against a backdrop of high uncertainty, concerns about the availability of gas for European industry and the erosion of consumer purchasing power through high price rises, the economy deteriorated steadily through 2022. Wage growth no longer kept pace with price increases, which was reflected in a decline in real wages from the middle of 2022 onwards.

Dynamically rising inflation triggered a series of interest rate rises by the National Bank of Poland (NBP) and an increase in the reference rate from 1.75% as at the end of 2021 to 6.75% as at the end of 2022. The tightening of monetary policy was accompanied by a loosening of fiscal policy. Although budget revenues benefited from high inflation, at the same time the state budget allocated significant resources to mitigate the impact of rising prices on households. As part of the so-called 'anti-inflation shield', VAT and excise duties on fuel, electricity, natural gas and food, among others, were temporarily reduced. From the beginning of 2022, the income tax threshold increased, and from the middle of the year the first PIT rate was reduced from 17% to 12%. This was accompanied by significant social spending, including one-off additional pension payments, and support provided to households and small and medium-sized enterprises in relation to the increases in the energy prices.

ING economists expect markedly slower economic growth in 2023 to be accompanied by continued increased inflation, including high core inflation. Under such circumstances, the Monetary Policy Council (MPC) will maintain the NBP interest rates at the current level at least by the end of 2023. Signals from the monetary authorities indicate that monetary policy is focused on lowering inflation and supporting economic growth, rather than just bringing inflation down to the NBP target of 2.5% (+/- 1 p.p.) as quickly as possible. 2023 will continue to be a period of higher risks for inflation, with China's abrupt departure from its zero-covid policy likely to lead to increases in global prices for some commodities, limiting the pace of inflation decline.

International business landscape

After a post-pandemic rebound in 2021, the global economy returned to long-term growth the following year. The Russian invasion of Ukraine in February 2022 and the need for financial and economic sanctions on Russia triggered another wave of international trade disruption and an energy crisis, particularly in the European natural gas and electricity markets, with negative consequences for GDP growth and inflation. In turn, the continuation of China's zero-covid policy almost until the end of 2022, had a downward effect on the country's GDP growth rate. In its January 2023 round of forecasts, the International Monetary Fund (IMF) predicts that global economic growth will slow down to 2.9% in 2023 from 3.4% in 2022 and 6.2% in 2021. With the reopening of the Chinese economy after the pandemic, economic growth in China is expected to accelerate to 5.2% in 2023 from 3.0% in 2022. In 2022, in a difficult international environment, economic growth in the US slowed down to 2.0% from 5.9% in 2021, thanks to a strong labour market. In 2023, the IMF forecasts growth of 1.4%. In the eurozone, there was a faster-than-expected adjustment to high energy prices and growth slowed down to 3.5% in 2022 from 5.3% a year earlier, with stagnation and 0.7% growth, but not recession, possible in 2023.

Against the backdrop of reduced gas supplies from Russia, as recently as mid-2022 there were serious concerns about the impact of exceptionally high energy prices and the risk of energy shortages during the heating season. While accelerating inflation had already become a key concern in the global economy by mid-2021, energy commodity price increases following the outbreak of war in Ukraine had further pushed up producer and consumer prices. Restricted agricultural exports from Ukraine have also boosted global food prices. The rate of inflation recorded in the US (over 9% annualised at its peak in June 2022) was the highest in 40 years, and double-digit inflation in the euro area (10.6% in October 2022) was the highest since the introduction of the European single currency, more than 20 years ago. In both economic areas, high inflation was linked to a tight labour market and approaching full employment, but in the euro area, a net importer of energy, inflation was driven more strongly than in the US by record prices for energy commodities, particularly natural gas. The situation in the European energy market began to stabilise after public intervention by the European Commission and EU governments in September 2022 (price caps and energy demand reduction measures), the exceptionally warm winter in Europe and significantly lower demand for gas also had a significant impact on energy market prices.

The powerful energy shock has over time started to reverberate in the form of so-called secondary effects in the prices of goods and services, not directly related to energy or food, as illustrated by changes in core inflation. Inflationary pressures and the risk of unanchoring inflation expectations forced a response from the major central banks. The response from the

Fed has been more decisive than the ECB. From March 2022, the Fed extinguished its quantitative easing programme and began a cycle of strong interest rate rises from 0.25% in February 2022. By the end of 2022, the Fed's main rate was raised to 4.5%. ING Group economists expect a hike in 2023 and the end of the monetary tightening cycle. In late 2022 and early 2023, Fed communication has focused on maintaining a tight monetary policy stance, in contrast to expectations and MtM valuations of financial instruments. Market participants expect the Fed to move relatively quickly to rate cuts of around 50 bps later in 2H2023 and another 75-100 bps in 2024. This expectation stems from the pronounced disinflation of the core consumer price index and core inflation in late 2022 and the increasing likelihood of a US recession in 2023, mainly due to the collapse of new housing investment. From around mid-October 2022 to early 2023, yields on 10-year Treasuries remain in a downward trend. The strengthening of bonds during this period was accompanied by pressure for a gradual weakening of the dollar against the euro.

The ECB started its monetary tightening cycle a few months later than the Fed and the first 50 bps hike took place in July 2022, after almost 3 years of keeping interest rates unchanged at 0% (the refinancing rate). By the end of 2022, the ECB had made 3 further increases to 2.5% in December. At the same time, ECB President Christine Lagarde announced further increases of 50 bps at the next ECB Governing Council meetings in 2023 and a determination at the ECB to bring inflation down to the 2% medium-term objective. Against the backdrop of economic stagnation in the euro area in 4Q2022 and the significant risk of a technical recession in mid-2023, as well as falling gas prices due to, among other things, an exceptionally mild winter in Europe, the ECB's commitments to further monetary tightening in 2023 have not been fully reflected in the valuations of market instruments. While market participants expect ECB rates to rise by another 100 bps in the first half of 2023, reductions of around 75 bps in total are priced in for 2024.

A further gradual weakening of the dollar against the euro could create room for a slight strengthening of the zloty and other currencies in the region. Poland and Hungary - as of the beginning of 2023 - have still not triggered the payment of EU funds from their national recovery plans (NRPs), which would enable them to support green and digital transformation processes and increase the resilience of health care services. The continuing legal dispute over the rule of law is a constraint on the appreciation of the zloty and hinders the reduction of inflation. Although Poland's money market instruments point to NBP rate cuts in 2H2023, ING economists believe there will be no room for interest rate cuts in 2023 due to persistently high inflation.

Macroeconomic projections

	2020	2021	2022	2023P	2024P
GDP growth (%)	-2.0	6.8	4.9	1.5	3.3

General government debt as per the EU methodology (% of GDP)	57.1	53.8	51.3	54.1	55.8
Average annual inflation (CPI) (%)	3.4	5.1	14.4	14.0	7.5
Registered unemployment rate (%; Central Statistical Office)	6.8	5.8	5.2	5.6	5.4
USD/PLN exchange rate (yearend)	3.76	4.07	4.40	4.21	3.94
EUR/PLN exchange rate (yearend)	4.61	4.60	4.69	4.72	4.53
3M WIBOR (yearend)	0.21	2.54	7.02	6.92	6.83

According to ING economists, European economies will continue to face the aftermath of an energy shock in 2023, linked to, among other things, an embargo on Russian coal and oil, delivered by sea, and a deep decline in natural gas imports from Russia. Energy prices are likely to remain significantly higher than in 2021. Combined with a number of local factors, such as strong wage growth, this is likely to keep consumer inflation in Poland very high, on average not much different from 2022. On the one hand, this will mean a loss in real household income, but on the other hand it will mean that the central bank will keep interest rates high.

The consequence will be a significant decline in the dynamics of consumer spending in 2023 relative to 2022. Especially as there is no longer reported increase in the number of refugees who stirred up the consumer demand in 2022. There will also most likely be an increase in the unemployment rate, although the demographics do not indicate a large deterioration. High interest rates and high uncertainty among households may also continue to constrain demand for property, exacerbating problems in the construction industry, for example.

However, at the same time, the end of 2022 has already shown a much greater resilience of the industry to the energy shock, both in Poland and across Europe. A significant easing of disruptions in global supply chains, or a fall in e.g. natural gas prices, is likely to even allow activity to recover in some processing industries, e.g. in chemicals sector. The relatively good condition of export industries and lower energy commodity prices should also allow net exports to improve.

According to ING economists, a strong economic slowdown is therefore unavoidable in 2023. However, a recession is unlikely to occur.

4.2 Residential estate market

The year 2022 in the residential property market can be summarised as a collapse. The main reasons for this were the increases in interest rates and the tightening of regulations by the PFSA. As of April, the PFSA's recommendation came into force, which strongly restricted the availability of mortgage loans. It ordered banks to take into account interest rates 5 percentage points higher than the NBP benchmark when calculating creditworthiness. Moreover, the NBP raised interest rates every month from January to July and, after a pause in August, introduced another increase in September. At the beginning of the year, the NBP benchmark was 1.75%, in April it was already 4.5% and at the end of 2022 it was as high as 6.75%. Such large increases in interest rates resulted in a drastic increase in loan instalments. As a result, slower price growth is clearly visible in the housing market. This is connected with a significant decrease in the number of home buyers availing themselves of a mortgage loan. At the same time, the supply of flats is high, as there are still many real estate development projects under construction on the market, resulting in slower price increases.

Furthermore, rental prices grew at an unprecedented rate in 2022. The increases were most evident in the first months after the start of the war in Ukraine. At that time, the main driver of the increases was higher rental demand due to a very large number of refugees arriving in Poland. In the third quarter, the number of refugees in Poland had already stabilised, the offer of flats for rent was, however, already limited, so supply was at a low level.

Primary market

According to a report by Jones Lang LaSalle (JLL), 4Q2022 was marked with an improvement in performance in terms of the number of flats sold. In total, in the six main markets - Warsaw, Krakow, Wrocław, the Tri-City, Poznań and Łódź - developers sold almost 8,500 flats. The increase compared to the previous, very weak quarter was 29%.

