Selected financial data

	[in PLN thousand]		[in EUR thousand]*	
	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Net interest income	32,190.8	25,663.4	6,942.9	5,651.7
Net income on basic activities	**31,457.2**	**25,103.0**	**6,784.7**	**5,528.3**
General and administrative expenses, including:	-16,556.6	-16,099.2	-3,570.9	-3,545.5
operating expenses	-13,181.1	-10,979.1	-2,842.9	-2,417.9
regulatory costs	-3,375.5	-5,120.1	-728.0	-1,127.6
Gross profit (loss)	14,397.8	9,189.2	3,105.3	2,023.7
Net profit (loss)	**11,119.1**	**6,526.2**	**2,398.2**	**1,437.2**
Profit/loss per ordinary share (PLN)	29.26	17.17	6.31	3.78

* Figures expressed in EUR have been calculated using the weighted average NBP exchange rate from the first half of 2022 for the reporting period and the weighted average NBP exchange rate from the first half of 2021 for the comparative figures.

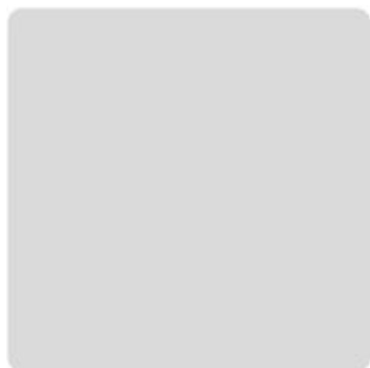
	[in PLN thousand]			[in EUR thousand]*		
	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Amounts due from banks	164,394.7	46,828.4	31,847.6	35,122.6	10,181.4	7,044.7
Debt securities	73,527.3	64,636.4	83,084.2	15,709.0	14,053.2	18,378.2
Loans and advances granted to customers	3,331,360.3	3,882,999.5	4,173,149.3	711,737.9	844,240.5	923,099.7
Total assets	**3,575,739.6**	**3,999,200.7**	**4,293,452.5**	**763,949.0**	**869,504.9**	**949,710.8**
Liabilities to other banks	2,674,361.1	2,453,682.8	3,262,954.3	571,371.4	533,478.9	721,764.8
Liabilities under issue of bonds	0.0	654,660.0	150,153.0	0.0	142,336.0	33,213.8
Liabilities under issue of covered bonds	404,331.1	399,876.9	399,619.8	86,384.5	86,941.1	88,395.8
Total liabilities	**3,094,046.5**	**3,517,213.8**	**3,825,262.3**	**661,036.3**	**764,711.4**	**846,147.2**
Share capital	380,000.0	380,000.0	380,000.0	81,186.2	82,619.5	84,055.9
Total equity	**481,693.2**	**481,986.9**	**468,190.1**	**102,912.7**	**104,793.4**	**103,563.6**

* Figures expressed in EUR have been calculated using the average NBP exchange rate of 30 June 2022 for the reporting date and of 31 December 2021 and 30 June 2021 for the comparative figures.

The basic ratios

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
ROA - return on assets (%)	0.64%	0.50%	0.39%
ROE - return on equity (%)	5.29%	4.41%	3.53%
DR - total debt ratio (%)	86.53%	87.95%	89.10%
TCR - total capital ratio (%)*	35.90%	30.44%	26.82%
LR - leverage ratio (%)*	13.79%	11.93%	10.83%
LCR - liquidity coverage ratio (%)	1864.18%	131%	11160%

ROA - return on assets ratio (%) - calculated as the ratio of net profit from 4 consecutive quarters to average assets from 5 consecutive quarters
ROE - return on equity ratio (%) - calculated as the ratio of net profit from 4 consecutive quarters to average shareholders' equity from 5 consecutive quarters
DR - debt ratio (%) - calculated as the ratio of total debt to total assets
TCR - total capital ratio (%) - calculated as required by the provisions of the CRR (for details go to section Risk and Capital Management)
LR - leverage ratio (%) - calculated as required by the provisions of the CRR (for details go to section Risk and Capital Management)
LCR - liquidity coverage ratio (%) - calculated as required by the provisions of the CRR (for details go to section Risk and Capital Management)
* In accordance with supervisory recommendations, the ratios as at 31 December 2021 are recalculated after the profit distribution is approved by the General Shareholders Meeting, and then they are reported to the Supervisor. The above presented ratios as at 31 December 2021 take into account the recalculation. Prior to the approval of the 2021 profit distribution, the ratios in question published in the financial statements for the period from 1 January 2021 to 31 December 2021 were as follows: TCR 30.43%; LR 11.67%.



ING Bank Hipoteczny S.A.

Interim condensed financial statements
for a six-month period ending on
30 June 2022

ING

Table of Contents

Interim condensed income statement 4

Interim condensed statement of comprehensive income 5

Interim condensed statement of financial position 6

Interim condensed statement of changes in equity 7

Interim condensed cash flow statement 8

Accounting policy and additional notes 9

1. Bank details 9
2. Significant events that occurred in the first half of 2022 11
3. Significant events after the end of the reporting period 13
4. Statement of compliance with International Financial Reporting Standards 15
5. Significant accounting principles and key estimates 17
6. Comparability of financial data 44
7. Notes to the financial statements 45

NOTES TO INCOME STATEMENT 45

7.1. Net interest income 45
7.2. Net commission income 45
7.3. General and administrative expenses 46
7.4. Expected loss provision 46
7.5. Income tax 47

NOTES TO STATEMENT OF FINANCIAL POSITION 48

7.6. Amounts due from banks 48
7.7. Debt securities 48
7.8. Loans and other receivables to customers 48
7.9. Property, plant and equipment 49
7.10. Intangible assets 50
7.11. Other assets 50
7.12. Liabilities to banks 50
7.14. Liabilities under issue of covered bonds 51
7.15. Provisions 52
7.16. Other liabilities 53
7.17. Accumulated other comprehensive income

OTHER NOTES 54

7.18. Additional information to the cash flow statement 54
7.19. Fair value 55
7.20. Off-balance sheet items 57
7.21. Related party transactions 57
7.22. Transactions with the management staff and employees 60
7.23. Headcount 61
7.24. Segment reporting 61
7.25. Qualitative information 67
7.26. Quantitative information 81
7.27. Capital adequacy disclosures 83

Interim condensed income statement

	note	period **from 01.01.2022 to 30.06.2022**	period **from 01.01.2021 to 30.06.2021**
Interest income, including:	7.1.	85,542.5	39,707.2
calculated using the effective interest method	*7.1.*	*85,542.5*	*39,707.2*
Interest costs	7.1.	-53,351.7	-14,043.8
Net interest income	**7.1.**	**32,190.8**	**25,663.4**
Fee and commission income	7.2.	87.4	227.5
Commission expenses	7.2.	-351.5	-749.4
Net commission income	**7.2.**	**-264.1**	**-521.9**
FX result		-9.7	-5.6
Net income on other basic activities		-459.8	-32.9
Net income on basic activities		**31,457.2**	**25,103.0**
General and administrative expenses, including:	7.3.	-16,556.6	-16,099.2
operating expenses	*7.3.*	*-13,181.1*	*-10,979.1*
regulatory costs	*7.3.*	*-3,375.5*	*-5,120.1*
Expected loss provision	7.4.	-502.8	248.6
Tax on certain financial institutions		0.0	-63.2
Gross profit (loss)		**14,397.8**	**9,189.2**
Income tax	7.5.	-3,278.7	-2,663.0
Net profit (loss)		**11,119.1**	**6,526.2**
Number of shares		380,000	380,000
Profit(+)/loss(-) per ordinary share - basic (in PLN)		29.26	17.17
Profit(+)/loss(-) per ordinary share - diluted (in PLN)		29.26	17.17

There were discontinued operations at ING Bank Hipoteczny S.A. neither in the period that ended 30 June 2022 nor in the same period last year.

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

Interim condensed statement of comprehensive income

	Note	period **from 01.01.2022 to 30.06.2022**	period **from 01.01.2021 to 30.06.2021**
Profit (loss) after tax for the period		**11,119.1**	**6,526.2**
Other net comprehensive income		**-1,057.3**	**-119.5**
Items which can be reclassified to income statement		-1,057.3	-119.5
Unrealised result on measurement of HTC&S securities	7.19	-1,057.3	-119.5
including deferred tax		*248.0*	*28.0*
Items which will not be reclassified to income statement		0.0	0.0
Actuarial gains/losses	7.19	0.0	0.0
including deferred tax		*0.0*	*0.0*
Net comprehensive income for the period		**10,061.9**	**6,406.7**

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

Interim condensed statement of financial position

	note	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Amounts due from banks	7.6	164,394.7	46,828.4	31,847.6
Debt securities measured at fair value through other comprehensive income	7.7	73,527.3	49,640.8	50,084.3
Debt securities measured at amortized cost	7.7	0.0	14,995.6	32,999.9
Loans and advances granted to customers	7.8	3,331,360.3	3,882,999.5	4,173,149.3
Property, plant and equipment	7.9	1,036.6	1,207.1	573.2
Intangible assets	7.10	0.0	0.1	328.9
Current income tax receivables		7.5	0.0	0.0
Deferred tax assets		2,936.1	1,115.5	1,087.8
Other assets	7.11	2,477.1	2,413.7	3,381.5
Total assets		**3,575,739.6**	**3,999,200.7**	**4,293,452.5**
Liabilities to banks	7.12	2,674,361.1	2,453,682.8	3,262,954.3
Liabilities under issue of bonds	7.13	0.0	654,660.0	150,153.0
Liabilities under issue of covered bonds	7.14	404,331.1	399,876.9	399,619.8
Provisions	7.15	823.6	823.6	775.8
Current tax liabilities		1,597.0	444.6	673.1
Other liabilities	7.16	12,933.7	7,725.9	11,086.4
Total liabilities		**3,094,046.5**	**3,517,213.8**	**3,825,262.3**
Share capital		380,000.0	380,000.0	380,000.0
Supplementary capital - share premium		62,002.2	62,002.2	62,002.2
Accumulated other comprehensive income	7.17	-1,611.4	-554.1	-165.8
Retained earnings		41,302.3	40,538.8	26,353.7
Total equity		**481,693.1**	**481,986.9**	**468,190.1**
Total equity and liabilities		**3,575,739.6**	**3,999,200.7**	**4,293,452.4**
Carrying amount		481,693.1	481,986.9	468,190.1
Number of shares		380,000	380,000	380,000
Carrying amount per share (in PLN)		1,267.61	1,268.39	1,232.08

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

Interim condensed statement of changes in equity

period from 01.01.2022 to 30.06.2022

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		**380,000.0**	**62,002.2**	**-554.1**	**40,538.8**	**481,986.9**
Net result for the current period		0.0	0.0	0.0	11,119.1	11,119.1
Dividend payout	7.18	0.0	0.0	0.0	-10,355.6	-10,355.6
Other net comprehensive income	7.17	0.0	0.0	-1,057.3	0.0	-1,057.3
Unrealised result on measurement of securities measured at fair value through other comprehensive income		0.0	0.0	-1,057.3	0.0	-1,057.3
Actuarial gains/losses		0.0	0.0	0.0	0.0	0.0
Closing balance of equity		**380,000.0**	**62,002.2**	**-1,611.4**	**41,302.3**	**481,693.1**

period from 01.01.2021 to 31.12.2021

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	7.19	**380,000.0**	**62,002.2**	**-46.4**	**19,827.6**	**461,783.4**
Net result for the current period	7.21	0.0	0.0	0.0	20,711.2	20,711.2
Other net comprehensive income	7.20	0.0	0.0	-507.7	0.0	-507.7
Unrealised result on measurement of securities measured at fair value through other comprehensive income		0.0	0.0	-520.5	0.0	-520.5
Actuarial gains/losses		0.0	0.0	12.7	0.0	12.7
Closing balance of equity		**380,000.0**	**62,002.2**	**-554.1**	**40,538.8**	**481,986.9**

period from 01.01.2021 to 30.06.2021

[in PLN thousand]

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		**380,000.0**	**62,002.2**	**-46.4**	**19,827.6**	**461,783.4**
Net result for the current period		0.0	0.0	0.0	6,526.2	6,526.2
Other net comprehensive income	7.17	0.0	0.0	-119.5	0.0	-119.5
Unrealised result on measurement of securities measured at fair value through other comprehensive income		0.0	0.0	-119.5	0.0	-119.5
Closing balance of equity		**380,000.0**	**62,002.2**	**-165.8**	**26,353.7**	**468,190.1**

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

Interim condensed cash flow statement

	Note	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Profit after tax		**11,119.1**	**6,526.2**
Adjustments		**495,061.8**	**-461,517.2**
Depreciation and amortisation	7.3	166.9	677.9
Interest accrued (from the income statement)	7.1	-32,190.8	-25,663.4
Interest paid		-173.8	-156.8
Interest received		78,661.8	39,851.6
Income tax (from the income statement)	7.5	-3,278.7	-2,663.0
Income tax paid		2,603.0	3,091.7
Change in loans and other receivables from banks	7.22	174.9	-0.1
Change in debt securities measured at fair value through other comprehensive income	7.22	-24,267.3	-93.9
Change in loans and other receivables from customers	7.22	557,535.6	-482,365.8
Change in fixed assets due to recognition of lease		165.3	146.7
Change in other assets	7.22	-225.0	237.3
Change in liabilities to other banks	7.22	0.4	363.8
Change in liabilities under issue of covered bonds	7.22	158.5	154.7
Change in other liabilities	7.22	5,407.7	4,902.1
Net cash flow from operating activities		**595,857.7**	**-454,991.0**
Purchase of securities measured at amortized cost	7.8	14,995.6	-32,999.9
Interest received on debt securities		133.0	70.0
Net cash flow from investing activities		**15,128.6**	**-32,929.9**
Dividend payout		-10,355.6	0.0
Long-term loans received		1,379,000.0	2,008,996.9
Long-term loans repaid		-1,162,000.0	-716,000.0
Interest on long-term loans repaid		-41,303.0	-11,360.2
Proceeds from the issue of bonds		79,000.0	150,000.0
Redemption of bonds		-733,000.0	-975,000.0
Payment of interest on issued bonds		-2,826.2	-950.8
Payment of interest on issued covered bonds		-1,735.2	-1,573.8
Lease liabilities repaid		-200.0	-167.4
Net cash flow from financing activities		**-493,420.0**	**453,944.7**
Net increase/decrease in cash and cash equivalents		117,566.3	-33,976.1
Opening balance of cash and cash equivalents		46,828.4	65,823.7
Closing balance of cash and cash equivalents	7.7, 7.22	164,394.7	31,847.6

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

Accounting policy and additional notes

1. Bank details

1.1. Key Bank data

ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") with its registered office in Katowice, ul. Chorzowska 50, entered to the Register of Entrepreneurs of the National Court Register maintained by the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register under the number KRS 0000723965 on 20 March 2018. The Bank statistical number is REGON 369582281, and the tax identification number is NIP 205-000-51-99. There have been no changes in the Bank's name or identification data as at 30 June 2022 compared to the previous reporting period.