Throughout 2022, we have seen a remarkable decline in the number of flats sold. Compared to 2021, which was the second best year on record in terms of sales, the number of transactions concluded dropped almost by half to 35,000. Such a low performance is the consequence of a number of events, starting with another wave of pandemics at the beginning of the year, the outbreak of war in Ukraine and the influx of refugees, as well as the acceleration of inflation, along with a rise in interest rates, which translated into a clear reduction in creditworthiness.

Such a strong hit to the mortgage market meant that cash buyers were mainly active in the second half of 2022, buying slightly more expensive, well-located flats and the smallest rental units. The mortgage crisis reminded us that the lack of new loans is holding back sales in the primary market not only directly, but also through the secondary market. This is because a certain proportion of potential buyers of new flats make the purchase dependent on the sale of their existing flat.

The period between October and December 2022 was another quarter in a row where new supply was at a low level. However, a spectacular change took place at the end of the first half of 2022, when the new Real Estate Development Act came into force and with it, among other things, the levy on the Real Estate Development Guarantee Fund. This resulted in a record number of new flats going on sale in the second quarter, partly to ensure that they could be sold under the existing rules. Throughout 2022, a total of more than 49,000 flats were launched for sale in the six markets.

The year-on-year increase in the prices of flats on offer was highest in Wrocław and Krakow, 22.6% and 18.6% respectively. A similar, also double-digit increase, was recorded in Poznań - 16.5%. In the remaining three markets, i.e. Warsaw, Tri-City and Łódź, the prices of flats on offer increased between 9 and 10% during the year.

The annual result for residential sales in the six largest markets was similar to that of 2013, the period before the housing boom. However, the decrease in sales of around 50% y/y is also due to the record high performance in 2021.

A significant decrease in the availability of mortgage loans has resulted in the number of loans granted, according to data published by the Credit Information Bureau, being at record low monthly levels in recent months (around 6,000 loans granted monthly across Poland for both the primary and secondary markets and for the construction of detached houses). On the other hand, there was increased share of buyers purchasing flats for cash, which sustained sales at the end of the year.

Secondary market

According to the latest data from the National Bank of Poland (NBP), small increases in the dynamics of nominal transaction prices were observed in the secondary market in 3Q2022 in all groups of cities. Transaction prices in the secondary market increased especially in Krakow, Wrocław and Gdynia. Demand for older, better-located but smaller flats continued. Declines in real prices were observed, especially in Warsaw.

According to the latest NBP data, the average transaction unit price on the secondary market in 1Q-3Q 2022 for the 17 cities under analysis (Białystok, Bydgoszcz, Gdańsk, Gdynia, Katowice, Kielce, Krakow, Lublin, Łódź, Olsztyn, Opole, Poznań, Rzeszów, Szczecin, Warsaw, Wrocław, Zielona Góra) amounted to PLN 8,031 per square metre. The lowest price of PLN 6,118 per square metre was recorded in Zielona Góra, while the highest price of PLN 11,702 per square metre was paid in Warsaw.

The increase in the level of rents in long-term rentals has resulted in a higher level of rental housing profitability index. Until 2Q2022, residential investment (transaction costs excluded) was competitive against interest rates on bank deposits or T-bond investments. An additional increase in rental rates by several per cent in 2Q2022 was caused by the influx of refugees from Ukraine. As a result, the number of flats remaining on offer for rent has been steadily decreasing since March 2022.

Supply and demand in the residential property market

The demand to supply is a fundamental factor influencing changes in property prices over time. The most important factors affecting demand and supply in the second half of 2022 include a significant decline in lending associated with high WIBOR rates and PFSA regulations, as a consequence of which creditworthiness has fallen significantly. In the third quarter, demand was largely generated by those financing their purchase entirely in cash or at least for the most part. The supply side, on the other hand, was affected by the number of new started construction projects and the number of flats for sale on the secondary market. As there were a large number of new started construction projects in 2021, supply on the primary market was at a high level. However, already in 2022 a significant slowdown could be observed in new construction projects started by developers.

According to preliminary data, 238,600 flats were completed in 2022, 1.7 per cent more than in 2021. Developers commissioned 143,800 flats - 1.3% more than the year before, while private investors commissioned 91,000 flats, i.e. 3.2% more. Within these forms of construction, a total of 98.4% of all newly completed flats were built. In the remaining forms of construction, i.e. cooperative, communal, social rented and company construction, a total of 3,800 flats were completed (compared to 4,600 flats a year before).

In 2022, permits were issued or construction notifications made for 297,400 flats, 12.8% less than in 2021. Building permits for the largest number of flats were obtained by developers (203,000, down by 4.9% y/y) and individual investors (89,500, down by 27.2%). In total, these forms of construction received permits or made notifications of construction with a building permit design for 98.4% of the total number of flats. In the other forms of construction, there were 4,900 dwellings for which permits were granted or notifications with a building permit design were submitted (4,500 last year).

200,300 flats were started in 2022, or 27.8% less than the previous year. Developers started the construction of 115,300 flats (or 30.7% less), and individual investors started 82,200 (or 22.5% less). Together, the share of these forms of construction amounted to 98.6% of the total number of dwellings. In the other forms of construction, the construction of 2,900 flats was started (against 5,100 in the previous year).

Forecasts for the housing market in 2023

In the near future, we can expect limited availability of flats on the primary market due to difficulties in obtaining financing, i.e. obtaining a mortgage loan. Developers will continue to hold back new investments and look for alternative operating strategies: selling flats to investment funds and developing institutional leasing. Price adjustments will depend on a number of factors, primarily the financial health of individual real estate development companies. The number of forced sales, as a result of loan defaults, will increase. On the residential rental market, the demand will continue to outweigh the supply, with a visible trend of decreasing price growth dynamics.

Area development and planning changes in the structure of cities and an increase in the premium standard of real estate can be considered the most significant factors influencing the housing market in Poland. As sustainability becomes an increasingly popular trend, the importance of green building will grow. Demand for environmentally sustainable buildings will be driven by changing customer awareness and will bring tangible benefits in the form of savings on service charges.

4.3 Mortgage lending market

As of 31 December 2022, banks' housing loan receivables from households in Poland amounted to PLN 496.9 billion, down by 3.0% y/y, according to data published by the National Bank of Poland. The balance of loans granted in PLN dropped by 1.5% y/y to PLN 395.3 billion.

Successive increases in interest rates resulted in increasingly expensive mortgage loans and rising inflation was associated with higher costs of living. The aforementioned factors not only resulted in a gradual decline in new lending, but also prompted borrowers to repay their previous commitments early.

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

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

4.4 Covered bonds market

As at the end of December 2022, there were five mortgage banks in Poland:

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

The Polish market of covered bonds is small when compared with developed EU economies where covered bonds are an important source of mortgage lending funding. Polish issuers place covered bonds both in the Polish market and abroad. Public issues predominate - in Poland on a floating interest rate and foreign on a fixed rate. The development of the covered bond market in Poland slowed down due to the uncertain economic situation during the pandemic period and subsequently due to the armed conflict in Ukraine. In the coming years, new regulations related to ESG factors are also a great opportunity for market development.

At the end of the fourth quarter of 2022, the total value of covered bonds in trading in Poland was approximately PLN 20.9 billion, or were down by PLN 2.1 billion compared to December

2021. For the time being, PKO Bank Hipoteczny is the largest issuer of covered bonds in Poland. The ratio of mortgage loans funding with covered bonds still remains low.

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

4.5 Regulatory and legal landscape

Significant changes in the legal and regulatory landscape in 2022, which affected the Bank's operations, refer in particular to:

- introduction of the institution of so-called credit holidays,
- amendments to the Act on Covered Bonds and Mortgage Banks,
- amendments to the Commercial Companies and Partnerships Code,
- selection of WIRON as a future substitute for the WIBOR,
- remodelling of the existing tax system by the so-called 'Polish Deal'.

1. On 29 July 2022, the Act on crowdfunding for business ventures and assistance to borrowers (Credit holidays) came into force.

The law provides for the introduction from August 2022 of, among other things, so-called 'credit holidays' - namely the possibility for people to temporarily suspend their mortgage instalments if they are repaying a PLN loan taken out for their own residential needs, not related to business or farming. This solution also covers mortgage loan agreements that were concluded before the Mortgage Loan Act came into force in 2017. At the consumer's request, the creditor suspends the repayment of a mortgage loan granted in the Polish currency, with the exception of loans indexed or denominated to a currency other than the Polish currency. The suspension of the loan repayment is granted to the consumer during the period:

- from 1 August 2022 to 30 September 2022 - for two months;
- from 1 October 2022 to 31 December 2022 - for two months;
- from 1 January 2023 to 31 December 2023 - for one month in each quarter.

The suspension of the loan repayment is only available to the consumer in relation to a single agreement that was concluded to meet his/her own housing needs. As from the date of delivery of the application to the creditor, repayment of the credit is suspended for the period indicated therein and the instalment is rescheduled for repayment, without interest. During the period of suspension, the consumer shall not be obliged to make any payments under the agreement, except for agreement related insurance charges.

The Act also introduced solutions for changing the so-called key benchmark. In PLN mortgage loan agreements, this is generally WIBOR. An increase in the WIBOR benchmark is reflected in an increase in loan instalments, so the Act gives the possibility to replace it with another benchmark that will lower the instalment amount. The procedure for determining the substitute, upon the occurrence of a triggering event as defined in the EU BMR, will be initiated by the Polish Financial Supervision Authority. The Financial Stability Committee (bringing together representatives of all financial safety net institutions) will be involved in the process to work out the best possible solution. Ultimately, the Minister of Finance will be able to define a substitute in the regulation.

2. On 8 July 2022, the Law on Amendments to the Act on Covered Bonds and Mortgage Banks and Certain Other Laws became effective.

The Amendment implemented the Act on Covered Bonds and Mortgage Banks to the provisions of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU (“Directive 2019/2162”, “Covered Bonds Directive”), which, together with Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 575/2013 as regards exposures in the form of covered bonds (“Regulation 2019/2160”), forms a part of the covered bonds regulatory package. In Polish conditions, the equivalent of covered bonds within the meaning of Directive 2019/2162 are covered bonds issued by specialised mortgage banks.

The most important changes to the Act on Covered Bonds and Mortgage Banks include, inter alia, a new definition of a covered bond referring to the dual recourse mechanism, which provides investors with the possibility of pursuing claims both against issuers of covered bonds (mortgage banks) and from the cover pool forming a separate bankruptcy estate in accordance with the provisions of the Act of 28 February 2003 - Insolvency Law. The law also defined the rules and conditions for the use by domestic mortgage banks of the label "European Covered Bond" and "European Covered Bond (Premium)", and introduced the principle of issuing covered bonds on the basis of a well-defined issuance programme.

The amendment expanded the categories of pledged assets of public covered bond, and established conditions for the eligibility of derivatives to the cover pool. The amendment also relates to the abandonment of the limit on the total amount of a mortgage bank's receivables from lending and purchasing by mortgage banks, while retaining the statutory requirement that the value of a single loan may not exceed the mortgage lending value of the property. It also introduced a modification of the rule for calculating the liquidity buffer for the cover pool (lowering the buffer ratio from 110% to 105%) and a modification of the requirement to keep overcollateralised covered bonds by specifying the requirements for assets that may qualify for the mandatory overcollateralisation surplus. The requirement to make an entry in the Land and Mortgage Register informing about the entry to the cover register has been repealed.

The Act also introduces additional requirements for monitoring the issuance of covered bonds by mortgage banks, disclosure obligations for the issuance of covered bonds to enable investors to examine the risk profile of a programme, and the establishment of specific cyclical reporting obligations for mortgage banks to the Polish Financial Supervision Authority and publication requirements for covered bond issues.

In the transitional provisions, it has been stipulated that the new regulations will apply to covered bonds issued before the date of entry into force of the Act until their maturity date, with the exception of the provision specifying the conditions for issuing covered bonds, and mortgage banks authorised to issue covered bond on the effective date of the Act will continue their activities in accordance with this authorisation.

The amendments enacted by the Act also include the Banking Law Act, to which regulations were introduced concerning the principles of creation and functioning of the so-called institutional protection scheme. The purpose of the institutional protection scheme is to ensure the liquidity and solvency of each of the participants in this scheme (banks) by, inter alia, granting loans, guarantees and sureties under the terms of an agreement signed by the IPS participants, in accordance with the Act. It may also support the resolution or takeover of a bank being a joint-stock company effected by the Bank Guarantee Fund. The scheme may only be established by banks operating as joint stock companies. Once IPS is established, other banks operating as joint stock companies may become IPS members if they accede to the scheme. IPS membership is on a voluntary basis.

3. On 13 July 2022, the Law on Amendments to the Act – Commercial Companies and Partnerships Code and Certain Other Laws became effective.

The Act clarified the rules for determining the term of office of the management board and the supervisory board by assuming that the term of office is calculated in full financial years, unless the company's articles of association provide otherwise. The amendments also concern supervisory boards of corporations. These include providing them with the possibility to independently (i.e. without the involvement of the management board) select and hire an external advisor. An obligation to present an annual report on the operations of the supervisory board is also introduced in all corporations. In addition, under the provisions of the Act, the supervisory board may establish an ad hoc or standing committee of the supervisory board, consisting of members of the supervisory board, to perform certain supervisory activities. The law also introduces the Business Judgement Rule, stating that a member of the management board, supervisory board, audit committee and liquidator does not breach the duty of due care arising from the professional nature of his or her activities if, acting in loyalty to the company, he or she acts within the limits of reasonable economic risk, including on the basis of information, analyses and opinions that should be taken into account under the circumstances in making a careful assessment. It also provides for strengthening of supervision performed by owners and supervisory boards in corporations. The right to elect an advisor to the supervisory board without the participation of the management board was introduced and the supervisory board was empowered to conclude an agreement with such an advisor. In joint-stock companies, with the exception of public companies, a requirement was introduced for the supervisory board to obtain consent for a company to enter into a transaction with a parent company, a subsidiary or a related company, the value of which, when aggregated with the value of transactions entered into with the same company during a financial year, exceeds 10% of the company's total assets within the meaning of the accounting regulations, as determined on the basis of the company's last approved financial statements. The Articles of Association may exclude or modify this requirement.

4. Act of 29 October 2021 amending the Act on Value Added Tax and Certain Other Acts (so called Polish Deal).

On 1 January 2022, the Act of 29 October 2021 amending the Act on Value Added Tax and Certain Other Acts entered into force. The Act is referred to as the Polish Deal (originally: New Deal) and introduces a significant number of changes to the existing taxation rules, in particular concerning the personal income tax, which are of systemic importance. Tax changes in the area of personal income tax include, inter alia, the elimination of the possibility to deduct health contributions from personal income tax, an increase in the amount of the income tax threshold, the introduction of the so-called middle class relief or the so-called return relief.

In the area of corporate income tax, the changes implemented by the Polish Deal include:

- amendments to transfer pricing legislation;
- a remodelling of the provisions concerning the withholding tax procedure by, inter alia, implementing additional restrictions/conditions, the fulfilment of which is necessary for payers to apply reduced withholding tax rates or exemptions from tax withholding;
- modification of the provisions on lump-sum tax on the income of companies (the so-called Estonian CIT), aiming to expand the catalogue of entities entitled to opt for this taxation, as well as to relax the necessary conditions to be met;
- the introduction of reliefs for entrepreneurs incurring costs in connection with the employment of employees in research and development activities, the trial production of a new product or its market launch, and to increase revenues from product sales;
- the introduction of a consolidation allowance for taxpayers wishing to expand their businesses in domestic and foreign markets by acquiring shares in companies operating in those markets;
- amending the depreciation of buildings and residential premises by excluding depreciation deductible (this restriction will come into effect on 1 January 2023 for buildings and residential premises acquired by 31 December 2021);
- the introduction of an obligation to keep books of account (tax records) using computer programmes, as well as an obligation to send them in a structured form by the deadline for filing the return for the tax year (this obligation will come into force on 1 January 2023);
- the introduction of regulations limiting the generation of artificial deductible costs in the form of the payment of so-called 'hidden dividends', so-called 'profit stripping' - the legislator finally postponed the new regulation until 1 January 2023;

- the introduction of provisions on tax on passed-through income - newly added Article 24aa in the CIT Act. Costs that will generate tax on passed-through income include, inter alia: costs of intangible services (consultancy, advertising, management and control, data processing, guarantees and warranties and services of a similar nature), fees and charges for the use or right to use certain intangible assets, costs of debt financing (including penalties and fees for remuneration for the transfer of functions, assets and risks - if the sum of such costs incurred in a tax year for the benefit of entities (including unrelated parties) constitutes at least 3 per cent of the sum of tax deductible costs incurred in that year in any form;

In addition to the numerous changes to income taxes, the Polish Deal also affected the goods and services tax, with solutions such as, inter alia:

- option to tax financial services - the option to tax financial services, which hitherto enjoyed a VAT exemption, is introduced. The option to opt for taxation of financial services will only apply to business to business (B2B) relationships. Financial services provided to non-business persons (individual customers) will continue to be compulsorily exempt from VAT. The decision to opt for taxation will be binding on the taxpayer for at least two years;
- the introduction of a new category of taxpayers, i.e. VAT groups. The term VAT group will be understood as a group of entities with financial, economic and organisational links, registered as VAT taxpayers. The purpose of the introduced solution is to enable such entities to settle jointly for VAT purposes. The model based on joint settlements is to be of a voluntary nature. The operation of a VAT group is expected to considerably simplify settlements between its members and have a positive impact on efficiency and liquidity within the group. As a new category of VAT taxpayer, it will be effective from 1 January 2023.

5. Determination of the WIRON interest rate benchmark.

In the third quarter of 2022, the National Working Group for Benchmark Reform (NWG) was established, defining its objectives, scope and modalities. The Steering Committee of the National Working Group selected WIRON as the recommended index to replace the existing WIBOR benchmark. In addition, the Committee accepted the motion of the benchmark administrator - GPW Benchmark S.A. - to consider the transaction data held by the GPW Benchmark S.A. as appropriate and sufficient to determine the historical values of the WIRON index. In addition, the Steering Committee approved the Roadmap for the process of replacing the WIBOR and WIBID benchmarks with the WIRON index. The completion of the process is scheduled for 2025, at which time the WIRON index will be designated by a regulation of the Minister of Finance, under a statutory procedure, as a replacement for the key WIBOR benchmark. Under the regulation of the Minister of Finance, the replacement benchmark, will apply to contracts and financial instruments meeting the prerequisites indicated in the BMR. The Regulation of the Minister of Finance will also define the corrective spread and the date from which the replacement benchmark will be used.

6. Recommendation Z issued by the Polish Financial Supervision Authority on internal governance principles at banks.

A deadline of 1 January 2022 has been set by the Polish Financial Supervision Authority for banks to comply with Recommendation Z. It is a set of best practices for internal governance principles. Internal governance consists in particular of: the bank management system, organisation of the bank, modus operandi, powers, duties and responsibilities, as well as mutual relations among the supervisory board, the management board and key function holders at the bank. Recommendation Z complements, specifies and elaborates on issues of internal governance at banks which have already been addressed by law and the PFSA documents. Recommendation Z has been developed taking into account, first and foremost, the guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA). The Recommendation takes into account selected recommendations included in guidelines of other international organisations.

7. PFSA's position paper addressed to Presidents of the Management Boards of the Banks and Branch Directors of Credit Institutions on measures aimed at reducing the level of credit risk.

On 7 March 2022, PFSA published a Position Paper on measures aimed at reducing the level of credit risk addressed, among others, to the Presidents of the Management Boards of the Banks. In view of the rising cost of debt servicing for borrowers and the resulting therefrom possible increase in credit risk, the Polish Financial Supervision Authority (PFSA) has obliged Banks to take the measures indicated in the regulator's position to minimise systemic risk.