1.2. Scope of operations and duration

As at 30 June 2022, ING Bank Hipoteczny S.A. is a joint-stock company holding a permit issued by the Polish Financial Supervision Authority for running business based on the Mortgage/Covered Bonds and Mortgage Banks Act of 29 August 1997, the Banking Law Act of 29 August 1997, Commercial Companies and Partnerships Code and other commonly binding legal regulations, good banking practice principles and the Bank Charter.

The strategic objective of ING Bank Hipoteczny S.A. is to acquire and then to increase the share of long-term financing in the Bank's balance sheet through the issue of covered bonds and to become one of the main issuers of these debt instruments on the Polish market.

1.3. Share capital

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 each.

Structure of the share capital

Series	Type of share	Number of shares	Nominal value of one share (PLN)	Series nominal value (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.

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.

1.4. Shareholders of ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2022 held 100% of the share capital of ING Bank Hipoteczny S.A. The Bank is part of the capital group called herein the ING Bank Śląski S.A. Group.

1.5. ING Bank Hipoteczny S.A. Management Board and Supervisory Board composition

Management Board

In the first half of 2022 there were no changes in the composition of the Management Board of ING Bank Hipoteczny S.A.

On 7 June 2022, the President of the Bank's Management Board, Mr Mirosław Boda, tendered his resignation from the Bank's Management Board and from his function of the President of the Management Board, effective at the end of 30 September 2022.

As at 30 June 2022, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

- Mr Mirosław Boda, President of the Management Board,
- Mr Jacek Frejlich, Vice President of the Management Board,
- Mr Roman Telepko, Vice President of the Management Board.

Supervisory Board

In the first half of 2022 there were no changes in the composition of the Supervisory Board of ING Bank Hipoteczny S.A.

As at 30 June 2022, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

- Ms Bożena Graczyk, Chairwoman,
- Mr Marcin Giżycki - Deputy Chairman,
- Mr Jacek Michalski, Secretary (independent member),
- Mr Brunon Bartkiewicz, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member (independent member).

1.6. Auditing firm authorised to audit the financial statements

BDO Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw is the auditing firm authorised to audit the financial statements of ING Bank Hipoteczny S.A.

1.7. Approval of financial statements

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the six months ended 30 June 2022, subject to review, were approved for publication by the Bank Management Board on 16 August 2022. At the same time, the disclosures arising from the *Policy of Disclosure of Qualitative and Quantitative Information About Capital Adequacy and Other Information to be Disclosed at ING Bank Hipoteczny S.A.* were approved by the Bank Management Board on 10 August 2022 and by the Audit and Risk Committee of the Supervisory Board on 11 August 2022.

The annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 31 December 2021 were approved by the General Meeting of ING Bank Hipoteczny S.A. on 7 April 2022.

2. Significant events that occurred in the first half of 2022

Outbreak of war in Ukraine

On 24 February 2022, Russia launched a large-scale war against Ukraine. The international community reacted by imposing sanctions against Russia and Belarus.

The Bank continuously monitors the development of events related to the ongoing armed conflict in Ukraine and analyses its impact both on the macroeconomic environment and on the Bank itself. The direct impact of this situation may be reflected in future credit, market and operational risks.

The Bank has a small exposure of mortgage loans granted to individual customers who are citizens of Ukraine, Russia and Belarus. Additionally, absolute majority of these loans were granted to individuals being residents of Poland. The loan portfolio towards the citizens of Ukraine, Russia and Belarus is limited and its share in the loan portfolio does not exceed 1%. It shall be emphasised that this portfolio relates only to mortgage-backed loans, for which the real estate constituting collateral is located in Poland. As at the date of signing this report, the Bank has not identified any significant delays in repayment of mortgage loans by the above mentioned customers. In the opinion of the Bank Management Board, no material direct impact of the armed conflict in Ukraine on the Bank's liquidity and capital position is identified. As the Bank's business model is based on the outsourcing of some of its activities, the Bank has also reviewed its suppliers and business continuity plans.

Information on the impact of the COVID-19 epidemic on the operations of ING Bank Hipoteczny S.A.

In the first half of 2022, the Bank's operating, business and financial activities were still influenced by the COVID-19 pandemic, and the outbreak of armed conflict in Ukraine. 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. During the reporting period the Bank's Management Board analysed the COVID-19 pandemic related developments on a current basis. They identified the risks attributable to increased delay in loan repayment and a potential decrease in property prices. Throughout the whole first half of 2022, the Bank monitored, among other things, the number and volume of loans in respect of which borrowers requested a suspension of the execution of the loan agreement (the so-called "statutory 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.

The Bank's standing is good in terms of its liquidity and capital position. In fact, it significantly exceeds the required regulatory levels. As at 30 June 2022, the Bank's LCR was 1,864.18%. Tier 1 ratio, equal to the Bank's total capital ratio, was 35.90% as at 30 June 2022. The level of this ratio is currently almost 3 times higher than required by law.

Issue and redemption of own bonds series INGBH007 and redemption of own bonds series INGBH004, INGBH005, INGBH006

On 25 January 2022, own bond series INGBH004 of the total nominal value of PLN 150,000,000 issued by the Bank on 25 March 2021 was redeemed. Whereas, on 21 March 2022, own bond series INGBH005 of the total nominal value of PLN 79,000,000 issued by the Bank on 20 September 2021 was redeemed. In addition, on 9 March 2022 own bond series INGBH006 of the total nominal value of PLN 425,000,000 issued by the Bank on 9 December 2021 was redeemed.

On 22 March 2022, the Bank carried out a further issue of own bonds of series INGBH007 of a nominal value of PLN 79,000.000. The price was determined based on the sum of the 3M WIBOR rate and a margin. The bonds were fully subscribed by an entity from the ING Bank Śląski S.A. Group. On 22 June 2022 (in accordance with the contractual terms), the aforementioned bond series was redeemed.

Imposition by the Polish Financial Supervision Authority of a capital charge recommended under Pillar II (P2G)

On 11 February 2022, the Bank received a letter from the Polish Financial Supervision Authority ("PFSA") on the recommendation to mitigate the risks inherent in the Bank's activities by maintaining by the Bank its own funds allocated for covering the additional capital charge ("P2G") at 0.98 p.p. in order to absorb potential losses resulting from stress events. The recommendation should be met above the total capital ratio (as referred to in Article 92(1)(c) of Regulation No 575/2013), plus the additional own funds requirement ("P2R", as referred to in Article 138(2)(2) of the Banking Law Act) and the combined buffer requirement (as referred to in Article 55(4) of the Act on macroprudential supervision). The P2G capital charge should consist entirely of Common Equity Tier 1 capital. According to PFSA's methodology for determining the capital charge recommended under Pillar II (P2G), the maximum level of the P2G capital charge may amount to 4.5 p.p. Details in this respect are described in chapter Risk and Capital Management in item 7.25. Qualitative information - Capital management. The Bank has a high and safe level of capital adequacy, significantly exceeding regulatory requirements including also P2G capital charge. The P2G recommendation is binding for the Bank from the moment of receiving the PFSA information.

Individual recommendation of the Polish Financial Supervision Authority on meeting the criteria for dividend payout from net profit for 2021

On 25 February 2022, the Bank received a letter from the Polish Financial Supervision Authority (PFSA), in which the PFSA indicated that the Bank meets the requirements to pay dividend of up to 100% of the net profit for 2021. At the same time, the PFSA recommended mitigating the inherent risk of the Bank by not taking, without prior consultation with the supervisory authority, other actions, in particular those outside the scope of current business and operational activities, which could lead to lowering the Bank's own funds, including possible dividend payout from undivided profit from previous years and buy-back of own shares.
On 7 April 2022, the Bank Management Board decided to submit to the General Meeting a proposed resolution to allocate from the net profit generated by the Bank in 2021 the amount of PLN 10,355,608.91 for dividend payout, which represents 50% of the Bank's stand-alone net profit. On 7 April 2022, the General Meeting passed a resolution on dividend payout for 2021, in accordance with the proposal presented by the Bank Management Board. The dividend was paid on 8 April 2022.

Amount of the annual contribution to the BGF compulsory resolution fund in 2022

On 15 April 2022, the Management Board of the Bank was informed by the Bank Guarantee Fund about the amount of the annual contribution to the banks' compulsory resolution fund in 2022. The total cost to the Bank is PLN 2.8 million, the 2020 and 2021 contribution adjustment included. The entire amount has been recognised under the costs of the first quarter of 2022.

Information on 2021 dividend payout.

On 7 April 2022, the Ordinary General Meeting of the Bank passed a resolution on the dividend payout for 2021. On the basis of this resolution, the Bank paid a total dividend of PLN 10,355,608.91. The record date (i.e. the date on which the owner of the shares acquires the right to the dividend) was set at 7 April 2022 and the dividend payout date was set at 8 April 2022. The dividend covers all shares issued by the Bank, i.e. 380,000 shares.

General Meeting of ING Bank Hipoteczny S.A.

On 7 April 2022, the General Meeting of the Bank took place. The resolutions that were passed there concerned:

- consideration and approval of the financial statements of ING Bank Hipoteczny S.A. for 2021,

- consideration and approval of the Management Board Report on Operations of ING Bank Hipoteczny S.A. for 2021 inclusive of Statements of the Management Board on observance of corporate governance principles,
- approval of the Supervisory Board Report on assessment results for the financial statements of ING Bank Hipoteczny S.A. for 2021, the Management Board Report on Operations of ING Bank Hipoteczny S.A. for 2021 and the Management Board's motion regarding allocation of the profit generated by ING Bank Hipoteczny S.A in the period from 1 January 2021 to 31 December 2021,
- acceptance of reports of the Supervisory Board of ING Bank Hipoteczny S.A. for 2021, comprising:
  1) assessment of the Bank's standing, taking into account the assessment of the risk management and internal control systems, the compliance 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;
  4) assessment of application by the Bank of the Principles of Corporate Governance for Supervised Institutions.
- acknowledgement of the fulfilment of duties in 2021 by all Management Board Members and Supervisory Board Members,
- approval of the Management Board's motion regarding allocation of the net profit generated by ING Bank Hipoteczny S.A in the period from 1 January 2021 to 31 December 2021,
- resolution of the ING Bank Hipoteczny S.A. Supervisory Board Members Appointing, Onboarding and Recalling Policy,
- adoption of an amendment to the Remuneration Policy for Members of the Supervisory Board of ING Hipoteczny S.A.,
- adoption for information the amendment to the Bylaw of the Supervisory Board of ING Bank Hipoteczny S.A.

Reduction in the amount of committed funding granted by ING Bank Śląski S.A

In March 2022, the Bank, adjusting its credit lines to the current and planned scale of issuance of unsecured bonds, reduced the maximum limit of available funding granted to the Bank under unconditional credit lines by ING Bank Śląski S.A. As a result of this operation, at the end of the second quarter of 2022, the total amount of unconditional credit lines granted to the Bank was PLN 4.9 billion.

3. Significant events after the end of the reporting period

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 2022

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business ventures and assistance to borrowers. Among other things, it introduces the possibility for borrowers with a PLN mortgage to suspend up to eight monthly mortgage instalments - two in each quarter of the second half of 2022 and one in each quarter of 2023.

As at 30 June 2022, the gross carrying amount of PLN mortgage loans was PLN 3,334.8 million. According to the Bank's own estimates, based on the PFSA's information on the amount of mortgage loans in PLN, the Issuer's market share in PLN mortgage loans as at 31 December 2021 was below 1 per cent.

According to estimates made by the Bank, it will incur a financial loss. The estimated net loss should not limit the Bank's ability to pay interest and principal on the bonds issued. Nor should the deterioration of its financial condition lead the Bank to breach other regulatory requirements and applicable capital ratios.

With regard to the suspension of instalment repayments, the Bank is of the opinion that the amount of the adjustment estimated in accordance with the requirements of IFRS 9, current knowledge and based on the assumptions made, is material and will result in a one-off reduction in the Bank's pre-tax result (as a decrease in income) for July 2022 of approximately PLN 103.5 million. Consequently, at the reporting date, the Bank expects a net loss in 2022, which, according to the Bank's estimates, may amount to approximately PLN 57 million. In addition, the estimated amount of the adjustment will have a negative impact on the Bank's total capital ratio of approximately 5.10 p.p. and on the reduction of interest income referred to in Article 18(2) of the Act on Covered Bonds and Mortgage Banks of 29 August 1997 by approximately PLN 103.5 million.

The pre-estimated value of the adjustment was determined as the difference between the present value of the estimated cash flows arising from the loan agreements taking into account the suspension of instalments and the gross present carrying value of the loan portfolio, assuming that 70% of customers would be interested in suspending their instalments. Assuming a +/- 10 p.p. change in the percentage of customers interested in suspending instalment repayments, the value of the estimated adjustment would change by approximately +/- PLN 14.9 million. Should the percentage of customers interested in suspending repayment of instalments be significantly higher than the Bank's prediction, the Bank might breach the requirement referred to in Article 18(2) of the Act of 29 August 1997 on covered bonds and mortgage banks, however this would not make the Bank unable to smoothly meet its obligations towards purchasers of covered bonds. The mortgage bank sector informed the Polish Financial Supervision Authority thereabout in May 2022. Responding to the letter in question, the Polish Financial Supervision Authority informed the Polish Bank Association that it recognised the impact of the Act on mortgage banks in particular and assured that in assessing the banks' activities it would take into account the circumstances and the banks' real possibilities with regard to events that may require supervisory measures adapted to the banks' situation.

The Bank Management Board notes that the above amount is subject to update taking into account, in particular, the actual level of interest in the suspension of loan repayments. Updated information on the amount of the adjustment and its impact on the Bank's financial result will be presented in the 2022 financial statements.

Appointment to the positions of President and Vice-President of the Management Board of ING Bank Hipoteczny S.A.

On 13 July 2022, the Supervisory Board of ING Bank Hipoteczny S.A. entrusted Mr Jacek Frejlich, the current Vice-President of the Management Board of ING Bank Hipoteczny S.A., with the position of President of the Management Board of the Bank, subject to the approval of the Polish Financial Supervision Authority and as of the date of such approval, but not earlier than 1 October 2022. Whereas, on 1 August 2022, the Supervisory Board of ING Bank Hipoteczny S.A. appointed Mr Mark Byczek to the position of Vice-President of the Bank Management Board as of 1 October 2022.

Issue of own bonds of INGBH008 series

On 15 July 2022, ING Bank Hipoteczny S.A. placed another series of unsecured 3M own bonds. The issue value was PLN 148 million and it was priced on the basis of 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.

Impact of the WIBOR benchmark reform

In July 2022, a National Working Group on the reform of the WIBOR benchmark was established. The purpose of the Group is to prepare a 'roadmap' and a timetable for the smooth and safe implementation of the various elements of the process leading to the replacement of the WIBOR interest rate benchmark with a new benchmark.