In particular, the PFSA indicated that the level of interest rate change stipulated in Recommendation S and taken into account for the purposes of assessing creditworthiness is indicated as a minimum. This level should be redefined by the bank in the changing market conditions. In this context of the mortgage market conditions and in the light of the observed practices of application of Recommendation S by banks in the discussed scope, the regulator recommended that in the creditworthiness assessment process all banks should assume a minimum change of 5 p.p. in the level of the interest rate. Furthermore, the PFSA recommended that, when assessing creditworthiness, the cost of living of a household should be accepted at a level higher than the subsistence level announced by an independent source, taking into account differentiation by place of residence and professional activity. In addition, it was recommended that the cost parameter be adjusted using a multiplier determined by the bank and greater than 1, providing an additional buffer that is appropriate in particular to the level of inflation expectations and the length of the commitment period.
The PFSA recommended also that banks should make as much effort as possible to effectively make the offer of a loan with a periodically fixed interest rate more attractive and to promote it as well as to introduce a loan with a fixed interest rate for the entire commitment period to their offer, including for customers interested in a mortgage loan.

Banks have been obliged to conduct an active information campaign for consumer customers regarding the explanation of the risk of interest rate volatility and interest rate benchmarks and, with regard to customers already holding a mortgage loan, about their right to convert a floating-rate loan into a fixed-rate or periodically fixed-rate loan, without the banks applying any barriers to such conversion. A solution to support the above should be to actively inform borrowers about the possibility of using the instruments laid down in the Act on support for borrowers who have taken out a housing loan and are in a difficult financial situation.

PFSA has obliged banks to comply with the above position no later than by the end of March 2022.

5. Financial results, capital adequacy and financial instruments

The year 2022 was the fourth year of operations for ING Bank Hipoteczny S.A. At the end of the reporting period, the Bank had a mortgages portfolio worth 2.9 billion and being in major part the potential collateral for future covered bond issues. Due to the unfavourable market situation, and the introduction of 'credit holidays', the Bank did not buy any mortgage-backed debt claims portfolio from ING Bank Śląski S.A. in 2022. In 2022, as part of the diversification of funding sources, the Bank issued own bonds of the total nominal value of PLN 361 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 2022 to 31 December 2022 are presented.

5.1 Core financial ratios

	as of **31.12.2022**	as of **31.12.2021**
ROA - return on assets	-1.32%	0.50%
ROE - return on equity	-10.06%	4.41%
DR - total debt ratio	85.93%	87.95%
TCR - total capital ratio*	36.06%	30.44%
LR - leverage ratio*	14.13%	11.93%
LCR - liquidity coverage ratio	142%	131%

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

* In accordance with supervisory recommendations, the ratios as at 31 December 2021 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 2021 profit distribution, the ratios published in the financial statements for the period from 1 January 2021 to 31 December 2021 stood at: TCR 30.43%; LR 11.67%

5.2 Statement of financial position

		[in PLN thousand]
	as of **31.12.2022**	as of **31.12.2021**
Amounts due from banks	13,348.0	46,828.4
Debt securities measured at fair value through other comprehensive income	84,623.0	49,640.8
Debt securities measured at amortized cost	0.0	14,995.6
Loans and advances granted to customers	2,901,111.1	3,882,999.5
Property, plant and equipment	1,306.0	1,207.1
Intangible assets	0.0	0.1
Current income tax receivables	6,112.7	0.0
Deferred tax assets	11,382.6	1,115.5
Other assets	2,388.1	2,413.7
Total assets	**3,020,271.5**	**3,999,200.7**
Liabilities to banks	2,043,049.2	2,453,682.8
Liabilities under issue of bonds	135,927.4	654,660.0
Liabilities under issue of covered bonds	406,711.6	399,876.9
Provisions	561.7	823.6
Current tax liabilities	0.0	444.6
Other liabilities	9,009.2	7,725.9
Total liabilities	**2,595,259.1**	**3,517,213.8**
Share capital	380,000.0	380,000.0
Supplementary capital - share premium	62,002.2	62,002.2
Accumulated other comprehensive income	-1,168.2	-554.1
Retained earnings	-15,821.6	40,538.8
Total equity	**425,012.4**	**481,986.9**
Total equity and liabilities	**3,020,271.5**	**3,999,200.7**
Carrying amount	425,012.4	481,986.9

Number of shares	380,000	380,000
Carrying amount per share (in PLN)	1,118.45	1,268.39

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 7.7 through 7.21 of the Financial Statements.

5.3 Income Statement

		[in PLN thousand]
	period **from 01.01.2022 to 31.12.2022**	period **from 01.01.2021 to 31.12.2021**
Interest income, including:	121,385.9	83,394.1
calculated using the effective interest method, of which:	*121,385.9*	*83,394.1*
impact of adjustment of gross carrying amount of loans due to credit moratoria	*-34,937.3*	*0.0*
Interest costs	-148,448.0	-28,779.9
Net interest income	**-27,062.1**	**54,614.2**
Fee and commission income	184.9	447.3
Commission expenses	-687.0	-1,149.3
Net commission income	**-502.1**	**-702.0**
FX result	-51.7	-31.8
Net income on other basic activities	-944.7	-151.9
Net income on basic activities	**-28,560.6**	**53,728.5**
General and administrative expenses, including:	-25,626.5	-27,839.1
operating expenses	*-22,307.1*	*-22,700.5*
regulatory costs	*-3,319.3*	*-5,138.6*
Expected loss provision	-1,940.7	854.3
Tax on certain financial institutions	0.0	-63.2
Gross profit (loss)	**-56,127.8**	**26,680.5**
Income tax	10,123.0	-5,969.3
Net profit (loss)	**-46,004.8**	**20,711.2**
Number of shares	380,000	380,000
Profit(+)/loss(-) per ordinary share - basic (in PLN)	-121.07	54.50
Profit(+)/loss(-) per ordinary share - diluted (in PLN)	-121.07	54.50

There were discontinued operations at ING Bank Hipoteczny S.A. neither in the period that ended 31 December 2022 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 7.1 through 7.6.

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 2022, 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	31.12.2022
Credit risk (PLN million)	*87.72*
Operational risk (PLN million)	*6.55*
Total requirement for own funds (PLN million)	**94.27**
Common Equity Tier 1 ratio (CET1)	*36.06%*
Tier 1 ratio (T1)	*36.06%*
Total capital ratio (TCR)	**36.06%**

Pillar 1 has been discussed in detail under item 7.31 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 2022, the total capital ratio of the Bank was 36.06%.

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 and the maximum exposure (internal limit set by the bank) less loss allowances;
b. market risk encompassing the banking book interest rate risk - the risk of losses on positions in the banking book due to changes in interest rates. The capital requirement is calculated using the VaR-based method;
c. business risk including macroeconomic risk - the methodology for determining the capital requirement is based on internal stress testing for a mild recession scenario and the desired level of capital adequacy measures;
d. funding and liquidity risk - the risk of being unable to meet, at a reasonable price, cash commitments arising from on- and off-balance sheet items. The Bank maintains liquidity so that cash commitments can always be met with available funds, proceeds from maturing transactions, available funding sources at market prices and/or from

the liquidation of marketable assets. Economic capital represents the cost of raising additional funding to restore the proper LCR measure levels when they are breached;

e. operational risk encompassing control risk, abuse risk, processing risk, improper staffing practice and workplace risk, information risk, internal and external fraud risk, business continuity risk, physical safety and resource risk, compliance risk and legal risk; the possibility of occurrence of conduct risk, reputational risk and concentration risk (for operational risk) are also within the scope of operational risk; - capital requirement determined using the Basic Indicator Method;
f. model risk - the Bank creates capital requirements either directly under model risk or 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	31.12.2022
For credit risk	54.3%
For market risk	32.1%
For business risk	0%
For funding and liquidity risk	0%
For operational risk	13.6%
For model risk	0%
Total	**100.0%**

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

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 in accordance with Article 437 of CRR, subject to the transitional provisions set out in Article 492 of CRR,
- compliance with the own funds requirements pursuant to Article 438 of CRR,

- compliance with countercyclical capital buffer requirements in accordance with Article 440 of CRR,
- leverage ratio and the management of the risk of excessive leverage in accordance with Article 451 of CRR,
- the Bank exposure to credit risk and dilution risk in accordance with Article 442 of CRR and Recommendation R[1],
- credit risk mitigation techniques applied by the Bank in accordance with Article 453 of CRR,
- operational risk, in accordance with the requirements provided for in Recommendation M,
- liquidity in accordance with Article 451a of CRR, as well as the liquidity risk management system and liquidity positions in accordance with Recommendation P,
- exposures covered by the measures applied in response to the COVID-19 crisis, as required by the EBA/GL/2020/07 Guidelines (published for the last time in the disclosures for 31 December 2022),
- requirements referred to in Article 111a of the Banking Law and in Recommendation H,
- remuneration policy concerning persons whose professional activities are considered to have a material impact on the risk profile of the Bank, in accordance with the requirements provided for in Article 450 of the CRR and recommendation 30.1 of Recommendation Z.

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.”

[1]Starting from 1 January 2022.

5.7 Financial instruments

Between 1 January and 31 December 2022, the Bank placed its temporary surplus funds on short-term deposit accounts at ING Bank Śląski S.A. For details, refer to note 7.7 of the Financial Statements of ING Bank Hipoteczny S.A. During the reporting period, the Bank also entered into securities transactions. For details, refer to note 7.8 of the Financial Statements of ING Bank Hipoteczny S.A. The Bank did not apply hedge accounting in 2022.

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 2022, 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 2022 there were no conditions which could indicate presence of default risk for the liabilities assumed by the Bank.

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

6.1 Development lines

The strategic objective of Bank Hipoteczny S.A. is to acquire and later gradually increase the share of long-term funding in the ING Bank Śląski S.A. Group's balance sheet through issue of covered bonds.

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 mortgage-backed residential loan portfolios with a view to issuing covered bonds. The Bank acquires debt only from ING Bank Śląski S.A. It is done under the *Debt Transfer Framework Agreement to issue covered bonds*, signed in 2019.

Due to the unfavourable market situation, and the introduction of 'credit holidays', the Bank did not buy any mortgage-backed debt claims portfolio from ING Bank Śląski S.A. in 2022.

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 – 31.12.2022:

LTV (as per banking and lending value of the real estate)	Structure %
(0-50>	32.8%
(50-60>	18.3%
(60-70>	19.7%
(70-75>	9.2%
(75-80>	7.3%
(80-100>	12.6%
Total	**100.0%**

Mark-to-market LTV	Structure %

(0-50>	45.8%
(50-60>	26.0%
(60-70>	20.5%
(70-75>	7.6%
(75-80>	0.1%
(80-100>	0.0%
Total	**100.0%**

The average LtV for the capital-weighted banking and lending value of the real estate was 58.01%, while the average mark-to-market LtV was 49.39%.

As at 31 December 2022, the carrying value of the portfolio of debt under the mortgage-backed loan agreements was PLN 2,901 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 2022, 322 agreements with a total principal amount of PLN 64.45 million were subject to interest rate conversion.

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

Customers kept availing themselves of the suspension of the loan agreement execution which was implemented starting from 24 June 2020 (under the amended Law on special arrangements for preventing, counteracting and combating COVID–19, other contagious diseases and crisis situations caused by them). Under this measure, at a request of the customer, the Bank suspended repayment of the full loan instalment for a period of 1 month to 3 months, without charging interest for the period, and extended the loan repayment period by the suspension period. In 2022, 21 borrowers benefited from the suspension of the execution of the loan agreement, with customers being able to benefit from this form of support until 29.07.2022. Thereafter, the form of support was changed in accordance with the *Act on crowdfunding for business ventures and assistance to borrowers of 7 July 2022* and the so-called “credit holidays" were introduced. The new form of support was extended to borrowers with a loan taken out in PLN to meet their own housing goals. The assistance was also 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 2022, 11,420 loans with a total principal amount of PLN 2,123.9 million were covered by the suspension of at least one instalment.

The Bank monitors on an ongoing basis the number and volume of loans with suspended loan repayments and their impact on ensuring compliant collateral for the issue of covered bonds.

In view of the high overcollateralisation of the covered bond issue (as at 31 December 2022, debt claims worth PLN 2,379.4 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

In 2022, due to the unfavourable market environment, the Bank did not issue covered bonds. As at 31 December 2022, the nominal value of the covered bonds in trading that were issued by the Bank did not change from the end of 2021 and totalled PLN 400 million.

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

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

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

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.

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

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

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

- ensuring that ING Bank Hipoteczny S.A. performs the activities required by law; they include but are not limited to: decisions or risk management processes, and for automated or partly automated processes – their set-up using the terms and conditions defined by the Bank,
- entrusting ING Bank Śląski S.A. with: (i) intermediation in some banking activities offered by the Bank, in particular as regards administration and post-sale service of mortgage-backed loan debt acquired by the Bank and (ii) factual activities connected with the bank business of the Bank,
- taking account of limitations stemming from Article 6a.3 of the Banking Law Act (Banking Law); i.e., ensuring that the following activities are not entrusted to ING Bank

Śląski S.A.: (i) bank governance within the meaning of Article 368.1 of the Commercial Companies and Partnerships Code, and notably management of the banking business risk, including management of assets and liabilities, credit capacity assessment and credit risk analysis; and (ii) internal audit of the Bank,

- ensuring that any further commissioning of activities by ING Bank Śląski S.A. to third parties satisfies the requirements of Article 6a.7 of the Banking Law – and in individual cases – that direct agreements be made between such entities and the Bank,
- development and update – both by ING Bank Śląski S.A. and the Bank – of business plans ensuring continuous and 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.

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) Units from the area of: • operational risk • compliance risk • legal risk • credit and market risk • finance • human resources management and 2) Model validation position	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.

This line of defence is in charge of:

- 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 jobs, groups of people or organisational units responsible for performance of function tasks.

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

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

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

- deliverables/ opinions from the audits performed under the annual audit plan. To formulate the annual audit plan, the Internal Auditor uses, inter alia, the information about the internal control system from the control function matrix,
- the results/opinions of the audit conducted by the external auditor together with the regulator's recommendations which are open as at the internal control system assessment date,
- the results of the Supervisory Review and Evaluation (SREP) process carried out by the Polish Financial Supervision Authority,
- critical and high risks identified during the year, with focus placed on risks which apply as at the internal control system assessment date,
- timely implementation and progress in the implementation of risk mitigants,
- risk limits and limits under the Act on Covered Bonds and Mortgage Banks, presented at meetings of the Bank's bodies.

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

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

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

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

- the Act on covered bonds and mortgage banks,
- the Act on land and mortgage registers and mortgage,
- the Banking Law Act,
- Instructions and recommendations of the Polish Financial Supervision Authority, including in particular Recommendations F, S and J,
- Provisions of internal banking regulations, and notably the Banking and Lending Value of the Real Estate Valuation Bylaw.

The Bank has and applies the Banking and Lending Value of the Real Estate Valuation Bylaw, approved on 4 January 2019 by the Polish Financial Supervision Authority. The Bylaw provides for the guidelines listed in Recommendation F and concerning the basic criteria applied by the Polish Financial Supervision Authority to approve the 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 banking and lending value of the real estate expertise compilation and banking and lending value of the real estate determination as described above are performed by two persons independent from one another.

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:

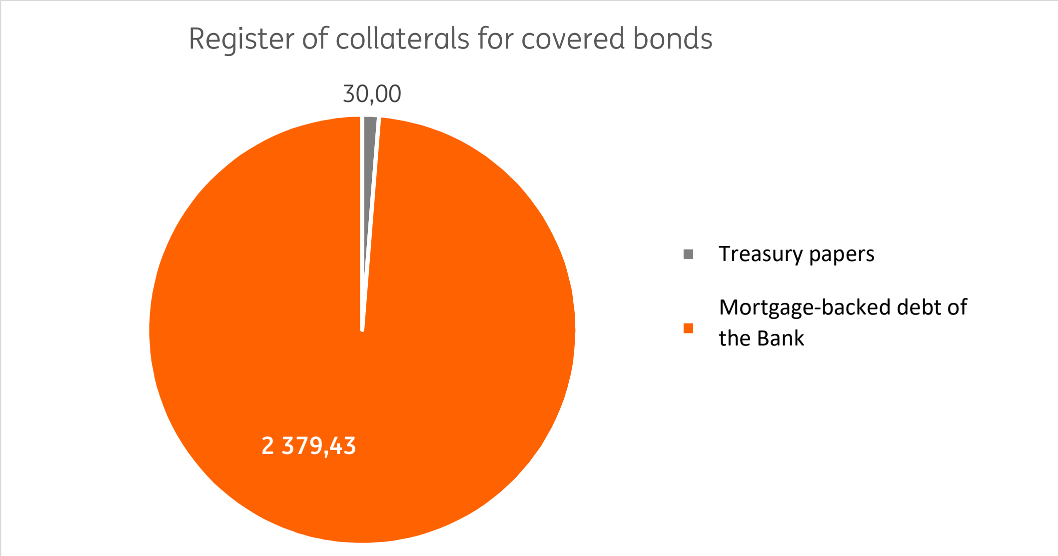
- The Act on covered bonds and mortgage banks 29 August 1997 (Journal of Laws of 2022, item 1412),
- Minister for Finance Regulation of 21 June 2022 on the mortgage cover calculation and the coverage balance testing and the liquidity test (Journal of Laws 2022, item 1412),
- Recommendation K of the Polish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

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

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

As at 31 December 2022, the mortgage-backed debt and other funds referred to in the Act on covered bonds and mortgage banks closed with PLN 2,409.4 million (core assets including substitute assets).

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



T-bonds of PLN 30 million partially secure the payment of interest on covered bonds for 6 months (PLN 16,084,000). The total value of the mortgage-backed debt claims and substitute collateral (in the part not used to cover the payment of interest on covered bonds) was reflected in the overall level of collateralisation of covered bonds, which was 602.36%.

Since mortgage-backed debt and issued covered bonds matched in terms of currency and interest rate, there were no hedging transactions in the register as at 2022 yearned.

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

For the key register data as at 31 December 2022, refer to the table below:

	31.12.2022
Cover register	
Mortgage-backed debt (PLN million)	2,379.4
T-bonds (PLN million)	30
Amount of surplus in accordance with Article 18(3a) of the Act (PLN thousand)	0
Number of (active) loans	14,598
Average loan amount (PLN thousand)	162
Average maturity (in months)	233
Average LtV (loan value to the mark-to-market value of the real estate)	47.97%
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 keeps and stores the cover register in which it enters its debt claims as well as the rights and funds used to issue covered bonds and surplus funds for covering the interest on covered bonds in trading to be paid within the next 6 months.

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 2022, the statutory limits and their utilisation were the following:

No.	Statutory limit	Statutory limit value	Limit utilisation	Legal grounds
1.	Share of debt for which the ratio of a single mortgage-backed loan to the banking and lending value of the real estate is over 100% at the acquisition date	0%	0%	Article 13.2 of the Act on covered bonds and mortgage banks
2.	Maximum ratio of refinancing the acquired debt (in the portion of up to 80% of the banking and lending value of the real estate) with the funds obtained from the issue of covered bonds	100%	13.81%	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	5.24	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	0.96	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%	602.36%	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%	594.86%	Article 18.1 of the Act on covered bonds and mortgage banks
8.	Minimum ratio of income of the mortgage bank under debt and other funds (bonds, cash, cash with the National Bank of Poland, hedging instruments) vis-à-vis costs of interest on the traded covered bonds	100%	377.28%	Article 18.2 of the Act on covered bonds and mortgage banks
9.	Coverage with funds (bonds, cash, cash with the National Bank of Poland) of the nominal amounts of interest on traded covered bonds to be paid out within the subsequent 6 months.	100%	100%	Article 18.3a of the Act on covered bonds and mortgage banks
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.

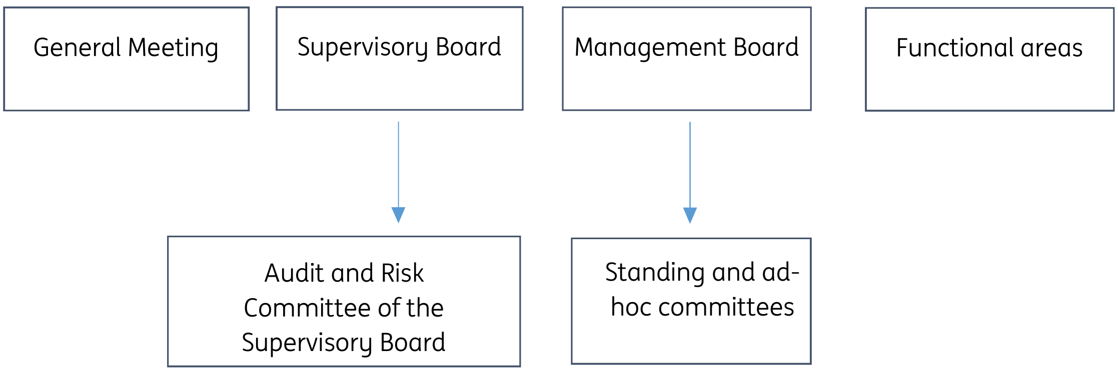
Keeping in mind the prudential approach to management, the Bank carries out coverage and liquidity balance tests, if possible for each business day.