The work is currently at a very preliminary stage of implementation. The scope of the Working Group's work will cover a number of issues in order to smoothly and safely implement the various elements of the benchmark replacement process, in particular regarding the development of a methodology for the determination of the new benchmark, the adaptation of IT systems and the development of a forward curve that will enable the determination of benchmarks in a forward structure and the fair value measurement of financial instruments.

4. Statement of compliance with International Financial Reporting Standards

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2022 to 30 June 2022 have been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting as approved by the European Commission and valid as at the reporting date, i.e. 30 June 2022, and in accordance with the requirements set out in the Regulation of the Minister of Finance of 29 March 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 (Journal of Laws of 2018, item 757).

The presented financial statements were prepared in a condensed version. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 31 December 2021, which were approved by the Bank's Ordinary General Meeting on 7 April 2022.

Interim condensed income statement, interim condensed statement of comprehensive income, interim condensed statement of changes in equity and interim condensed cash flow statement for the period from 1 January 2022 to 30 June 2022 and interim condensed statements of financial position as at 30 June 2022 together with comparable data have been prepared using the same accounting principles for each of the periods, with the exception of the changes in accounting principles described under item 5.5.7.

4.1. Changes to accounting standards

In these interim condensed financial statements, the Bank has incorporated the following amendments to standards and interpretations that have been endorsed by the European Union with an effective date for annual periods beginning on or after 1 January 2022, i.e. the following:

Change	Influence on the Bank's statements
Changes resulting from the periodical review of IFRS 2018-2020	Changes concerning: IFRS 1 - first-time adopter subsidiary IFRS 9 - fees in the '10 per cent' test (to determine whether it is possible to exclude financial liabilities from the statement of financial position) - according to the change in the test, all fees paid or received, including those settled by the borrower or lender on behalf of other entities, should be included Illustrative examples for IFRS 16 - Lease incentives IAS 41 - Agriculture: taxation in fair value measurements. The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.

IFRS 3 *Reference to the conceptual framework* *(financial year beginning on 1 January 2022)*	Amendment introducing references to conceptual assumptions published in March 2018. The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.
IAS 37 *Onerous Contracts — Cost of Fulfilling a Contract* *(financial year beginning on 1 January 2022)*	The amendment clarifies the notion of the costs of meeting the obligations arising from contracts where the costs exceed the economic benefits arising from them. The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.
IAS 16 *Property, Plant and Equipment — Proceeds before Intended Use* *(financial year beginning on 1 January 2022)*	The change consisting in the exclusion of the possibility of deducting from the cost of production of property, plant and equipment the amounts received from the sale of products produced at the stage of pre-implementation tests. Such sales revenue and corresponding costs should be recognised in the income statement. The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.
Amendment to IFRS 16: *COVID-19 related rent concessions beyond 30 June 2021*	Lease modification amendment to extend by 1 year the period of possibile waiver of the assessment of lease modifications when the change in lease payments is a direct consequence of the COVID-19 pandemic. Amendment implementation will have no impact on the financial statements of the Bank.

Standards and interpretations that have been released, but are not applicable yet because they have not been approved by the European Union, or they have been approved by the European Union but have not been earlier applied by the Bank have been presented in the annual financial statements of the Bank for 2021.

In the first half of 2022, the European Union approved the following two amendments to the standards:

Change **(expected effective date is provided for in the parentheses)**	**Influence on the Bank's statements**
Amendments to IAS 1 and practical stand to IFRS *Disclosures concerning the Accounting Policy (financial year beginning on 1 January 2023)*	Amendment regarding the scope of disclosure of significant accounting principles in the financial statements. In accordance with the implemented amendments, the disclosures will apply only to these accounting policies that have a material effect on the information in the financial statements. The practical position attached to the amendment provides a detailed illustrative example. The implementation of the amendment will have a significant impact on the scope of disclosure of significant accounting principles in the Bank's financial statements.
Amendment to IAS 8: *definition of accounting estimates (financial year beginning on 1 January 2023)*	The amendment clarifies the definition of accounting estimates, i.e.: monetary amounts in the financial statements that are subject to measurement uncertainty. The implementation of the amendment will not have a significant impact on the Bank's financial statements.

As at the date of approving these statements for publication, given the ongoing process of implementing the IFRS standards in the EU as well as the Bank's operations, with regard to the accounting principles applied by the Bank – there is no difference between the IFRS standards which came into force and the IFRS standards approved by the EU.

4.2. Going concern

These interim condensed financial statements of ING Bank Hipoteczny S.A. have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future, i.e. for a period of at least 12 months from the date of approval, i.e. from 16 August 2022. As at the date of approval hereof by the Bank Management Board, no facts or circumstances were identified that could pose a threat to the Bank's operation as a going concern for at least 12 months from the publication date due to intended or forced discontinuation or significant limitation by the Bank of its current operations.

4.3. Discontinued operations

In the first half of 2022, as in 2021, there were no material discontinued operations at the Bank.

4.4. Financial statements scope and currency

The Bank is neither the parent entity nor the major investor for associates, jointly controlled entities or subsidiaries. Thus, ING Bank Hipoteczny S.A. does not prepare consolidated financial statements of the Group covering the financial data of such entities.

The parent entity of ING Bank Hipoteczny S.A. is ING Bank Śląski S.A. The latter prepares consolidated financial statements of the ING Bank Śląski S.A. Group. Whereas ING Bank Śląski S.A. is a part of the capital group that is called herein as the ING Group. ING Groep N.V. is the ultimate parent of the Group.

These interim condensed financial statements of the Bank for the six months ended 30 June 2022 include the Bank's data. It has been prepared in Polish zloty ("PLN"). Unless otherwise specified, all values are given after rounding to one thousand zloty. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

4.5. Reporting period and comparable data

The interim condensed financial statements of the Bank cover the period from 1 January 2022 to 30 June 2022 and include comparative data:

- as at 31 December 2021 and 30 June 2021 for the interim condensed statement of financial position.
- for the period from 1 January 2021 to 30 June 2021 for the interim condensed income statement, interim condensed statement of comprehensive income,
- for the period from 1 January 2021 to 30 June 2021 for the interim condensed statement of cash flows,
- for the period from 1 January to 31 December 2021 and for the period from 1 January to 30 June 2021 for the interim condensed statement of changes in equity,

The interim condensed financial statements for the period from 1 January 2022 to 30 June 2022 were not subject to audit by a statutory auditor, nor were the interim condensed financial statements for the period from 1 January 2021 to 30 June 2021.

5. Significant accounting principles and key estimates

The presented herein below accounting policy of the Bank follows the requirements of IFRS.

The detailed accounting principles and key estimates applied for the needs of preparation of these financial statements are consistent with the principles binding in the financial year ending on 31 December 2021.

In the first half of 2022, the Bank's accounting policies have changed to the extent described in section 5.5.7 *Modification of contractual cash flows*.

5.1. Basis for preparing the financial statements

Interim condensed financial statements are presented in Polish zloty, rounded to the nearest thousand, with one decimal place (unless stated otherwise).

In the interim condensed financial statements, the concept of fair value of financial assets and financial liabilities measured at fair value and financial assets classified as measured at fair value through other comprehensive income was applied, except for those for which fair value cannot be reliably determined. Other items of financial assets are presented at amortized cost less impairment or at cost less impairment.

Property, plant and equipment and intangible assets are recognised at cost less cumulative amortisation and impairment.

All major items of costs and revenue are recognised by the Bank on the following bases: accrual, matching of revenues and expenses, recognition and measurement of assets and liabilities, creation of impairment losses.

5.2. Professional judgement

In the process of applying the accounting principles to the issues indicated below, the professional judgement of the management was of utmost importance, apart from accounting estimates.

5.2.1. Deferred tax asset

The Bank recognises deferred tax assets assuming that it will probably have sufficient taxable income to fully realise the deferred tax asset.

5.2.2. Classification of financial assets

The Bank classifies financial assets based on assessment of a business model under which assets are held and based on assessment whether the contractual terms and conditions entail only payments of principal and interests thereon. Detailed information about the assumptions made in this respect are presented under 5.5.2. *Classification of financial assets.*

5.3. Accounting estimates

The development of interim condensed financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect directly the amounts reported in the interim condensed financial statements and notes thereto.

Estimations and assumptions applied to the presentation of amounts of assets and liabilities, as well as revenues and costs are made using historical data available and other factors considered to be relevant in given circumstances. The assumptions applied for the future and available data sources are the base for making estimations regarding the carrying amount of assets and liabilities, which cannot be determined explicitly on the basis of other sources. The estimates reflect the reasons for/ sources of uncertainties as at the balance sheet date. The actual results may differ from estimates.

Estimates and assumptions are reviewed on a current basis. Adjustments to estimates are recognized in the period when the estimation was changed provided that the adjustment applies to this period alone. Whereas, should the adjustments affect both the period when the estimation was changed as well as the following periods, they are recognised in the period when the estimation was changed and in the following periods.

Expected credit loss provisioning

The currently observed increases in interest rates and inflation, and the fact that the PD models for the mortgage portfolio do not include these components, resulted in the need for the Bank to carry out additional analyses of the potential underestimation of write-downs on this account. Strong increases in interest rates and expenses are

reflected in significant increases in customers' financial and living expenses and, as a consequence thereof, some customers may no longer be able to service their loans on a regular basis. The analyses carried out showed the need for an additional adjustment of allowances, the so-called Post Model Adjustment reflecting the impact of interest rate increases and inflation on the risk level of the Bank's portfolio. This adjustment was implemented starting from the end of the second quarter of 2022. In addition, the results of backtests of the LGD in default model showed excessive conservativeness. In order to maintain the adequacy and correctness of the allowances, a scalling factor was calculated and proposed starting from the end of the second quarter of 2022, which resulted in the resolution of the loss allowance for expected credit losses. In the end, the cumulative impact of the two mentioned herein above adjustments results in an increase in the allowances by PLN 0.64 million.
The management adjustments (post-model adjustment and scalling factor in LGD) did not affect the classification of exposures into stages presented in these financial statements. A breakdown of the adjustments by stage is presented in explanatory note 7.8 *Loans and other receivables to customers.*
In other respects, the Bank continues with the methodology for calculating expected losses.

Below, there are the most significant accounting estimates made by the Bank.

5.3.1. Impairment

The Bank assesses whether there is objective evidence of impairment of financial assets (individual items or groups) and non-current assets as at balance sheet date.

5.3.1.1. Impairment of financial assets

The Bank applies the requirements of IFRS 9 as regards impairment in order to recognise and measure loss allowance for expected credit losses attributable to financial assets that are measured:

- at amortised cost or
- at fair value through other comprehensive income.

Expected loss in the portfolio of individually non-significant exposures is calculated collectively as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The final level of provisions on exposures in Stage 2 results from the total expected losses calculated each year in future to the remaining maturity, taking into account discounting.

Due to the specifics of its operations, the Bank distinguishes only collective provisions.

In compliance with IFRS 9, a collective provision is made for individually not significant financial assets (provisions for the portfolio at Stage 3 subject to collective evaluation) if there is evidence of impairment for a single financial assets item or for a group of financial assets as a result of a single event or multiple events of default. Provisions for the portfolio at Stage 3 subject to collective evaluation are made for financial assets falling into the risk rating 20, 21, 22 (detailed mapping of risk classes is presented hereinbelow). If after the assessment we find that for a given financial assets item there is no evidence of impairment, the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. For such groups, collective provisions are calculated and, in accordance with IFRS 9, they are defined as provisions for non-impaired assets. Provisions for non-impaired assets are made for financial assets falling into the risk rating 1-19.

Collective provisions are calculated with the collective provisioning method that uses, adjusted to the requirements of IFRS 9 (and IAS 37), models of risk parameters assessment (PD, LGD, EAD/CCF).

Some examples of impairment evidence and triggers for financial assets, methodology of impairment computation and the recording rules applied thereto were described later herein.

Customer exposure by risk class

Risk classes can be divided into four basic groups:

- a group of classes corresponding to investment grade (risk classes 1 to 10),
- a group of classes corresponding to speculative ratings (risk classes 11 to 17),
- a group of classes of potentially non-performing exposures (risk classes 18-19),
- a group of classes of non-regular exposures (risk classes 20-22).

The risk class range 1-10 corresponds to Moody's short-term ratings Aaa to Baa3, the risk class range 11-17 corresponds to Moody's short-term ratings Ba1 to Caa3 and the risk class range 18-19 corresponds to Ca to C. For ratings 20-22, the probability of default is 100%.

Estimation of expected losses given the current macroeconomic environment

The methodology for calculating expected losses was presented in the annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 31 December 2021. In the first half of 2022, the Bank has continued this approach, including probability-weighted macroeconomic scenarios, supplemented by management adjustments where, in the opinion of the management, recent economic events have not been fully captured.

Forecasts of macroeconomic indicators were also revised. The macroeconomic assumptions used to determine expected credit losses are based on forecasts prepared by the Macroeconomic Research Bureau of ING Bank Śląski S.A., with forward curves adopted for interest rates.

In addition, the current sharp rise in inflation and interest rates did not occur in the past few years. Strong increases in interest rates and expenses are reflected in significant increases in customers' financial and living expenses and, as a consequence thereof, some customers may no longer be able to service their loans on a regular basis.

The adopted forecast values for subsequent years are shown in the tables in the following chapters.

Sensitivity analysis of expected losses to the level of the adopted PD threshold

In order to show the sensitivity of expected losses to the level of the PD threshold adopted, the Bank has estimated the allowance for expected losses in Stages 1 and 2 with the following assumptions:

- all of these financial assets would be below the PD threshold and have an associated 12-month expected loss; and
- all these assets would exceed this PD threshold and have lifetime expected losses attributed to them.

These estimates show as at 30 June 2022, respectively, hypothetical lower expected losses for assets in Stages 1 and 2 by approximately PLN 0.42 million (under the first assumption) or higher by approximately PLN 8.70 million (under the second assumption).

For comparison, estimates made as at 31 December 2021 showed, respectively, hypothetical lower expected losses for assets in Stages 1 and 2 by approximately PLN 0.37 million (under the first assumption) or higher by approximately PLN 13.23 million (under the second assumption).

It should be noted that in the first half of 2022 the Bank did not make any significant changes to the classification of mortgage loans, including to Stage 2 (known as SICR - significant increase in credit risk).

Macroeconomic factor projections and weights assigned to each macroeconomic scenario

The following tables present the macroeconomic projections of the main indicators adopted as at 30 June 2022 and 31 December 2021 and the deviation of expected losses in the positive, baseline and negative scenarios from the reported expected losses, weighted by the probability of the scenarios (assuming that the time horizon of the expected loss calculation remains unchanged at 12 months or over the lifetime of the exposures, respectively, broken down by stage according to IFRS 9 methodology).

At the end of the first half of 2022, deviations from reported losses did not change significantly compared to the end of 2021. The deviations decreased somewhat, mainly due to a reduction in the projected fluctuations of GDP indicators in the positive and negative scenarios over the 3-year time horizon of the forecast, which in 2021 resulted from the shock changes caused by the onset of the pandemic.

2021									
		2022	**2023**	**2024**	Expected losses unweighted by probability - deviation from reported losses in %		Scenario weight	Reported expected losses (collective assessment in Stages 1, 2 and 3)	
					Total	according to Stages		**Total**	according to Stages
Positive scenario	GDP	6.6%	6.0%	5.5%	**-10%**	Stage 1 -14% Stage 2 -15% Stage 3 -7%	20%	**2,905.6**	Stage 1 615.0 Stage 2 461.7 Stage 3 1,828.9
	Unemployment according to LFS	1.9%	1.9%	1.8%					
	Property price index	7.8%	6.3%	6.5%					
	3M interest rate	3.0%	3.0%	3.0%					
Base scenario	GDP	5.1%	4.3%	3.5%	**-1%**	Stage 1 -1% Stage 2 -1% Stage 3 0%	60%		
	Unemployment according to LFS	2.5%	2.6%	2.8%					
	Property price index	5.9%	4.7%	4.6%					
	3M interest rate	2.6%	2.6%	2.5%					
Negative scenario	GDP	-0.5%	2.7%	1.7%	**+12%**	Stage 1 +18% Stage 2 +18% Stage 3 +8%	20%		
	Unemployment according to LFS	4.2%	5.6%	6.9%					
	Property price index	0.3%	2.5%	2.5%					
	3M interest rate	2.2%	1.8%	1.7%					

2022										
		2022	**2023**	**2024**	Expected losses unweighted by probability - deviation from reported losses in %		Scenario weight	Reported expected losses (collective assessment in Stages 1, 2 and 3, without adjustments)	
					Total	according to Stages		**Total**	according to Stages
Positive scenario	GDP	4.3%	5.1%	5.7%	**-7%**	Stage 1 -7% Stage 2 -14% Stage 3 -4%	20%	**2,798.2**	Stage 1 572.4 Stage 2 599.8 Stage 3 1,626.0
	Unemployment according to LFS	2.7%	2.1%	1.8%					
	Property price index	5.1%	4.1%	3.8%					
	3M interest rate	7.9%	7.1%	6.5%					
Base scenario	GDP	4.0%	3.8%	3.3%	**-1%**	Stage 1 -1% Stage 2 -1% Stage 3 -1%	60%		
	Unemployment according to LFS	2.9%	2.6%	2.6%					
	Property price index	4.2%	2.7%	2.4%					
	3M interest rate	7.3%	6.7%	5.9%					
Negative scenario	GDP	3.6%	-0.7%	0.2%	**+11 %**	Stage 1 +11% Stage 2 +17% Stage 3 +8%	20%		
	Unemployment according to LFS	3.2%	4.3%	5.8%					
	Property price index	2.0%	-0.9%	0.6%					
	3M interest rate	7.6%	5.4%	4.6%					

5.3.1.2. Impairment of other non-current assets

For non-current assets, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date.

The value in use of an item of non-current assets (or a cash-generating unit when the recoverable amount of an assets item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given assets item (or a cash-generating unit) and other factors.

To determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given assets item. When estimating the fair value less costs of sale, the Bank makes use of relevant market data available or valuations made by independent appraisers which are based on estimates by and large.

5.3.2. Provisions for retirement and pension benefits

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the present value of the future long-term Bank's obligations towards their employees considering the headcount and payroll status as at the update date.

The provisions are calculated based on a range of assumptions, relating to both discount rates and projected salary raises as well as to staff rotation, death risk and others. The assumptions are verified at the end of the financial year.

5.3.3. Valuation of incentive schemes

5.3.3.1. Valuation of variable remuneration programme benefits

As at the balance sheet date, the Bank presents in the books the estimated value of benefits to be rendered under the variable remuneration programme. Benefits will be granted to employees covered with the programme, based on their performance appraisal for a given year. The programme was launched in 2018.

Value of benefits granted in a form of financial instruments entitling to receive cash is estimated based on book value of net assets of ING Bank Hipoteczny S.A. per share, adjusted with factors affecting the said assets, other than the financial result.

The value of the deferred benefit element is adjusted with the reduction factor which accounts for probability of occurrence of an event requiring adjustment of the value of the granted benefit which the employee is not fully eligible to as at the balance sheet date. The catalogue of events has been defined in the programme assumptions.

5.3.4. Amortisation period and method for intangible assets

The amortisation period and method for intangible assets are verified at the end of each financial year. Changes to the useful life or expected pattern of consumption of the future economic benefits embodied in the intangible asset are recognised by changing the amortisation period or method, accordingly, and are deemed to be changes in the estimates. The Bank applies the capitalisation limit established by the ING Bank Śląski S.A. Group for purchase (PLN 440,000) or in-house production (PLN 10 million) of computer software. Expenditure for acquisition of items of intangible assets below the capitalisation limit are recognised by the Bank directly in expenses when incurred.

5.4. Foreign currency

5.4.1. Functional currency and presentation currency

The items given in presentations of the Bank are priced in the currency of the basic economic environment in which a given entity operates ("functional currency").

These financial statements are presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

5.4.2. Transactions in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing at the transaction date. The financial assets and liabilities, being result of the said transactions and denominated in foreign currencies are translated at the FX rate prevailing on a given day. The foreign exchange differences resulting from the settlements of the said transactions and the balance sheet valuation of the financial assets and liabilities denominated in foreign currency are recognized in the income statement under the *FX result.*

5.5. Financial assets and liabilities

5.5.1. Initial recognition

The Bank recognises financial assets or liabilities item in the statement of financial position when it becomes bound with the stipulations of the instrument-related contract.

Purchase and sale transactions of financial assets measured at amortized cost, measured at fair value through other comprehensive income and at fair value through profit and loss are recognized, in accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity.

When a financial asset or financial liability is recognized initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The purchased mortgage loans related debt claims are recognised as at the transaction date [1]based on the Debt Transfer Contract in order to issue covered bonds (hereinafter referred to as: "Transfer Contracts").

5.5.2 Classification of financial assets

Financial assets are classified by the Bank to one of the following categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income and
- measured at fair value through profit or loss.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated to measurement at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets measured at fair value through other comprehensive income

A debt financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and it is not designated to measurement at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows or to sell the financial assets item,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through profit or loss

All financial assets that do not meet the conditions to be classified as financial assets measured at amortised cost or debt financial assets measured at fair value through other comprehensive income, are classified to financial assets measured at fair value through profit or loss.
Moreover, at initial recognition, the Bank may irrevocably designate a given financial assets item to be measured at fair value through income statement, even though, satisfying the terms and conditions of classification, it can be measured at amortised cost or at fair value through other comprehensive income. It is a prerequisite to confirm that the purpose of such a designation is to eliminate or limit significantly any accounting mismatch that would occur without the said designation.

5.5.3. Business Model Assessment

The Bank assesses goals of the business model per organisational unit of the Bank that manages a given portfolio of financial assets and is its owner.

There are the following business models of holding financial assets; namely assets are held:

[1]Transaction Date is a date falling on or after the conclusion of a given Transfer Contract being the date, referring to the Portfolio transferred thereunder, at which the first application for entering of ING Bank Hipoteczny S.A. as a mortgage creditor in the Land and Mortgage Register maintained for the real property encumbered with the Mortgage securing the Debt from that Portfolio is submitted, or the next consecutive date.

- to receive contractual cash flows,
- to receive contractual cash flows or to sell,
- for other reasons (including, but not limited to, in order to maximise profit on sales).

Business models are set at the level that reflects best the Bank's approach to management of financial assets items in order to achieve business goals and to generate cash flows.

During assessment, the Bank verifies all areas of operation of the business unit of the owner of the ring fenced portfolio of financial assets that may affect decisions about holding the assets in the Bank's portfolio, including, especially:

- assumptions of the product offer structure,
- organisational structure of the unit,
- assumptions concerning assessment of the yield from the portfolio of assets (for instance, approach to planning, management information assumptions, or key ratios of assessment),
- approach to remuneration for the key management in relation to the portfolio results and cash flows,
- risk of the assets portfolio and management approach to that risk,
- analysis of transactions of sale from the assets portfolio (frequency, volume and reasons for the decisions taken),
- analysis of projected future sales.

The Bank allows transactions of sale of financial assets held to get contractual cash flows, due to the following reasons:

- increase in credit risk,
- closeness to maturity date,
- occasional sale,
- sale of insignificant value,
- in response to regulatory/supervisory requirements,
- during liquidity crisis (stress situations).

The Bank assumes that:

- any sale close to the maturity date is the sale of financial assets:

  - if the initial maturity date is longer than 1 year - less than 6 months before the maturity date,

  - if the initial maturity date is shorter than 1 year - less than 3 months before the maturity date.
- sporadic sales means the number of sales transactions in relation to the average number of items within a given business model at a level of less than 10%,
- insignificant sales means sales for which both the value of sales in relation to the value of the total portfolio and the realised result on sales in relation to the net interest income of the business model concerned is 10%.

5.5.4. Cash flows assessment

For the needs of cash flows assessment, the Bank assumes the following definitions:

- principal – is defined as fair value of the financial assets item at initial recognition in the Bank's books,
- interest – is defined as payment that includes:

  - fee for the change in time value of money,

  - fee for the credit risk of the principal amount due and payable throughout a stipulated period of time,

  - fee for other basic credit-related risks and costs (for instance, liquidity risk and overheads) and

  - profit margin.

Assessment is to find out whether cash flows are effected solely to repay principal and interest due and payable thereon. The Bank verifies the contractual clauses affecting both the time of cash flows and their amount resulting from specific financial assets.

Most notably, the following terms and conditions are verified:

- contingencies affecting the amount or timelines of cash flows,
- leverages,
- terms and conditions of early payment or prolongation of financing,
- terms and conditions limiting the right to sue attributable to the cash flows realised,
- terms and conditions modifying the fee for the change in time value of money.

The terms and conditions modifying the change in time value of money are assessed using qualitative or quantitative analysis.

Should the qualitative appraisal not be enough to confirm the conclusion concerning characteristics of the realised cash flows, the Bank carries out the quantitative one. Quantitative appraisal is carried out by comparing:

- undiscounted cash flows resulting from the analysed contract with
- undiscounted cash flows from the reference asset that does not have any terms and conditions modifying the fee for the change in time value of money.

If the analysed cash flows differ significantly from each other, the assessed asset has to be classified for measurement at fair value through the income statement, because cash flows are not effected solely to repay principal and interest due and payable thereon.

5.5.5. Classification of financial liabilities

The Bank classifies its financial liabilities into categories measured at amortised cost.

Financial liabilities measured at amortized cost are financial liabilities that are contractual obligations to deliver cash or other financial asset to another entity not carried at fair value through profit or loss, being a deposit, loan received or a financial liability recognised as a result of a sale of a financial assets item that cannot be derecognized from the statement of financial position of the Bank and liabilities due to the issue of covered bonds and other securities.

5.5.6. Derecognition

The Bank derecognizes a financial asset from the Bank's statement of financial position when, and only when the contractual rights to the cash flows from the financial asset expire or the Bank transfers the financial asset and the transfer meets the conditions for derecognition.

The Bank transfers the financial asset if and only if:

- it transfers contractual rights to receive cash flows, or
- it retains the contractual rights to receive cash flows but assumes a contractual obligation to transfer the cash flows.

When the Bank retains contractual rights to cash flows, but assumes a contractual obligation to transfer those cash flows to third parties, the Bank treats such a transaction as a transfer of a financial asset only if all three of the following conditions are met:

- the Bank is not obliged to pay the amount to eventual recipients until it has received the corresponding amounts that result from the original asset,
- under the transfer contract, the Bank may not sell or pledge the original asset, other than as security for the obligation to transfer cash flows established in favour of eventual recipients,
- the Bank is obliged to transfer all cash flows received from the original asset without material delay.

On transferring the financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset from the statement of financial position,

- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in the statement of financial position,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Bank determines whether it has retained control of the financial asset. If control is retained, the financial asset continues to be recognised in the Bank's balance sheet; accordingly, if control is not retained, the financial asset is derecognised from the statement of financial position up to the amount resulting from continuing involvement.

The Bank derecognizes a financial liability (or a part thereof) from its statements of financial position when, and only when the obligation specified in the contract is satisfied, cancelled or expires.

The Bank derecognizes a financial asset or a part thereof from the statement of financial position if the rights resulting from that asset expire, the Bank waives those rights, sells the receivables, is redeemed or as a result of a material modification of the terms and conditions of the credit agreement.

The Bank shall reduce the gross carrying amount of a financial asset if there is no reasonable prospect of recovering the financial asset in whole or in part.

The amounts of receivables written down as loss and recovered thereafter reduce the value of impairment loss in the income statement

5.5.7. Modification of contractual cash flows

The amendments introduced in the first half of 2022 consisted of clarifying the qualitative criteria and adding a quantitative criterion for assessing whether a modification of a financial assets item leads to its expiry. The amendments are implemented with prospective effect from 1 January 2022 in accordance with IAS 8 para. 25, as retrospective application of the new rules is not feasible in practice. The Bank is unable to determine the cumulative effect of applying the amended accounting principles to all prior periods, as the Bank does not have data from prior periods that would allow retrospective application of the new accounting principles.
As the comparative figures have not been restated as a result of the change, the material principles of accounting in this regard are presented in a layout showing both the principles in force before and after 1 January 2022.

Principles applicable before 1 January 2022
If, after renegotiation of the terms and conditions of a credit facility or loan agreement, cash flows from a given financial assets item are subject to modification, the Bank assesses whether the modification is major and whether it leads to expiry of that financial assets item from the Bank's statements of financial position and the recognition of a new financial asset.
The Bank assumes that modification of the terms and conditions of an agreement is major in case of:

- a change in debtor with the consent of the Bank, or
- a change in legal form/type of financial instrument, or
- currency conversion of the credit facility unless it was provided for in the contractual terms and conditions in advance.

If a modification is not major and does not lead to derecognition of the financial assets item from the Bank's statements of financial position, the Bank recalculates the gross carrying amount of the financial assets item and recognises modification gain or loss through P/L.

Principles applicable after 1 January 2022
If, after renegotiation of the terms and conditions of a credit facility agreement, cash flows from a given financial assets item are subject to modification, the Bank assesses whether the modification is major and whether it leads to derecognition of that financial assets item from the Bank's statements of financial position and recognition of a new financial assets item. A financial asset expires if any of the qualitative or quantitative criteria are met.
Qualitative criteria
The Bank assumes that modification of the terms and conditions of an agreement is major in case of:

- a change in debtor with the consent of the Bank, or
- a change in legal form/type of financial instrument, or
- currency conversion of the credit facility unless it was provided for in the contractual terms and conditions in advance, or
- a modification of the financial asset which does not meet the definition of a basic credit agreement, i.e.: the cash flows from the financial assets item on the specified dates do not solely represent repayment of principal and interest on the principal outstanding, or
- a change in the borrowing rate from fixed to variable or vice versa for financial assets for which no impairment loss has been identified, or
- an extension of the term of the loan by 50% if the present value of the contractual cash flows as a result of the modification of the terms of the contract discounted at the original effective interest rate is at least 10% different from the present value of the contractual cash flows before the modification discounted at the original effective interest rate.