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.

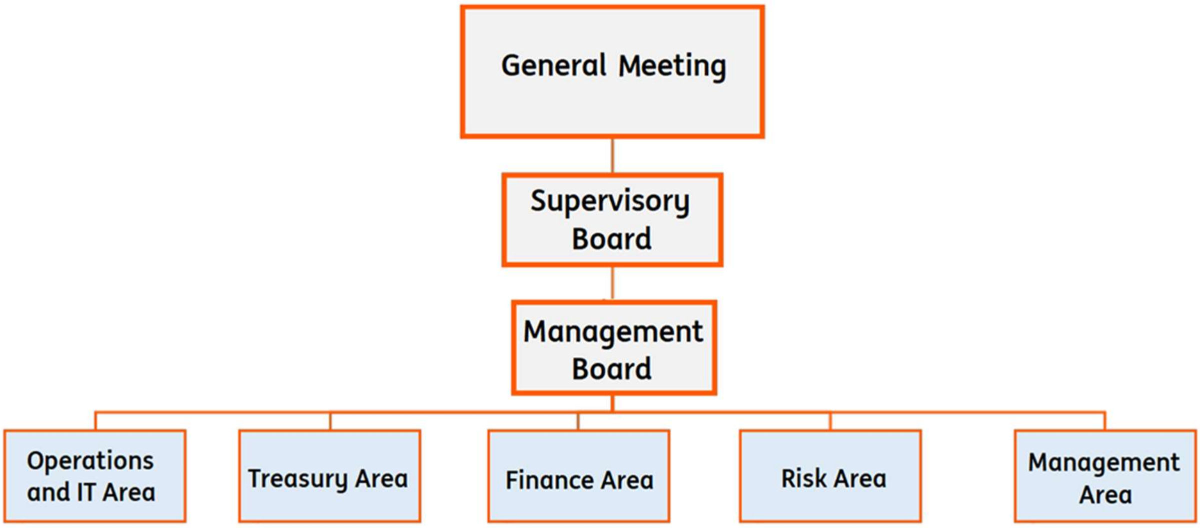
8. Organisational framework and authorities of ING Bank Hipoteczny S.A.

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 to the General Meeting of the annual written report on the said assessment results,
- revision of the Bank's property and financial control,
- approval of the rules of prudent and stable Bank management and the Bank strategy developed by the Management Board as well as periodical review and verification of its delivery, and also approval of many-year development plans of the Bank and annual budgets of the Bank as developed by the Management Board,
- approval of accepted risk levels in the Bank's business areas,
- approval of Management Board motions regarding formation or liquidation of Bank's organisational units abroad,
- consent to acquisition or disposal by the Bank of shares and share rights or holdings of other legal persons, provided the amount of assets covered by one such operation exceeds the PLN equivalent of EUR 1,000,000 or the said operation concerns the assets accounting for at least 50% of the share capital of another legal person; the Supervisory Board's consent is not required for the Bank's exposure under debt conversion, liquidation of the collateral accepted by the Bank,
- appointment and recall of Management Board Members,
- conclusion with Management Board Members of agreements on performance of their duties and determination of remuneration thereunder, as well as consent to receipt by Management Board Members of other considerations from the Bank or related entities,
- approval of the Management Board Bylaw, Organisational Bylaw and internal control system of the Bank,
- selection of the entity authorised to audit the financial statements of the Bank, based on the recommendation of the Audit and Risk Committee of the Supervisory Board and provision of advice as to establishment of cooperation with that entity,
- consent to conclusion of transactions by the Bank with its shareholders or related entities or members of Bank authorities, provided the amount of the transaction exceeds EUR 1,000,000, save for typical and routine transactions made on an arm's length basis whose nature and terms arise from the daily business of the Bank or transactions foreseen in the annual budget of the Bank as approved by the Supervisory Board,
- consent to assuming a liability by the Bank or making an administrative decision whose amount in such one-off operation or on an aggregate basis for one entity or a few entities related to the entity exceeds 10% of own funds of the Bank, save for provisions of Article 26 section 1 items 4) and 11) of the Bank Charter; the consent is not required for the entities referred to in Article 26 section 1 item 9) of the Bank Charter,

- consent to acquisition, disposal or encumbering by the Bank of property, plant and equipment item whose amount exceeds the PLN equivalent of EUR 1,000,000; save for provisions of Article 26 section 1 item 10) of the Bank Charter, the consent of the Board is not required when the property, plant and equipment item is acquired through transfer of such item by the Bank as the creditor due to the Bank's debt recovery procedure,
- consent to acquisition, disposal or encumbrance by the Bank of real estate or an interest in real estate or the right of perpetual usufruct whose value exceeds the Polish zloty equivalent of EUR 1,000,000,
- submission to the Ordinary General Meeting of reports and assessments laid down in the regulations, recommendations of the regulator and other laws of the Bank,
- suspension – for important reasons – of the Bank Management Board Members in their capacity and delegation – for the period of up to 3 months – of Supervisory Board Members to temporarily act in the capacity of the Management Board Members incapable of discharging their duties,
- approval of the Bank's compliance risk policy,
- approval of the rules for the processes of internal capital estimation, capital management and capital planning,
- approval of the bylaw used to determine the 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.

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,
- evaluation reports on the functioning of the Bank's remuneration policy, drawn up in the course of the ongoing supervision, monitoring and evaluation of the Bank's remuneration policy in force,
- assessment of application by the Bank of the principles of corporate governance for supervised institutions,
- assessment of the adequacy and effectiveness of internal governance principles adopted by the Bank,
- other matters within the Supervisory Board's powers.

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

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

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

- representing the Bank before the authorities and third parties as well as administration and management of the property and interests of the Bank. The Management Board take action for all the matters not resting with other Bank bodies,
- issue of resolutions which under the universally effective laws and provisions of the Bank Charter require decisions by other statutory Bank bodies,

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

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

- Assets and Liabilities Committee (ALCO),
- Credit Policy Committee (CPC),
- Non-financial Risk Committee,
- Green Covered Bonds Committee.

The Assets and Liabilities Committee supervise and take decisions on:

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

- valuation of financial instruments and calculation of valuation adjustments, considering the factors not accounted for in the valuation in the Bank's systems.

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

Credit Policy Committee

The scope of activities covers the following areas:

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

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

- Credit risk models:
  - the Credit Policy Committee approve regulations on development, maintenance and use of risk models, including:
    - principles of the credit risk models management,
    - methodology of building and monitoring of the models,
    - definitions of the credit risk models,
    - the scope of use of the credit risk models,
    - instructions and procedures describing the process of validating credit risk models.
  - CPC monitor the risk level of the above models. CPC accept validation reports and the results of credit risk model monitoring.

- The Credit Policy Committee monitor credit risk, ensure compliance with laws, supervisory regulations and ING Group's standards as well as discuss and approve any other credit- and settlement risk-related matters.
- CPC do not make decisions on:
  - individual client transactions,
  - ratings for individual clients or exposures,
  - provisioning at client or individual exposure level.

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

- Initiating and recommending the changes and new solutions for the non-financial risk area.
- Performing the tasks resulting from the use of outsourcing as described in the ING Bank Hipoteczny S.A. Outsourcing Policy and the ING Bank Hipoteczny S.A. Outsourcing Manual.
- Approving, advising on and recommending plans, projects and programmes as well as control standards for non-financial risk management.
- Approval of, inter alia:
  - operational risk management objectives for the calendar year in question,
  - waivers and deviations for the non-financial risks area,
  - annual key control testing plans and results,
  - annual Risk Identification and Assessment Plan and the results of this process when unacceptable risks are identified, crisis management plan as well as the outcome of the Business Environment Assessment,
  - lists of controls identified for independent testing by 2LoD,
  - action plans and report on the second line of defence monitoring as part of key control testing (IT area included), and results of independent tests,
  - non-financial risk reports (NFRD included) and recommendation to the Bank Management Board of decisions for material non-financial risk issues (including the unacceptable risks attributable to product-related changes),
  - list of obligatory training courses in non-financial risk,
  - periodical results of Bank's organisational framework reviews for compliance with the operational risk management rules,
  - methodologies for determining internal capital for operational risk,
  - results of measurement of economic and regulatory capitals for operational risk, including quarterly monitoring of the capital required for operational risk and capital change drivers,
  - mitigating actions.
- Monitoring of:

- the processes of NFR identification, assessment, monitoring and mitigation, including, most notably, in the outsourcing area,
- the quality assurance process for the non-financial risk management processes,
- the status of mitigation and enhancement activities related to programmes and projects in the Bank (non-financial risk projects included),
- the status of implementation of control standards,
- risk factors arising from the Business Environment Assessment,
- reputational risk reports, customer complaints and conduct risk as well as compliance risk matters, reports/documents on non-financial risk events, lessons learned included,
- non-financial risks for considerable changes to the Bank's governance structure and essential elements of outsourcing processes.

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

Responsibilities:

- Initiation and recommendation of changes and new solutions for green covered bonds.
- Approval of:
  - amendments to *the ING Bank Hipoteczny S.A. Green Covered Bond Framework,*
  - changes to technical conditions enabling qualification of a credit debt to the portfolio of green assets,
  - allocation reporting and impact reporting,
  - periodical reports delivered to the *Climate Bonds Initiative*.
- Supervision of:
  - processes relating to operational implementation of changes arising from the *ING Bank Hipoteczny S.A. Green Covered Bond Framework,*
  - processes relating to operational implementation of changes to technical conditions enabling qualification of a credit debt to the portfolio of green assets,
  - the process of utilisation of funds acquired from the issue of green covered bonds, considering the potential alternative investment projects laid down in the *ING Bank Hipoteczny S.A. Green Covered Bond Framework,*
  - the process of green assets portfolio building,
  - collaboration with third parties involved in the green covered bonds-related processes,
  - quality assurance for the green covered bonds-related processes,
  - reporting process to ING Group.