Quantitative criterion

A financial asset is deemed to be expired if the present value of the contractual cash flows as a result of the modification of the terms of the contract discounted at the original effective interest rate is at least 10% different from the present value of the contractual cash flows before the modification discounted at the original effective interest rate.

For modifications that do not result in the derecognition of a financial assets item, the difference between the present value of the future cash flows (determined using the original effective interest rate) of the asset before and after the modification is recognised in the income statement.

5.5.8. Measurement

After initial recognition, the Bank measures financial assets, at fair value, except for financial assets measured at amortised cost using the effective interest rate.

After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

5.5.9. Impairment

Assessment of impairment is based on measurement of expected credit losses. This approach applies to debt financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income.

At each reporting date, the Bank will assess loss allowance for expected credit losses of the financial asset in the amount equal to the lifetime expected credit losses if the credit risk on a given financial instrument has increased significantly since initial recognition. If as at the reporting date the credit risk on a given financial instrument has not increased significantly since initial recognition, the Bank assesses loss allowance for expected credit losses of that asset in the amount equal to 12-month expected credit losses.

For accounting and regulatory purposes, the Bank assumes that the past due positions include major financial assets for which there was a delay in repayment of principal or interest. The days past due are calculated starting from the date on which its past due credit obligation is deemed material. The Bank defines the materiality of a credit obligation as exceeding two materiality thresholds jointly: PLN 400 and 1% of the balance sheet exposure amount.

The Bank measures expected credit losses taking into account:

- unencumbered and probability weighted amount that is determined by assessing numerous possible results;
- time value of money; and
- reasonable and supportable information that is available without undue cost or effort as at the reporting date, referring to past events, current conditions and projections concerning future business conditions.

The Bank classifies balance sheet credit exposures as impaired, and impairment loss was incurred when the following two conditions are met:

- there is evidence of impairment resulting from one event or more events occurring after initial recognition of the balance sheet credit exposure in the accounting books,
- the event (or events) causing loss impacts (or impact) the expected future cash flows resulting from the balance sheet credit exposure or a group of the balance sheet credit exposures that can be reliably assessed.

Any delay in performance of any major credit obligations of the client towards the Bank, parent entity in excess of 90 days is a default on the client's part.

The definitions of default, impaired and non-performing exposures have also been clarified by the Bank, by which the Bank has aligned its approach to regulatory requirements in this respect. A debtor or an exposure that is assessed as defaulted is simultaneously considered as impaired and non-performing.

The Bank applies the definition of default at the credit exposure level and additionally applies the principles of contagion: intra-segment - if default is recognised on any customer's exposure in the MTG segment (comprising the Bank's and ING Bank Śląski's portfolios), all other credit exposures of that customer in that segment get a default status (they become "infected").

Approach based on 3 stages

In the loss allowance process, the change in the quality of a credit exposure since its initial recognition is described in three stages with different measurement of expected credit losses:

- **Stage 1** – covers exposures working without any recognised significant increase in the credit risk since the date on which they were granted. Each loan is in Stage 1 at the time it is granted. A provision is calculated based on a 12-month expected loss (or to the remaining maturity if less than 12 months).
- **Stage 2** – covers exposures working with recognised significant increase in the credit risk since the date on which they were granted. The provision is calculated based on lifetime expected credit loss of the exposure, namely from the reporting date to the remaining maturity.
- **Stage 3** – the exposures with identified impairment, namely in default. The provision is calculated based on the assets' lifelong expected credit loss for PD = 100%.

The Bank classifies the exposures to Stage 1, 2 or 3 using a cascade approach in the following order:

1. Identification of the impaired exposures and classifying them to Stage 3.
2. Allocation of exposures to Stage 2 based on the criteria of a significant increase in credit risk.
3. Allocation of the remaining exposures to Stage 1.

Definition of a significant increase in credit risk

A significant increase in credit risk, resulting in the classification to Stage 2, is evidenced by the occurrence of at least one of the following prerequisites, the leading one being the first:

- a significant increase in the PD over the exposure lifetime determined for the reporting date in relation to the PD 'lifetime' as of the date the exposure was granted in the perspective of the period remaining from the reporting date to the maturity date,
- granting of forbearance to the client,
- restructuring without identified impairment – risk ratings 18/19,
- delay in debt repayment in excess of 30 days,
- deterioration in the risk profile of a given exposure portfolio due to the product type, industry or distribution channel.

Rationale for classifying an asset measured at amortised cost to Stage 3

At each balance sheet date, the Bank assesses whether a financial asset or a group of financial assets is impaired. A financial asset item or a group of financial assets is impaired, if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. The Bank recognises expected credit losses based on reasonable and supportable information that is available without undue cost or effort as at the reporting date, referring to past events, current conditions and projections concerning future business conditions.

Impairment triggers require an individual expert assessment of the debtor's situation and a decision whether classification of default as an impaired exposure is justified.

Impairment triggers applied to retail credit exposures include the occurrence of one or more of the following situations:

- there have been a minimum of three failed debt repayment arrangements in row under the current Debt Episode,
- an individual who has given a surety in the ING Bank Śląski Group for material liabilities of his company is in default or an individual is a debtor of the Bank and his company is in default,
- if an individual client is in default, it is a default premise for his company, if the company is in default, it is a default premise for the individual,
- not willing or not able to repay - the Bank assesses whether the debtor is not willing or not able to repay. Liability cannot be repaid when the debtor's sources of income are insufficient to pay the instalments due,

  Examples when clients from the retail segment may not be able to repay their debt:

  - loss of job,
  - discontinuation of social benefits payments,
  - divorce,
  - serious illness,
  - debtor' death,
  - learning by the Bank about the untimely service of debt of significant value in another bank (pastdue debt over 90 DPD) or about initiation of enforcement/collection actions by another bank.
- granting a forbearance to a client who is unable to meet his financial obligations under a loan agreement concluded with the Bank due to existing or expected financial difficulties,
- credit fraud - credit fraud made by the debtor and targeted at the Bank.

  In the case of retail credit exposures, a justified suspicion of credit fraud, i.e. a commitment whose credit documentation or established facts indicate that it was granted as a result of a deliberate misrepresentation of the Bank by presenting documents, certificates or statements inconsistent with the facts. In particular, the following events occur:

  - the account has been registered by the Bank as a suspected credit fraud,
  - after an analysis, a suspected crime has been reported,
  - termination of the credit facility and establishing 100% reserve for the debt are recommended,
  - the Bank decided to terminate the credit facility and establish 100% reserve for the debt.
- the occurrence of at least 2 forbearances within 5 years of the application of the first forbearance,
- the identification of cases of suspected criminal conduct involving a credit exposure.

Objective evidence of impairment

The Bank defined objective evidence of impairment the occurrence of which has a direct impact on valuation of future financial cash flows related to the credit receivables.

Objective evidence of impairment may be:

- **a state** - i.e., it works as long as the condition that applies to it exists; or
- **an event** - it occurs at a specific moment.

Objective impairment evidence of retail credit exposure covers the occurrence of at least one of the following situations:

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of more than 90 days, provided that the amount of the arrears is higher than both materiality thresholds indicated in item 5.5.9. *Impairment*
- the exposure has been recognised as impaired under IFRS 9 (due to the unification of the definition, the default is equivalent to impaired exposure),
- for retail credit exposures - restructuring of non-performing (event),
- filing a bankruptcy petition by the client (state),
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement. For retail credit exposures - termination: the Bank demands early repayment of the loan in full by the debtor, which results in termination of the relationship with the Bank (event),
- amortization or write-off of retail credit exposures by the Bank:

  - amortization of the balance of the principal or/and interest in the total amount exceeding PLN 200, however the debt together with the amortized amount exceed the materiality threshold,

  - written-off, and the balance amount increased by the written-off amount plus interest exceed the materiality threshold (event),
- the Bank sold credit liabilities (or some of them) at a loss>5% of its balance sheet exposure, and a decision to sell was taken due to the deteriorating quality of the exposure (event),
- the occurrence of overdue amount for more than 30 days on a credit exposure initially classified as Forbearance Non-Performing, but subsequently remedied and of the Forbearance Performing status in the trial period (event),
- the granting of a further forbearance on a credit exposure initially classified as Forbearance Non-Performing, but subsequently remedied and of the Forbearance Performing status in the trial period (event),
- interest-free status (no interest accrue) for the credit exposure (status).

Should an objective evidence of impairment be identified on the exposure of a given client, it is assumed that impairment is also recognised on other exposures of that client.

Identification of the objective impairment evidence requires downgrading the client to the worst risk rating. For the credit portfolio of the Bank current monitoring of the timely repayment of the amounts due to the Bank is carried out based on available tools and reports, which makes it possible to identify any threat of future indications or objective evidence of impairment before they crystallize.

The entire lending portfolio of retail clients is tested for exposure impairment.

If after the assessment we find that for a given financial assets item there are no reasons for impairment, the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment based on measurement of expected credit losses. If there is any evidence of impairment of assets item measured at amortised cost, then the amount of the impairment is the difference between the carrying amount of an asset and the present value of estimated future cash flows, discounted with the initial effective interest rate of a given financial instrument item.

In practice, this means that for Stage 3 portfolio (financial assets that individually are insignificant) - the loss is determined with the collective impairment calculation method using the lifetime expected credit loss of the asset. When estimating future cash flows, available information on the debtor is taken into account, in particular the possibility of repayment of the exposure is assessed, and for backed credit exposures, the expected future cash

flows on collateral execution are also used in the estimation, considering the time, costs and impediments of payment recovery under collateral sale, among other factors.

If the existing evidence of impairment of an assets item or financial assets group measured at the amortised cost indicate that there will be no expected future cash flows from the abovementioned financial assets, the impairment loss of assets equals their carrying amount.

Measurement of the expected credit losses

To measure expected credit loss in a collective approach, the Bank uses regulatory models of estimating risk parameters of PD, LGD and EAD adjusted to the requirements of IFRS 9, built for the needs of the Advanced Internal Ratings Based Approach (AIRB method). The risk parameter models for the purposes of IFRS 9 maintain the same structure as the regulatory models, while the method of estimating specific parameter values (PD, LGD, EAD) is adapted to the requirements of IFRS 9, and in particular includes reasonable and supportable information that is available without undue cost or effort as at the reporting date, referring to past events, current conditions and projections concerning future business conditions. Parameters of these models were calibrated in line with the PIT (point-in-time) approach and forecasted for 30 years. Parameter EAD takes account of schedules of repayments in accordance with the credit agreements.

Measurement of the expected credit loss (EL) according to IFRS 9 requires forecasting of changes in the risk parameters PD, LGD and EAD (EL = PD x LGD x EAD) in the period from the reporting date to the maturity date, namely within the lifetime of exposure. Forecasting is based on functional dependencies, worked out on historical data, of the changes in risk parameters on the changes in macroeconomic factors. The final level of provisions on exposures in Stage 2 results from the total expected losses calculated each year in future to the remaining maturity, taking into account discounting.

The impairment loss calculated collectively is based on historical loss experience for assets portfolios with similar credit risk characteristics.

The Bank measures the Lifetime Expected Loss (LEL) on an exposure without recognised impairment (Stage 2) as the discounted total of partial losses over the lifetime of exposure, relating to events of default in each 12-month time window remaining to the maturity date of the exposure.

The Bank calculates the expected credit loss as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The expected loss is calculated for each scenario separately and the probability weighted average results from the weights (probabilities) assigned to each scenario (sum of weights = 100%). Such an approach meets the requirement of the standard that the loss allowance for expected credit losses should be unencumbered and probability-weighted by the amount determined based on a range of possible outcomes.

The projection (valuation) of the expected loss is made at each point in time in the future, depending on the economic conditions expected at a given point. Based on historical data, the Bank has defined the relations between the observed parameters of expected loss (PD, LGD) and macroeconomic factors as functions based on which - with the given projections of macroeconomic factors - the expected values of the parameters of expected loss in a given year in the future are calculated according to the forward looking PiT approach.

For the needs of estimating the expected loss, the Bank determines the level of EAD exposure only for irrevocable credit obligations by applying CCF conversion factors (percentage of the use of the free part of the credit limit in the period from the reporting date to the occurrence of a default) from regulatory EAD models (estimated according to the TTC approach - 'through the cycle'). EAD decreases over time in line with the repayment schedule of a given exposure.

For exposures with a specified final repayment date the time to maturity is limited to 30 years.

The LGD parameter, which is a function of the applied credit risk mitigation techniques and which is expressed as a percentage of EAD, is estimated at the product and exposure level based on parameters from regulatory LGD models calibrated for the needs of IFRS 9 (estimated according to the TTC approach - 'through the cycle').

The level of the LGD parameter used to calculate the amount of impairment loss using the collective approach for impaired exposures (PD = 100%) depends additionally on how long the credit exposure defaults.

Recognition of a write-down for an expected credit loss on assets measured at amortised cost

The impairment is presented as a decrease in the carrying amount of the assets item and the amount of the loss is recognised in the income statement for the period.

If in a consecutive period, the amount of loss due to the impairment decreases as a result of an event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the previous impairment loss is reversed through the income statement.

The Bank applies the same criteria to the customer's exit from the default and reversal of an impairment loss. The trial period and then the recovery process, i.e. transition from the non-performing portfolio to the performing one is carried out at the level of the whole portfolio, unless it concerns a situation recognised at debtor level (e.g. bankruptcy).

If a debtor is in the impaired portfolio and has no exposure with forbearance granted, he is deemed recovered and qualified to the performing portfolio if all the conditions are met in the following order:

- no evidence of impairment or impairment trigger which is a source of default or which indicates a high probability of default is active,
- at least 3 months have elapsed since the end date of the evidence of impairment/impairment trigger (trial period) and during that period the client's conduct (intention to repay) and his situation (ability to repay) has been positively assessed,
- the client made regular repayments, i.e. no amounts past due >30 days during the trial period,
- after the end of the trial period, the client was deemed to be able to repay the credit obligations in full without making use of the collateral,
- there are no overdue amounts exceeding the absolute limit; should there be overdue amounts exceeding the absolute limit, the trial period shall be extended until the amount of the arrears falls below the limit.

A client classified to an impaired portfolio who holds exposure with forbearance granted is deemed to be recovered and classified to the performing portfolio if all the following conditions are met:

- no evidence of impairment or impairment trigger which is a source of default or which indicates a high probability of default is active,
- at least 12 months (trial period) have elapsed since the last of the following events:
  - granting of the last means under restructuring, namely forbearance,
  - the exposure was given a default status,
  - end of the grace period specified in the restructuring agreement,
- during the trial period, the client made substantial/regular repayments:
  - having made regular payments in accordance with the agreed restructuring terms and conditions, the client has repaid a substantial amount being earlier overdue payments (if there were any overdue amounts) or amortisation (if there were no overdue amounts),
  - the client made regular repayments, in accordance with the new schedule taking into account the terms and conditions of restructuring, i.e. no amounts past due > 30 days during the trial period.
- at the end of the trial period, the client has no overdue amounts and there are no concerns about the full repayment of the exposure under the terms and conditions of the restructuring agreement.

The Bank established the following additional terms and conditions for impairment reversal / exit from the default status applicable to all clients:

- if during the trial period evidence or indication of impairment is identified as being the source of default / indicating a high probability of non-payment, the end date of the trial period shall be re-established and the trial period shall start again from the expiry of the evidence / indication of impairment,

- if during the trial period and after the grace period, a DPD event > 30 has occurred, the end date of the trial period will be reset and the trial period will start again from the date when the DPD has fallen below 31 days,
- all terms and conditions for impairment reversal / exit from default should also be met with regard to new exposures of the client, especially if that client's previous credit exposures that were under restructuring have been disposed of or permanently written off,
- an exception to the principle of no active evidence / indication of impairment being the source of the default is the evidence 'classification to Stage 3/ provision' - its existence does not withhold the start of the trial period (because it is an effect and not a cause of default) - classification to Stage 3 and the provision are also upheld during the trial period.

Rationale for classification of a financial asset measured at fair value through other comprehensive income to Stage 3

At each balance sheet date, the Bank assesses whether there is any objective evidence of impairment of debt financial assets classified as measured at fair value through other comprehensive income. Confirmation that such an objective evidence of impairment occurred is a premise for the classification of an asset to Stage 3.

The evidence indicating that a financial asset or a group of financial assets have been impaired may result from one or more conditions which are presented herein below:

- significant financial problems of the issuer (e.g. material negative equity, losses incurred in the current year exceeding the equity, termination of credit facility agreement of material value at other bank),
- a breach of contract, including in particular a default or delinquency in in repayment of liabilities due (e.g. interest or nominal value), interpreted as materialisation of the issuer's credit risk,
- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,
- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset, or
- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Bank books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

Recognition of a write-down of an expected credit loss on debt financial assets measured at fair value through other comprehensive income

Impairment losses on debt financial assets measured at fair value through other comprehensive income are recognised in the income statement. These losses are excluded from other comprehensive income.

5.5.10. Gains and losses resulting from subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognized, as follows:

- a gain or loss on a financial asset or financial liability carried at fair value through income statement is recognized in the income statement;

- a gain or loss on a financial assets item carried at fair value through other comprehensive income is recognized directly in equity through the statement of changes in equity.

Settlement of interest using the effective interest method

Interest income is calculated using the effective interest method. The value is calculated by applying the effective interest rate to the gross carrying amount of the financial assets item, except of:

- purchased or originated credit-impaired financial assets. For these financial assets items, the Bank applies credit-adjusted effective interest rate to amortised cost of the financial assets item since initial recognition and,
- financial assets items other than purchased or originated credit-impaired financial assets, which then became credit-impaired financial assets (Stage 3).

In case of such financial assets items, the Bank applies credit-adjusted effective interest rate to (net) amortised cost of the financial assets item in later reporting periods.

Non-interest elements

FX gains and losses arising from a change in financial assets item measured at fair value through other comprehensive income denominated in foreign currency are recognized directly in equity only in case of non-monetary assets, whereas FX differences generated by monetary assets (for instance, debt securities) are recognised in the income statement.

At the moment of derecognition of a debt financial asset from the statements of financial position, cumulated gains and losses recognized previously in equity:

- are recognised in the income statement as far as debt financial assets are concerned.

If any objective evidence exists that a debt financial assets item measured at fair value through other comprehensive income impaired, the Bank recognises impairment loss as described in an item concerning impairment of financial assets measured at fair value through other comprehensive income.

Fair value of financial assets and liabilities quoted on an active market (including securities) is determined using a bid price for a long position and an offer price for a short position. If there is no alternative market for a given instrument, or in case of securities that are not quoted on an active market, the Bank determines the fair value using valuation techniques, including but not limited to, using recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The fair value of financial assets and liabilities is determined with the use of the prudent valuation approach. This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

Market activity is assessed on the basis of frequency and volume of effected transactions as well as access to information about quoted prices which by and large should be delivered on a continuous basis.

The main market and the most beneficial one at the same time is the market the Bank can access and on which in normal conditions it would enter into sale/purchase transactions for the item of assets or transfer of a liability.

Based on the employed fair value methods, financial assets/liabilities are classified as:

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market,
- Level II: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations,
- Level III: financial assets/liabilities measured using the measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

The Bank verifies on a monthly basis whether any changes occurred to the quality of the input data used in individual measurement techniques and determines the reasons and their impact on the fair value calculation for the financial assets/liabilities item. Each identified case is reviewed individually. Following detailed analyses, the

Bank takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

In justified circumstances, the Bank decides to modify the fair value methodologies and their effective date construed as the circumstances change date. Then, they assess the impact of changes on the classification to the individual categories of the fair value measurement hierarchy. Any amendments to the measurement methodology and its rationale are subject to detailed disclosures in a separate note to the financial statements.

5.6. Non-financial assets

5.6.1. Property, plant and equipment

5.6.1.1. Own property, plant and equipment

Property, plant and equipment consist of controlled non-current assets and costs to construct such assets. Non-current assets include property, plant and equipment with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

Property, plant and equipment are recognised using the model based on the purchase price or manufacturing cost, namely, after initial recognition they are recognized at historical cost less depreciation/amortization and impairment.

The historical cost is made up of the purchase price/ manufacturing cost and the costs directly related to the purchase of assets.

Each component part of the property, plant and equipment item whose purchasing price or manufacturing cost is material in comparison with the purchase price or manufacturing cost of the entire item, is depreciated separately. The Bank allocates the initial value of the property, plant and equipment to its significant parts.

5.6.1.2. Non-current assets leased

The Bank is a party to lease contracts, under which it receives the right to control the use of an identified assets item in a given period for a fee. The Bank applies the stipulations of IFRS 16 to all lease contracts, except for intangible assets lease contracts and with exceptions provided for in the standard and described herein below.

Lease and non-lease components are identified in contracts by the Bank.

Non-lease contract charges are recognised as expenses under the relevant IFRS. Lease payments are recognised in accordance with the principles described herein below.

As at the beginning of lease, the Bank recognises right-of-use assets. Initially, lease liabilities are measured by the Bank at present value of future lease payments. The identification of future lease payments requires the determination of the lease term. Doing it, the Bank takes into account an irrevocable lease period together with the periods for which the lease may be extended and the periods in which the lease may be terminated. At the commencement of the lease contract, the Bank assesses whether it can be reasonably assumed that it will exercise an option to extend the lease, or it will not exercise an option to terminate the lease. To carry out the assessment, the Bank takes into account all major facts and circumstances that give economic incentive to exercise or not to exercise the said options. The Bank reviews the lease term in order to re-assess major events or circumstances that may affect the estimated lease term. Lease is no longer enforceable when both the lessee and the lessor have the right to terminate the lease without a prior permit of the other party, which would result in minor penalty at most. For lease contracts concluded for an indefinite period, in case of which both parties may exercise the option to terminate and in case of which there are potentially high costs of contract termination, the Bank assesses the lease term. To determine the discounted value of lease payments, the Bank applies lease interest rate, and if such a rate is hardly available, the Bank applies the marginal interest rate. The Bank determines the interest rate for lease as

the sum of the interest rate for swaps and internal transfer price, taking into account currencies of the lease contracts and maturity dates of the contracts. After the initial lease date, the carrying amount of the liability:

- is increased by accrued lease interest that is recognised in the income statement as interest expenses,
- is decreased by effected lease payments,
- is revised as a result of re-assessment, change in lease or change in generally fixed lease payments.

As at the initial lease date, the Bank recognises right-of-use assets at cost, the basis of which is the amount of the initial measurement of lease liability. The cost of the right-of-use assets item includes also:

- payments made at or prior to commencement of lease, less the received lease incentives,
- initial direct costs incurred by the lessee,
- costs to be incurred by the lessee in order to return the assets item to its initial condition.

The right-of-use is depreciated throughout the lease period and is impaired. During the term of lease, the right-of-use value is reset as a result of a modification of the lease agreement.

The Bank avails itself of exemption for:

- short-term leases - a contract may be classified as a short-term one if the contract term is not longer than 12 months, and there is no option to buy the object of the lease contract;
- leases of low-value objects of lease - assets may be classified as low-value assets if the gross price of acquisition of a new assets item is not higher than EUR 5,000, and the object of lease contract neither is nor will be sub-leased.

Lease payments under the abovementioned contracts are recognised by the Bank in the income statement as expenses throughout the lease term on a systematic basis.

Lease term for open-ended contracts

Lease period was determined taking into account contractual options to prolong or shorten lease period if it is probable that such an option would be used. In case of contracts concluded for an indefinite period with an option to terminate them by any of the parties thereto, the Bank assessed whether there would be any significant costs of contract termination. Contracts signed for an indefinite period by the Bank are mostly real estate lease contracts. If there are no significant costs, the lease period was determined as a notice period to which both parties to the contract are entitled. If the costs of contract termination are significant, the Bank assumed a 4-year period as the lease period. The assumed period results from the strategy of physical presence in a given location that ensures flexibility and business efficacy.

The estimates adopted do not have a material impact on the value of the right-of-use assets.

5.6.1.3. Subsequent costs

Under the property, plant and equipment item of the balance sheet the Bank recognizes the costs of replacement of certain elements thereof at the time they are incurred if it is probable that the Bank is likely to earn any asset-related prospective economic benefits and the purchase price or the manufacturing cost may be measured reliably. Other costs are recognised in the income statement at the time they are incurred.

5.6.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are deemed to include assets which fulfil the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities, and
- they arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or from other rights and obligations.

5.6.2.1. Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software.

Costs of computer software development or maintenance are recognized when incurred.

5.6.2.2. Subsequent costs

Subsequent costs incurred after the initial recognition of an acquired intangible asset are capitalised only if the criteria binding in the Bank are met. In other cases, costs are recognised in the income statement as costs when incurred.

5.6.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the period of their useful lives. The depreciable/amortizable amount is the purchase price or production cost of an asset, less its residual value. The useful life, amortization/depreciation rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 carried through profit or loss).

Depreciation and amortization charges of property, plant and equipment are recognized in the income statement.

The depreciation/amortization periods are as follows:

- devices: 3 - 7 years
- equipment: 5 years
- costs of software development: 3 years
- software licenses: 3 years

5.6.4. Impairment of other non- financial assets

For each balance sheet date, the Bank assesses the existence of objective evidence indicating impairment of property, plant and equipment items. If such evidence exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

5.6.5. Recognition of impairment loss

If there are indications of impairment of common property, i.e. the assets which do not generate cash independently from other assets or groups of assets, and the recoverable amount of the individual asset included among common property cannot be determined, the Bank determines the recoverable amount at the level of the cash-generating unit, to which the given asset belongs. An impairment loss is recognized if the book value of the asset or cash-generating unit exceeds its recoverable amount.

5.6.6. Reversing impairment loss

An impairment loss of other assets is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss can be reversed only up to the amount, at which the book value of impaired asset does not exceed its book value, which decreased by depreciation/amortization charge, would be established, if no impairment loss had been recognized.

5.7. Other items of the statement of financial position

5.7.1. Trade debtors and other receivables

The Bank applied a simplified approach to the assessment of a loss allowance for expected credit losses and recognises the allowance in the amount equal to the receivables lifetime expected credit losses.

Trade receivables are covered by impairment loss when they are past due 60 days. In justified cases, and in particular in the case of receivables due for shortages and damages, claims contested by debtors and other receivables for which the risk of non-recovery is assessed by the Bank as high, impairment losses are made earlier.

If the effect of the time value of money is material, the value of receivable is determined by discounting the projected future cash flows to present value, using a discount rate reflecting the current time value of money. If the discounting method has been applied, the increase in receivables due to time lapse is recognized as financial income.

Budgetary receivables are recognized as part of other financial assets, except for corporate income tax receivables, which are a separate item on the statements of financial position.

5.7.2. Cash and cash equivalents

Cash and cash equivalents for the purposes of a cash flow statement consists of cash and cash equivalents, however ING Bank Hipoteczny S. A. does not keep cash but only cash equivalents, namely balances on current accounts and term deposit accounts held by other banks.

5.8. Equity

Equity comprises of: share capital, supplementary capital from the sale of shares above their nominal value, retained earnings and cumulated other comprehensive income. The equity is established by the Bank in accordance with the applicable law and the Charter. All balances of capital are recognized at nominal value.

5.8.1. Share capital

Share capital is presented at nominal value, in accordance with the charter and entry to the Register of Entrepreneurs.

5.8.2. Supplementary capital - share premium

This capital is formed from the share premium less any direct costs incurred in connection with that issue.

5.8.3. Retained earnings

Retained earnings are created from profit write-offs and is allocated for purposes specified in the Articles of Association (the Company's Charter) or other legal regulations. The retained earnings include the net financial result. The financial result after tax represents the result before tax from the income statement for the current year adjusted with the amount owed or due under the corporate income tax.

5.8.4. Accumulated other net comprehensive income

Accumulated other comprehensive income occurs as a result of:

- measurement of financial instruments classified to be measured through other comprehensive income,
- actuarial gains / losses.

Changes in the deferred tax assets and liabilities resulting from recognition of the said measurements are carried through accumulated other comprehensive income. The accumulated other comprehensive income is not distributable.

5.9. Prepayments and deferred income

5.9.1. Prepayments

Prepayments comprise particular expenses which will be carried through the income statement as being accrued over the future reporting periods. Prepayments include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as subscription, insurance and IT services costs paid in advance to be settled in the future periods. Prepayments are presented in the statement of financial position in the *Other assets* item.

5.10. Employee benefits

5.10.1. Benefits under the Act on employee pension programmes

Expenses incurred due to a programme of certain contributions are recognised as costs in the income statement.

5.10.2. Short-term employee benefits

Short-term employee benefits of the Bank (other than termination benefits) comprise of remuneration, bonuses, paid annual leave and social security contributions.

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other liabilities from the statements of financial position.

The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

5.10.3. Long-term employee benefits

5.10.3.1. Benefits under the Labour Code regulations

Provisions for retirement severance pay granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis.

Provisions for long-term employee benefits are recognised in the *Provisions* item of the statements of financial position in correspondence with costs of labour in the income statement.

The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

5.10.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two parts:

- at least 50% in instruments entitling to receive cash, the amount of which depends on the book value of the net assets of ING Bank Hipoteczny S.A., adjusted for factors affecting those assets other than the financial result,
- the remainder in cash to the employee's bank account designated for salary payment, no later than by 31 March of the following year.

The portion of the plan payable in cash is recognised in accordance with the projected unit method and is settled over time in the employee performance appraisal period (i.e.: during 12 months of employees' work for which they receive the benefit). The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement. As regards the benefits granted in the form of instruments a one-year

retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year, three-year, four-year, five-year periods). The fair value of the non-deferred benefit during the assessment period is recognised as a liability to employees in correspondence with the income statement, while the fair value of the deferred benefit is recognised as an accrued expense in correspondence with the income statement.