8.3 Management Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2022 to 31 December 2021, the Management Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function	Function Holding Time
Mirosław Boda	President of the Management Board	26.02.2018 – 30.09.2022
Jacek Frejlich	Vice-President of the Management Board President of the Management Board	26.02.2018 – 27.10.2022 28.10.2022 - at present
Roman Telepko	Vice-President of the Management Board	26.02.2018 – 14.11.2022
Marek Byczek	Vice-President of the Management Board	01.10.2022 - at present
Paweł Serocki	Vice-President of the Management Board	15.11.2022 - at present

Segregation of key authorities within the Bank Management Board:

Mirosław Boda (in the period from 26.02.2018 to 30.09.2022)	President of the Management Board responsible for the Management Area
Jacek Frejlich (in the period from 26.02.2018 to 30.09.2022) (in the period from 01.10.2022 to 27.10.2022) (since 28.10.2022)	Vice-President of the Management Board responsible for the Finance, Treasury, Operations and IT Areas Vice-President of the Management Board in charge of directing and coordinating the works of the Bank Management Board President of the Management Board responsible for the Management Area
Roman Telepko (in the period from 26.02.2018 to 14.11.2022)	Chief Risk Officer
Marek Byczek (since 01.10.2022)	Vice-President of the Management Board responsible for the Finance, Treasury, Operations and IT Areas
Paweł Serocki (since 15.11.2022)	Chief Risk Officer

Other management functions of Management Board Members:

	Function	Function Holding Time
Mirosław Boda	Deputy Chairman of the Supervisory Board – ING Usługi dla Biznesu S.A.	5 January 2022 - 30 September 2022
Jacek Frejlich	Did not hold any additional functions of the Management Board or Supervisory Board member.	Throughout the reporting period.
Roman Telepko	Did not hold any additional functions of the Management Board or Supervisory Board member.	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.

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

On 7 June 2022, the resignation of Mr Mirosław Boda from his position in the Management Board of ING Bank Hipoteczny and at the same time from his position as President of the Management Board of ING Bank Hipoteczny S.A. was received, effective as at the end of 30 September 2022.
On 13 July 2022, the Supervisory Board appointed Mr Jacek Frejlich as President of the Management Board of the Bank, subject to the approval by the Polish Financial Supervision Authority and as of the date of such approval, however not earlier than as of 1 October 2022. On 29 September 2022, the Supervisory Board entrusted the Vice President of the Management Board of the Bank, Mr Jacek Frejlich, with directing and coordinating the work of the Bank Management Board. On 28 October 2022, the Polish Financial Supervision Authority unanimously approved the appointment of Mr Jacek Frejlich as President of the Management Board of ING Bank Hipoteczny S.A. Accordingly, Mr Jacek Frejlich took up the position of President of the Management Board of ING Bank Hipoteczny S.A. as of 28 October 2022.

On 1 August 2022, the Supervisory Board appointed Mr Marek Byczek as Vice President of the Management Board of ING Bank Hipoteczny S.A. effective as of 1 October 2022. In accordance with the division of responsibilities adopted on 29 September 2022, Mr Marek Byczek assumed the position of Vice President responsible for the Finance, Treasury, Operations and IT areas as of 1 October 2022.

On 3 November 2022, Mr Roman Telepko tendered his resignation from the Management Board of ING Bank Hipoteczny S.A. and from the position of Vice-President of the Management Board of the Bank, effective as at the end of 14 November 2022. On 28 October 2022, the Polish Financial Supervision Authority unanimously approved the appointment of Mr Paweł Serocki as a Management Board Member overseeing the management of significant risks in the operations of ING Bank Hipoteczny S.A. Accordingly, on 3 November 2022, the Supervisory Board appointed Mr Paweł Serocki to the position of Vice-President of the Management Board of ING Bank Hipoteczny S.A. responsible for supervising the management of significant risks in the Bank's operations as of 15 November 2022.

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*.

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.
- Management Board Members are appointed for the joint term office which commences at their appointment date and lasts for five full subsequent financial years.
- The President of the Management Board and the Vice-President supervising the management of the risk material to the Bank's business are appointed by the Supervisory Board upon the approval of the Polish Financial Supervision Authority. The earlier appointed Management Board Member may be entrusted with the capacity of

the Vice-President referred to hereinabove only upon approval of the Polish Financial Supervision Authority.

Diversity Policy

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

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

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

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

Principles of remuneration of Bank Management Board Members

In December 2022, the Supervisory Board – by way of Resolution No. 55/16/2022 – 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 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 2022, the total amount of emoluments due and paid out by the Bank to the Management Board Members reached PLN 2,541,300, while in 2021 it was PLN 2,007,100.

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					
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 2022 to 31 December 2022, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function on the Bank Supervisory Board	**Appointment date**	**Recall/ resignation date**	**Independent Member***	**Audit and Risk Committee**
Brunon Bartkiewicz	Chairman Member	26.02.2018 26.02.2018	14.06.2021		
Bożena Graczyk	Member Chairwoman	26.02.2018 15.06.2021			M
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, Audit Firms and Public Oversight of 11 May 2017.

The composition of the Supervisory Board did no change in 2022.

In the reporting period, the Supervisory Board had 6 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 7 April 2022, the Ordinary General Meeting of ING Bank Hipoteczny S.A. was held concerning the period from 1 January 2021 to 31 December 2021, at which the Annual General Meeting of ING Bank Hipoteczny S.A.:

- approved the annual financial statements of ING Bank Hipoteczny S.A.,
- approved the Annual Management Board Report on Operations of ING Bank Hipoteczny S.A., including the Statement of the Management Board on observance of the Principles of corporate governance,
- adopted the Supervisory Board Report on assessment results for the said financial statements, the Management Board Report on Operations and the Management Board's motion regarding allocation of the profit generated by ING Bank Hipoteczny S.A.,

- adopted the reports and evaluations of the Supervisory Board, which covered:
  1) assessment of the Bank's standing in 2021, taking into account the assessment of the risk management and internal control systems, the compliance function and internal audit cell included,
  2) report on the operations of the Supervisory Board and its Committee,
  3) report on the evaluation of the remuneration policy of the Bank in 2021,
  4) assessment of application by the Bank of the Principles of Corporate Governance for Supervised Institutions in 2021,
- granted acknowledgement of the fulfilment of duties to all members of the Supervisory Board,
- granted acknowledgement of the fulfilment of duties to all members of the Management Board,
- approved the motion of the Management Board regarding allocation of the net profit generated by ING Bank Hipoteczny S.A in 2021.

On 19 October 2022, the Extraordinary General Meeting of ING Bank Hipoteczny S.A. was held, during which a resolution was passed on the assessment of the fulfilment of the requirements provided for in Article 22aa of the Banking Law Act (suitability assessment) by the members of the Supervisory Board of ING Bank Hipoteczny S.A.

Remuneration of Supervisory Board Members

In 2022, total remuneration (defined as for the Management Board Members) due and paid out by the Bank to the Supervisory Board Members reached PLN 128,800.

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**

Supervisory Board				
2021				
Emoluments due and paid out to ING Bank Hipoteczny S.A. Supervisory Board members in 2021				
	remuneration	Awards	other benefits	Total
TOTAL	**120,000.00**	**0.00**	**0.00**	**120,000.00**

8.5 Remuneration and human resources management policy

Headcount

As at 31 December 2022, ING Bank Hipoteczny S.A. had 36 employees (36 FTEs). This signifies headcount decrease by 2 persons (2 FTEs) from 31 December 2021.

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.
<u>The Policy includes stipulations concerning:</u>

- 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 Identified Staff, variable remuneration covers:

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

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

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

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	The 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 15 December 2022, the Bank Supervisory Board – by way of Resolution No. 82/18/2022 – 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 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 2022 to 31 December 2022.

Variable elements of remuneration of Management Board Members and Identified Staff

As required by:

a. The Banking Law Act of 29 August 1997 (Journal of Laws 2021 item 2439),
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 2022, the Variable Remuneration Policy for Identified Staff applied to 6 Supervisory Board Members, 3 Management Board Members and 8 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 remuneration policy;
  f. information technology;
  g. information security;
  h. the management of arrangements for the outsourcing of critical or important functions as referred to in Article 30(1) of Commission Delegated Regulation (EU) 2017/565.
- the staff members who have managerial responsibilities for any of the risk categories set out in Articles 79 to 87 of Directive 2013/36/EU or members with voting rights in the management committee of any of the risk categories set out in those Articles,
- the remuneration of the employee is at least EUR 500,000 and at least the average remuneration granted to members of the management body and senior management of the institution,
- the staff member who is within the 0.3 % of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year.

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

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

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

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

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 2022, 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 EUR 10,000 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. occurrence of events resulting in Bank's non-compliance or the risk of Bank's non-compliance with the norms and standards of Article 142.1 of the Banking Law Act and requiring the Bank to activate the Recovery Plan,
b. payout of variable remuneration on the basis of untrue data,

c. failure to satisfy by Identified Staff of applicable competition- and reputation-related standards,
d. occurrence of a conflict of interest due to payout of variable remuneration in financial instruments, because of non-compliance with the confidential data usage rules and other actions which may impact the amount of assets of ING Bank Hipoteczny S.A. in the short term.

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

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

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

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

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

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

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.

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

Agreements between the Bank and managers

In accordance with Article 2.1.30a. of the Minister of Finance Regulation 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 2022, 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 2022 (for 2021) found out that the actions identified in the 2021 review had been implemented. In 2021, no cases of non-compliance with the Principles were identified. The corporate governance assessment for 2022 will be conducted in the first quarter of 2023.

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 2021, 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 Regulations were also subject to review and update in January 2023.

Orange Code

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

ING Values being the promise made to our external stakeholders:

- We are honest,

- We are prudent,
- We are responsible.

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

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

ING Bank Hipoteczny S.A. Disclosure Policy

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

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

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

Risk control and management system in the financial reporting process

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

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

- risk of financial loss, regulatory sanctions and/or reputational damage as a result of non-compliance with applicable regulations due to *inadequate identification,* *assessment and interpretation of new/amended regulation on accounting and reporting policies and procedures*;

- risk of financial loss, regulatory sanctions and/or reputational damage as a result of non-compliance with applicable regulations due to *inadequate accounting and reporting policies and procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of non-compliance with applicable regulations due to *inadequate implementation of accounting and reporting policies and procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *lack of disciplined financial and regulatory reporting processes*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *errors or other inappropriate actions*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *lack of appropriate skills and knowledge*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of inaccurate/incomplete/delayed financial and regulatory reporting due to *poor data quality*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of inaccurate/incomplete/delayed financial and regulatory reporting due to *data discrepancies between the general ledger and data sources and (financial and regulatory) reporting*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *inadequate/inconsistent review methodologies/procedures*;
- risk of financial loss, regulatory sanctions and/or reputational damage as a result of incorrect/incomplete/delayed financial and regulatory reporting due to *lack of management commitment to financial and regulatory reporting (unspecified management responsibility)*;
- IT risk – the risk financial/reputational loss due to breach of data integrity or confidentiality caused by an application error or unauthorised access;
- compliance risk – the risk of financial loss, regulatory sanctions and/or reputation loss due to: *(1) non-compliance of internal fiscal laws and regulations, including the regulations on transfer prices, with the universally effective law; (2) non-observance of principles of the ING Group guidelines on tax issues and (3) material errors in the financial statements and/or tax returns, caused by: being unaware of changes to fiscal laws and regulations or incorrect interpretation of fiscal laws and regulations or failure to report transactions in dedicated financial systems of ING Bank Hipoteczny S.A. (incorrect application of transfer pricing regulations, for example).*

Risk mitigating controls were set for all the risks identified.

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

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

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

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

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

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 380,000,000 and is divided into 380,000 ordinary registered shares of nominal value of PLN 1,000.00 each. The share capital has been fully covered with pecuniary contributions. Each ordinary share entitles its holder to dividend and one vote during the general meeting.

Structure of the share capital

Series	Type of share	Number of shares	Nominal value of one share (in PLN)	Series nominal value (in PLN)	Date on which a resolution was passed by AGM	Issue date	Date of registration in the National Court Register (KRS)
A	ordinary	120,000	1,000.00	120,000,000	not applicable*	26.02.2018	20.03.2018
B	ordinary	90,000	1,000.00	90,000,000	03.01.2019	03.01.2019	06.02.2019
C	ordinary	170,000	1,000.00	170,000,000	11.12.2019	11.12.2019	09.01.2020

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

9.2 Auditing firm – audit of the financial statements

On 17 March 2022, the Supervisory Board of ING Bank Hipoteczny S.A. selected BDO Spółka z ograniczoną odpowiedzialnością Sp. Komandytowa as the auditing firm responsible for the audit and review of the financial statements of the Bank for the years 2022-2023.

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

On 15 July 2022, ING Bank Hipoteczny S.A. and BDO entered into an agreement to audit the financial statements for the years ending on 31 December 2022 and 31 December 2023 respectively, and to review the financial statements for the period ending on 30 June 2022 and 30 June 2023 respectively.

Remuneration of the auditing firm (gross)

	data in PLN thousand	
	period **from 01.01.2022 to 31.12.2022**	period **from 01.01.2021 to 31.12.2021**
Audit of annual financial statements	147.6	129.2
Review of interim financial statements	49.2	36.9
Comfort Letter	0.0	24.6
Other	0.0	0.0
TOTAL	**196.8**	**190.7**

Selection of entity authorised to audit the financial statements

The auditing firm to audit the 2022 financial statements was selected in accordance with the effective laws, including the laws on auditing firm selection and selection procedure.

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

The Bank complies with the laws on the rotation of the auditing firm and the lead statutory auditor as well as the mandatory grace periods. The minimum two-year commissioning period will end for the current auditing firm with the review of the 2023 financial statements.

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

Bank Charter Amendment Procedure

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

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

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

In 2022, there were no amendments to the Bank Charter.

9.3 Other information

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

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

- Transfers of credit debt from the strategic partner – ING Bank Śląski S.A.,
- Credit moratoria - see below under “Adoption of the Act on crowdfunding for business ventures and assistance to borrowers - so-called credit holidays” for details,
- Development of the local and foreign markets of covered bonds in terms of demand and returns expected by investors,
- Development of the residential market in Poland,
- Development of the mortgage lending market in Poland,
- Regulatory landscape development,
- Developments relating to the armed conflict in Ukraine,
- Development of the macroeconomic environment.

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

In the period between 1 January 2022 and 31 December 2022, 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 2022, 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 30 March 2022, the Bank signed annexes with ING Bank Śląski S.A. to Loan Agreement 1 of 31 January 2019 and Loan Agreement 3 of 14 December 2020 shifting PLN 0.3 billion of the commitment limit increasing the maximum commitment amount as follows: for Loan Agreement 1 to PLN 3.2 billion (from 2.9 billion), while reducing the maximum exposure amount for Loan Agreement 3 to PLN 0.7 billion (from 1 billion).

Also on 30 March 2022, the Bank signed an annex with ING Bank Śląski S.A. to the Framework Agreement (Guarantee) dated 14 December 2020. The amendment concerned the setting of the guarantee amount at PLN 0.9 billion (from PLN 1.6 billion).

The Bank signed with ING Bank Śląski S.A. another annex to Loan Agreement 1 dated 31 January 2019. The amendment allows the use of a fixed rate loan of up to PLN 100 million (previously none).

On 6 December 2022, the Bank signed further annexes with ING Bank Śląski S.A. to Loan Agreements 2 and 3 both dated 14 December 2020. The amendment concerned the setting of the Availability Period until 14 December 2023.

On 20 December 2022, the Bank signed an amendment with ING Bank Śląski S.A. to the Framework Agreement (Guarantee) dated 14 December 2020. The amendment concerned the Availability Period - until the third anniversary of the date of the Agreement.

The Bank used the amount of PLN 2.036 billion under the limits awarded.

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

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

Changes to the fundamental principles of Bank enterprise management

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

Financial support agreements

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

Deposits and guarantees and sureties extended

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

Collateral set on accounts or other assets of borrowers

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

Significant events after the reporting period

<u>Resignation from the position of Vice President of the Management Board (CRO) of ING Bank Hipoteczny S.A. and appointment of a new Vice President of Management Board of ING Bank Hipoteczny S.A.</u>

On 8 February 2023, the Vice President of the Management Board for Risk, Mr Paweł Serocki, resigned, for personal reasons, from the Management Board of ING Bank Hipoteczny S.A. and from his position there 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. effective 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.

<u>Changes in the frequency of monitoring of the mortgage lending value of the real estate</u>

On 30 January 2023, the mode and principles of the periodic monitoring of mortgage lending value of the real estate were aligned with existing market practice and the requirements of

Article 129 of Regulation 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).

The above change affected the possibility of preferential treatment of covered bonds issued by the Bank (pursuant to Article 129 of the CRR). With regard to the rules and procedure for the monitoring of mortgage lending value of the real estate, the aforementioned provision introduces the need to comply with the annual cycle of monitoring of the mortgage lending value of the real estates pledged as collateral for covered bonds.

Issue of own bonds of INGBH010 series

On 26 January 2023, ING Bank Hipoteczny S.A. issued another series of unsecured three-month own bonds. The issue amounted to PLN 124,000,000 and was priced at a fixed interest rate. The entire issue was redeemed by an ING Bank Śląski S.A. Group entity and was not subject to the issuer's application for listing on a regulated market.

Purchase of mortgage debt claims portfolio

On 3 March 2023 the Debt Transfer Contract to Issue Covered Bonds No. 13 was signed with ING Bank Śląski S.A., under which ING Bank Hipoteczny S.A. acquired on 4 March 2023 another mortgage-backed housing loans debt claims portfolio for the total amount of PLN 637,276,200.

The Act on crowdfunding for business ventures and assistance to borrowers - so-called credit holidays and its estimated impact on the Bank's performance in 2023

In 2022, the President of the Republic of Poland signed the Act on crowdfunding for business ventures and assistance to borrowers. Among other things, it introduced the possibility for borrowers with a PLN mortgage loan to suspend repayment of up to 8 monthly mortgage instalments - two in each quarter of the second half of 2022 and one in each quarter of 2023 ("credit moratoria", "credit holidays").

The change in the law made the Bank to recognise an adjustment to the gross carrying amount of mortgage loans in PLN, estimated in accordance with the requirements of IFRS 9. As at 31 December 2022 the amount of the adjustment was PLN -34,937,300 - as presented in Note 7.1. Net interest income, in the line the impact of adjustment of gross carrying amount of loans due to credit moratoria, was determined as the difference between the present value of the estimated cash flows under the loan agreements taking into account the suspension of instalment payments and the present gross carrying amount of the loan portfolio, taking into account the percentage of customers who suspend instalment payments.

In 2H2022, an average of 64% of the PLN mortgage portfolio was subject to credit holidays (in value terms relative to the total portfolio meeting the criteria required in order to avail oneself of credit holidays). The ratio was defined as the average customer interest in the credit holidays based on the four periods in which customers were eligible for the said holidays. As at 31 December 2022, the Bank assumed in its estimates that in 2023 customer interest would be, in value terms, 75% in the first half and 77.5% in the second half of 2023.

The estimated percentage of customer interest is the main parameter affecting the value of the adjustment. A +/-5 bps change in the estimated percentage of customers throughout 2023 would result in a change in the amount of the adjustment of approximately +/- PLN 3.8 million.

At the end of 2022, PLN mortgage loans covered by credit holidays were more than 91% (in value terms) in Stage 1 of the expected credit loss valuation.

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 2022 to 31 December 2022 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 2022 to 31 December 2022 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 2022 to 31 December 2022 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

31.03.2023	Jacek Frejlich	President of the Management Board	*signed with electronic qualified signature*

31.03.2023	Marek Byczek	Vice-President of the Management Board	_signed with electronic qualified signature_
31.03.2023	Roman Telepko	Vice-President of the Management Board	_signed with electronic qualified signature_