Information on the specific performance indicators used to determine the variable remuneration components and the criteria used to determine the balance between the different types of instruments granted, including shares, equivalent ownership interests, share-linked instruments, equivalent non-cash instruments, options and other instruments:

Net assets

	period **as at** **30.06.2022**	period **as at** **31.12.2021**	period **as at** **30.06.2021**
Net assets (carrying amount)	**481,693.2**	**481,986.9**	**468,190.1**
Number of shares	380,000.0	380,000.0	380,000.0
Carrying amount per share	**1,267.61**	**1,268.39**	**1,232.08**

5.11. Provisions

Provisions are liabilities whose amount and due date are not certain. Provisions are established when the Bank is under current (legal or customarily expected) obligation resulting from past events and when it is probable that fulfilment of that obligation will call for funds with economic benefits embedded therein and a reliable assessment of that obligation may be made.

When time value of money is of significance, the provision is determined by way of discounting the projected future cash flows to current value, at a pre-tax discount rate reflecting the actual market prices regarding time value of money and the potential risk related to a given liability.

5.12. Income statement

5.12.1. Net interest income

Interest income and expenses on all financial instruments are recognized in the income statement. Interest income on financial assets measured at amortized cost and measured at fair value through other comprehensive income is recognised in income statement at amortized cost using the effective interest rate or credit-adjusted effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial assets item or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, an estimate of cash flows is made considering all contractual terms of the financial instrument but future credit losses are not considered. The calculation includes all fees and commissions paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Potential future credit losses are taken into account only and exclusively in case of financial assets that are credit-impaired at initial recognition. This is done in order to calculate the credit-adjusted effective interest rate.

Interest income comprises interest and commission (received or due) recognized in the calculation of the effective interest rate due to: loans with repayment schedule, intrabanking deposits.

The main items of the Bank's statement of financial position in case of which the effective interest rate method is applied are loans and other receivables from clients, as well as liabilities due to the issue of covered bonds. The main transaction costs related to loans granted to customers are the costs of purchasing receivables attributable to mortgage loans (costs of court entries related to the transfer of a mortgage and costs of extended inspections included), whereas with regard to liabilities arising from the issue of covered bonds, the costs of court entries related to the mention of the loan being entered in the cover register (=register of collaterals of covered bonds) may be listed among the examples of transaction costs settled with the effective interest rate method.

In case impairment is recognized for a financial assets item or group of similar financial assets, interest income is accrued based on the present value of the receivable (that is the value reduced by impairment loss) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

5.12.2. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises, among others, fees for certificates about credit liabilities owed/repaid, commission for early repayment of mortgage loans, fees for commissioned real estate inspection in connection with a change in collateral by the client.

Fees and commissions (both income and expenses) directly attributed to the rise of financial assets with repayment schedule are recognised in the income statement as effective interest rate component and are part of the interest income.

The Bank includes, for example, commission for amending the credit agreement as to the amount or schedule of loan repayments as commissions adjusting the effective interest rate;

Other commissions that are interwoven with occurrence of assets without defined schedules are cleared on a straight line basis throughout the contract.

Other fees and commissions relating to the financial services offered by the Bank are recognised in the income statement taking into account the five steps principle:

1. identification of an agreement signed with a customer,
2. identification of specific obligations in the agreement,
3. setting of the transaction price,
4. price allocation to specific contractual obligations, and
5. recognition of income when specific obligations are met.

Based on the carried out analyses, the Bank recognises fees and commission income:

- on a one-off basis, when the service was provided (also for advance payments), that is when the control over goods or services is transferred;
- over time, if the services are provided over certain period of time;
- at a specific point-in-time when the Bank performs key activities;
- when, from the customer's point of view, there is an actual benefit.

After an obligation to provide service is met (or in the period when it is being met), the Bank recognises as income the transaction price assigned thereto.

Commission income that was accrued and is due but was not paid on time is derecognised from the Bank's financial result upon the lapse of 90 days.

No insurance products are offered by the Bank together with loans.

5.12.3. FX result

FX result includes positive and negative FX differences, both the realised ones as well as the ones that are not realised, resulting from daily valuation of FX assets and liabilities at the average exchange rate announced by the National Bank of Poland and applicable as at the end of the reporting period.

5.12.4. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to banking activity, including costs of the created provision for the reimbursement of a part of credit cost resulting from prepayments of consumer loans.

5.13. Taxes

5.13.1. Income tax

Income tax is recognized as current and deferred tax. Current income tax is recognized in the income statement. Deferred income tax is recognized in the income statement or equity depending on type of temporary differences.

Current tax is a liability calculated based on taxable income at the binding tax rate at the balance sheet date including adjustments of prior year tax liability.

5.13.2. Deferred income tax

The Bank creates a provision for deferred tax in respect of a temporary difference caused by different moment of recognising income as generated and costs as incurred in accordance with the accounting regulations and corporate income tax provisions. The positive net difference is shown as *Deferred tax provisions*. The net negative difference is reported as *Deferred tax assets*.

The deferred tax liability is created by using the balance-sheet method for all positive temporary differences occurring as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

Deferred tax assets are recognized for all negative temporary differences as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements and unused tax losses.

Deferred tax assets are recognized in such amount in which taxable income is likely to be earned allowing to set off negative temporary differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an asset or liability.

The carrying amount of a deferred tax asset shall be verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or full realization of the deferred tax component.

Deferred tax assets and deferred tax liability are estimated with the use of the tax rates which are expected to be in force when the asset is realized or provision released, assuming the tax rates (and tax provisions) legally or factually in force as of the balance sheet date.

Income tax for the items directly recognized in equity is recognized in equity.

The Bank offsets deferred tax assets and deferred tax liability, where it has legal title to effect such offsetting.

5.13.3. Tax on certain financial institutions

The tax on certain financial institutions (introduced by the Act of 15 January 2016, Journal of Laws 2016, item 68) is not an income tax and is presented in the income statement under the Tax on certain financial institutions.

5.13.4. Other taxes

Income, costs and assets are recognised less the value added tax, tax on civil law acts, and other sales taxes, except where the sales tax, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the value-added tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item. The net amount of sales tax recoverable from or payable to the tax authorities is recognized in the statement of financial position as an item of receivables or liabilities.

6. Comparability of financial data

In these interim condensed financial statements for the period from 1 January 2022 to 30 June 2022, the Bank has not made any material changes to the presentation of financial data compared to the financial statements for earlier periods.

7. Notes to the financial statements

NOTES TO INCOME STATEMENT

7.1. Net interest income

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Interest income	**85,542.5**	**39,707.2**
Interest income calculated using the effective interest method	**85,542.5**	**39,707.2**
Interest on loans and other receivables from customers measured at amortised cost	82,575.5	39,487.4
Interest on receivables from banks measured at amortised cost	608.7	3.5
Interest on securities measured at amortized cost	1,327.4	101.3
Purchase of securities measured at fair value through other comprehensive income	1,030.9	115.0
Interest expenses	**-53,351.7**	**-14,043.8**
Interest on liabilities to other banks	-44,981.1	-11,356.6
Interest on liabilities under issue of bonds	-2,166.1	-972.2
Interest on liabilities under issue of covered bonds	-6,189.4	-1,712.9
Interest on lease liabilities	-15.1	-2.1
Net interest income	**32,190.8**	**25,663.4**

7.2. Net commission income

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Commission income	**87.4**	**227.5**
Commission for early repayment of mortgage loans	164.4	206.4
Other commission income	-77.0	21.1
Commission expenses	**-351.5**	**-749.4**
Fees and commissions to the National Depository for Securities (KDPW), issue registration included	-4.8	-9.2
Fees and commissions to other financial entities, inclusive of fees and commissions for disclosure of credit information	-82.6	-79.7
Fees and commissions to banks for issued guarantees	0.0	-252.3
Fees and commissions to banks for granted loans	-165.0	-185.8
Other commission expenses	-99.1	-222.4
Net commission income	**-264.1**	**-521.9**

7.3. General and administrative expenses

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Personnel expenses	**-6,286.2**	**-5,468.5**
Wages and salaries	-5,100.5	-4,573.4
of which variable remuneration programme	*-750.1*	*-705.9*
Employee benefits	-1,185.7	-895.1
Regulatory costs	**-3,375.5**	**-5,120.1**
Bank Guarantee Fund charges	-2,812.6	-4,698.2
Other regulatory costs	-562.9	-421.9
Other general and administrative expenses	**-6,894.9**	**-5,510.6**
Depreciation and amortisation	-451.9	-677.9
Costs of auxiliary activities provided under the Cooperation Agreement*	-2,644.9	-3,088.3
IT costs	-873.5	-473.4
Costs of news service platforms	-179.1	-153.9
Costs of rental of buildings	-143.1	-86.4
Legal services	-412.8	-52.2
Communications costs	-127.5	-68.9
Other advisory and consulting costs	-989.2	-80.0
Consumption of materials and assets other than non-current assets	-43.0	-31.2
Taxes and charges	-4.7	-2.4
Representation costs	-2.5	0.0
Other third-party services	-685.8	-671.9
Other costs	-336.9	-124.1
General and administrative expenses	**-16,556.6**	**-16,099.2**

*) On 15 April 2022, the Management Board of ING Bank Hipoteczny S.A. got information from the Bank Guarantee Fund on the amount of the annual contribution to the banks' compulsory resolution fund for 2022, with the adjustment of the 2020 and 2021 contribution factored in. The total cost to the Bank is PLN 2,812,600, the 2020 and 2021 contribution adjustment included. The amount of the contribution was charged to the costs of the second quarter of 2022 and paid in July 2022.

**) A scope of services provided by ING Bank Śląski S.A. for ING Bank Hipoteczny S.A. resulting from the Cooperation agreement is described in Note 7.21 *Transactions with related companies*.

7.4. Expected loss provision

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Establishment of expected loss provisions	**-1,316.3**	**-316.8**
Loans and other receivables from clients	-1,301.6	-313.9
Debt securities at fair value through other comprehensive income	-14.7	-2.9
Release of expected loss provisions	**813.5**	**565.4**
Loans and other receivables from clients	799.9	562.6
Debt securities measured at amortized cost	0.0	0.0
Debt securities at fair value through other comprehensive income	13.6	2.8
Expected loss provision	**-502.8**	**248.6**

7.5. Income tax

Income tax recognized in the income statement

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Current tax	**-4,851.1**	**-2,780.7**
Deferred tax	**1,572.4**	**117.7**
Recognized and reversed temporary differences	1,572.4	117.7
Recognized and reversed negative temporary differences due to:	2,947.2	90.8
Costs of provision for personnel, tangible and others expenses	1,022.1	-34.7
Expenses attributable to accrued but not paid interest	1,515.0	94.8
Loan loss provisioning (LLP)	94.8	47.2
Income settled at the effective interest rate	303.4	15.6
Other	11.9	-32.1
Recognized and reversed positive temporary differences due to:	-1,374.8	26.9
Income on accrued but not paid interest	-1,306.1	-27.6
Difference between tax and balance sheet depreciation/amortization	1.0	97.5
Measurement of securities	-69.7	-43.0
Total tax recognized in the income statement	**-3,278.7**	**-2,663.0**

Effective tax rate calculation

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
A. Profit before tax	**14,397.8**	**9,189.2**
B. (-) 19% of profit before tax	**-2,735.6**	**-1,746.0**
C. Increases - 19% of costs other than tax deductible cost, including:	**-543.1**	**-917.1**
Bank Guarantee Fund contribution to the banks' compulsory resolution fund	-534.4	-892.7
Tax on certain financial institutions	0.0	-12.0
Other	-8.7	-12.4
D. Decreases - 19% of tax exempt income	**0.0**	**0.0**
E. Income tax from income statement [B+C-D]	**-3,278.7**	**-2,663.0**
Effective tax rate (-E : A)*	**22.77%**	**28.98%**

In 2022, the difference in the effective tax rate from 19% was mainly affected by the Bank Guarantee Fund contribution to the compulsory resolution fund in the amount of PLN 2.8 million.

NOTES TO STATEMENT OF FINANCIAL POSITION

7.6. Amounts due from banks

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Current accounts	2,717.3	1,825.9	31,847.6
Term deposits in banks	161,677.4	45,002.5	0.0
Other amounts due from banks	0.0	0.0	0.0
Total (gross)	**164,394.7**	**46,828.4**	**31,847.6**
Impairment loss	0.0	0.0	0.0
Total (net)	**164,394.7**	**46,828.4**	**31,847.6**

Amounts due from banks as at 30 June 2022 include, most notably, short-term deposits in PLN at ING Bank Śląski S.A.

The Bank has no impaired amounts due from banks. As the Bank concludes interbank transactions with ING Bank Śląski S.A. exclusively, it is estimated that the credit risk resulting therefrom is significantly limited and thus the Bank does not establish any provisions for expected loss. ING Bank Hipoteczny S.A. does not identify any FX risk or interest rate risk for the said amounts due.

7.7. Debt securities

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Debt securities at fair value through other comprehensive income	73,527.3	49,640.8	50,084.3
T-bonds	73,527.3	49,640.8	50,084.3
Debt securities measured at amortized cost	0.0	14,995.6	32,999.9
Cash bills of the National Bank of Poland	0.0	14,995.6	32,999.9
Total	**73,527.3**	**64,636.4**	**83,084.2**

7.8. Loans and other receivables to customers

	as at 30.06.2022			as at 31.12.2021			as at 30.06.2021		
	gross	expected loss provision	**net**	gross	expected loss provision	**net**	gross	expected loss provision	**net**
Retail Banking (individuals)	**3,334,811.9**	**-3,451.6**	**3,331,360.3**	**3,885,918.9**	**-2,919.4**	**3,882,999.5**	**4,176,627.3**	**-3,478.0**	**4,173,149.3**
Mortgages	3,334,811.9	-3,451.6	3,331,360.3	3,885,918.9	-2,919.4	3,882,999.5	4,176,627.3	-3,478.0	4,173,149.3
Total	**3,334,811.9**	**-3,451.6**	**3,331,360.3**	**3,885,918.9**	**-2,919.4**	**3,882,999.5**	**4,176,627.3**	**-3,478.0**	**4,173,149.3**

Lending portfolio quality

	as at 30.06.2022			as at 31.12.2021			as at 30.06.2021		
	gross	expected loss provision	**net**	gross	expected loss provision	**net**	gross	expected loss provision	**net**
Assets in Stage 1	3,311,207.8	-993.9	**3,310,213.9**	3,867,084.0	-615.0	**3,866,469.0**	4,144,830.4	-766.5	**4,144,063.9**
Assets in Stage 2	17,604.1	-1,284.7	**16,319.4**	11,985.4	-462.5	**11,522.9**	24,708.0	-715.7	**23,992.3**
Assets in Stage 3	6,000.0	-1,173.0	**4,827.0**	6,849.5	-1,841.9	**5,007.6**	7,088.9	-1,995.8	**5,093.1**
Total	**3,334,811.9**	**-3,451.6**	**3,331,360.3**	**3,885,918.9**	**-2,919.4**	**3,882,999.5**	**4,176,627.3**	**-3,478.0**	**4,173,149.3**

The accrued penalty interest (for late payment) amounted to PLN 5,500 as at 30 June 2022 and PLN 3,200 as at 31 December 2021 and PLN 2,100 as at 30 June 2021, respectively). These accruals corresponded to write-offs of penalty interest for analogous amounts.
In the first half of 2022, due to uncertainty for investors in global financial markets due to the ongoing COVID-19 pandemic, the outbreak of war in Ukraine and the increase in interest rates and inflation, the Bank did not transfer mortgage-backed debt claims.

Whereas, in the first half of 2021 ING Bank Hipoteczny S.A. purchased from ING Bank Śląski S.A. one mortgage-backed housing loans debt claims portfolio under the Debt Transfer Contract to effect the issue of covered bonds No. 12 for the total amount of PLN 710,665,100. The purchase price was set at market value. All current and deferred payments under the above transactions were settled and at the end of 2021 the Bank had no liabilities in its books on this account.

The basis for the purchase of debt portfolios by ING Bank Hipoteczny S.A. from ING Bank Śląski S.A. is the Debt Transfer Framework Agreement concerning transfer of debt in order to issue covered bonds, signed in 2019, on the terms and conditions specified in particular in the Act on Covered Bonds and Mortgage Banks.

In 2021, the Bank adjusted its processes to the requirements of the amended Recommendation S of the Polish Financial Supervision Authority (PFSA), implementing, among others, the option to change the loan interest rate formula from a variable rate to a periodically fixed one. In a situation of rising inflation and the MPC's decisions regarding the increase of the reference interest rate, this product offers the Bank's customers the opportunity to mitigate the risk of interest rate increase by convertion to a fixed rate. As at 30 June 2022, 67 borrowers availed themselves of the option to convert the interest rate formula. This concerned debt claims for the amount of PLN 14,154,300

7.9. Property, plant and equipment

	as at **30.06.2022**	as at **31.12.2021**	as at **30.06.2021**
Gross value	**1,645.5**	**2,341.8**	**1,138.8**
Right-of-use assets	1,418.3	2,114.6	908.2
Computer hardware	210.3	210.3	213.7
Other property, plant and equipment	16.9	16.9	16.9
Accumulated depreciation/amortisation	**-608.9**	**-1,134.7**	**-565.6**
Right-of-use assets	-421.7	-952.7	-389.5
Computer hardware	-174.5	-171.0	-166.8
Other property, plant and equipment	-12.7	-11.0	-9.3
Total (net)	**1,036.6**	**1,207.1**	**573.2**
Right-of-use assets	996.6	1,161.9	518.7
Computer hardware	35.8	39.3	46.9
Other property, plant and equipment	4.2	5.9	7.6

There are no legal constraints on property, plant and equipment as at the end of the first half of 2022.

Contractual obligations to purchase property, plant and equipment

As at 30 June 2022 and 30 June 2021, the Bank had no agreements with counterparties that in the future would result in the increase in the value of property, plant and equipment.

7.10. Intangible assets

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Gross value	**2,975.8**	**2,975.8**	**2,975.8**
Software	2,975.8	2,975.8	2,975.8
Accumulated depreciation/amortisation	**-2,975.8**	**-2,975.7**	**-2,646.9**
Software	-2,975.8	-2,975.7	-2,646.9
Total (net)	**0.0**	**0.1**	**328.9**
Software	0.0	0.1	328.9

Neither in the first half of 2022 nor in the first half of 2021, the Bank incurred expenditure for intangible assets.

Contractual obligations to purchase intangible assets

As at 30 June 2022 and 30 June 2021, the Bank had no agreements with counterparties for the future acquisition of intangible assets.

7.11. Other assets

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Prepayments and deferred income	**2,337.3**	**2,306.9**	**3,254.5**
Prepaid general and administrative expenses	2,337.3	2,306.9	3,254.5
Other assets, including:	**139.8**	**106.8**	**127.0**
Public and legal settlements	102.3	103.6	103.2
Settlements with suppliers	0.0	0.0	0.0
Other	37.5	3.2	23.8
Total	**2,477.1**	**2,413.7**	**3,381.5**

7.12. Liabilities to banks

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Loans received	2,674,357.7	2,453,679.8	3,191,942.0
Liabilities due to refinancing*	0.0	0.0	71,012.3
Other	3.4	3.0	0.0
Total	**2,674,361.1**	**2,453,682.8**	**3,262,954.3**

*ING Bank Hipoteczny S.A. provides for ING Bank Śląski S.A. the services of refinancing of the mortgage debts portfolios by way of payment of the Refinancing Amount determined in accordance with the stipulations of Debt Transfer Framework Agreement to Issue Covered Bonds and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

7.13. Liabilities under issue of bonds

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Liabilities arising from the issue of bonds with a repayment period	0.0	654,660.0	150,153.0
From 1 week to 1 month	0.0	150,169.2	0.0
From 1 month to 3 months	0.0	504,490.9	0.0
From 6 months to 9 months	0.0	0.0	150,153.0
Total	**0.0**	**654,660.0**	**150,153.0**

In the first half of 2022, under the Bond Programme, the Bank issued one series of bonds (INGBH007) with a total nominal value of PLN 79,000,000 (i.e. 158 bonds with a nominal value of PLN 500,000 each) and a redemption period set at 3 months. The bonds were fully subscribed by an entity from the ING Bank Śląski S.A. Group.The issued securities were registered with the Central Securities Depository of Poland in Warsaw.
Bond issues are governed by the Bond Programme Agreement concluded with ING Bank Śląski S. A. Under the agreement, the maximum nominal value of the issued and unredeemed bonds is PLN 4,000,000,000.
The funds raised from the issue of own bonds carried out in the first half of 2022 were used to repay the financing obtained from ING Bank Śląski S.A.

At the same time, in the first half of 2022, ING Bank Hipoteczny S.A. redeemed bonds of a total value of PLN 733,000,000 issued under the Programme in 2021 and in the first half of 2022.

As at 30 June 2022, the Bank had no liabilities attributable to bond issues.

7.14. Liabilities under issue of covered bonds

	as at 30.06. 2022	as at 31.12. 2021	as at 30.06. 2021
Liabilities on account of issuing covered bonds with a repayment period	404,331.1	399,876.9	399,619.8
From two to five years	404,331.1	399,876.9	399,619.8
Total	**404,331.1**	**399,876.9**	**399,619.8**

As at 30 June 2022, the Bank had commitments in respect of covered bonds issued under the ING Bank Hipoteczny S.A. Covered Bonds Programme established in 2019 (the Covered Bonds Programme). The purpose of establishing the Covered Bonds Programme was to create a legal infrastructure within which the Bank can issue covered bonds both locally and internationally. The funds raised from the inaugural 5-year "green" issue, carried out in the fourth quarter of 2019, were used to refinance retail PLN mortgages secured on properties belonging to the 15% most energy-efficient buildings in Poland. The issue will be redeemed in October 2024.

Issued covered bonds as at 30.06.2022

ISIN	Currency	Nominal value	Interest as of 30.06.2022	Interest rate + bank margin / fixed rate	Issue date	Redemption date	Rating	Quotation market
XS2063297423	PLN	400,000.0	0.0572	0.53% + WIBOR6M	2019-10-10	2024-10-10	Aa1	LuxSE, parallel market of WSE

In the first half of 2022, the Bank did not issue covered bonds.

Issue of green covered bonds

As at 30 June 2022, the nominal value of the covered bonds in trading that were issued by the Bank did not change compared with 30 June 2021 and totalled PLN 400,000,000.

On 11 April 2022, the fifth payment of the interest coupon on the covered bonds issued by the Bank in October 2019 took place. The amount of interest paid was PLN 1,735,200.

In the first half of 2022, due to unfavourable market conditions caused by the COVID-19 virus pandemic, the outbreak of war in Ukraine and the rise in interest rates and inflation, the Bank did not issue covere bonds.

Any future issues of covered bonds will directly depend on market conditions and the liquidity situation of ING Bank Śląski S.A. Group.

Cover Register

Covered bonds are secured with the Bank's receivables on account of mortgage loans with the highest priority established for the Bank. The basis for the issue of covered bonds is also a part of the Bank's funds invested in T-bonds referred to in note 7.19. *Fair value.*

As at 30 June 2022, the value of the outstanding principal of the debt attributable to the mortgage loans entered in the cover register and being a collateral for the issue of covered bonds was PLN 2,635,100 (compared with PLN 2,987,400 as at 31 December 2021 and PLN 3,232,900 as at 30 June 2021), whereas the value of additional collateral in the form of securities issued by the State Treasury was PLN 3,591,300 (compared with PLN 13,264,700 as at 31 December 2021 and PLN 13,444,300 as at 30 June 2021).

At the end of June 2022, the number of debt claims entered in the cover register was 15,652 (compared to 16,798 as at 31 December 2021 and 17,480 as at 30 June 2021).

7.15. Provisions

	as at **30.06.2022**	as at **31.12.2021**	as at **30.06.2021**
Provisions for retirement and pension benefits	803.6	803.6	755.8
Other	20.0	20.0	20.0
Total	**823.6**	**823.6**	**775.8**

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2021 stood at 2.8% (1.2% at the 2020 yearend). The actuarial valuation-based provision is recognised and reviewed per annum.

7.16. Other liabilities

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Prepayments and deferred income	**11,785.4**	**5,982.4**	**9,492.1**
Due to employee benefits	5,207.5	4,794.8	3,392.6
of which variable remuneration programme	*3,997.1*	*3,677.2*	*2,727.8*
Due to costs of Bank Guarantee Fund contribution to the compulsory resolution fund	2,812.6	0.0	4,698.2
Due to Cooperation Agreement*	483.4	510.4	469.0
Due to IT costs	526.2	152.9	140.0
Due to legal services	275.3	0.0	0.0
Due to communication costs	51.0	25.4	50.0
Other	2,429.4	498.9	742.3
Other liabilities	**1,148.3**	**1,743.5**	**1,594.3**
Lease liabilities	999.5	1,159.8	519.2
Settlements with employees	-394.6	-1.0	0.0
Public and legal settlements	460.8	515.0	504.8
Settlements with suppliers	70.7	49.2	555.9
Other	11.9	20.5	14.4
Total	**12,933.7**	**7,725.9**	**11,086.4**

*) A scope of services provided by ING Bank Śląski S.A. for ING Bank Hipoteczny S.A. resulting from the Cooperation agreement is described in Note 7.21 *Transactions with related companies*.

7.17. Accumulated other comprehensive income

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Actuarial gains / losses	-574.8	-574.7	-587.5
including deferred tax	134.8	134.8	137.8
Securities measured at fair value through other comprehensive income	-1,036.6	20.6	421.7
including deferred tax	243.2	-4.8	-98.9
Total	**-1,611.4**	**-554.1**	**-165.8**

OTHER NOTES

7.18. Additional information to the cash flow statement

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances of current accounts and short-term deposits (made over a period up to 3 months) with other banks.

	as at **30.06.2022**	as at **31.12.2021**	as at **30.06.2021**
Current accounts	2,717.3	1,825.9	31,847.6
Term deposits in banks	161,677.4	45,002.5	0.0
Total cash and cash equivalents	**164,394.7**	**46,828.4**	**31,847.6**

Explanation of the classification of the Bank's activities into operating, investment and financial activities in the cash flow statement

Operating activity includes the core activities of the Bank, not classified as investment or financial activities.

Investment activity covers purchase and sale of securities and related interest income, as well as the purchase and sale of intangible assets and property, plant and equipment.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. The inflows from financial activity indicate sources of financing of the Bank, including long-term loans and cash loans from other banks or issue of debt securities (covered bonds and bonds). The inflows also include liabilities attributable to contributions to the increase in share capital. Outflows from financial activity are mainly due to repayment of long-term liabilities by the Bank (e.g. repayment of received loans including interest, interest on debt securities issued and repayment of lease liabilities).

Reasons for differences between changes in certain items recognised in statement of financial position and in cash flow statement

The reasons for differences between changes recognised in statement of financial position and in cash flow statement have been explained in the table herein below.

Moreover, changes in the individual assets and liabilities were adjusted with interest disclosed in the position *Interest received/ paid*.

	Changes		**difference**	**Explanation**
	in statement of financial position	in cash flow statement		
Change in loans and other receivables from banks	132,547.1	174.9	**132,372.2**	The difference concerning the change in receivables from banks results in particular from the decrease of this item in *net cash flows from operating activities* by the change in current accounts and short-term deposits with a maturity of less than 3 months, which are presented under *increase/decrease in net cash and cash equivalents*.
Change in loans and advances granted to customers	-841,789.0	557,535.6	**-1,399,324.6**	The difference concerning the change in loans and advances granted to customers is due in particular to the reduction of this item in *net cash flow from operating activities* by accrued interest on loans granted to customers, which is presented under *Interest received*

Change in other assets	-904.4	-225.0	**-679.4**	The difference concerning the change in other assets results in particular from including in *net cash flow from operating activities* not only the change in other assets but also, among others, other changes in property, plant and equipment and intangible assets
Change in liabilities to other banks	-588,593.2	0.4	**-588,593.6**	The difference concerning the change in other liabilities to other banks results in particular from the decrease of this item in *net cash flows from operating activities* by the change in liabilities due to long-term financing, which were shown in *net cash flows from financing activities.*
Change in covered bonds liabilities	4,711.3	158.5	**4,552.8**	The difference concerning the change in covered bonds related liabilities results in particular from the increase of this item in *net cash flow from operating activities* by accrued interest on loans granted to customers, which is presented under *Interest paid*
Change in provisions	47.8	0.0	**47.8**	The difference concerning the change in provisions results from including in *net cash flow from operating activities* not only the change in provisions but also, inter alia, the change in deferred corporate income tax recognised in *Accumulated other comprehensive income*
Change in other liabilities	1,847.3	5,407.7	**-3,560.4**	The difference concerning the change in other liabilities in *net cash flow from operating activities* results in particular from derecognising from this item of the cash flow statement, lease related cash flows that are shown in *net cash flows from financing activities*
Change in debt securities measured at fair value through other comprehensive income	23,443.0	-24,267.3	**47,710.3**	The difference concerning the change in debt securities measured at fair value through other comprehensive income results in particular from derecognising from this item of the cash flow statement, deferred corporate tax related cash flows that are shown under *Change in provisions*

	Change in write-downs		**difference**	**Explanation**
	in statement of financial position	in income statement		
Change in write-downs	-532.2	-502.8	**-29.4**	The difference relating to the change in the allowance for expected credit risk losses is due in particular to the inclusion in the income statement of the allowance for interest and commission and unwinding interest.

7.19. Fair value

Financial assets carried at fair value in statement of financial position

There were no transfers between valuation levels in the first half of 2022, similarly as in the corresponding period of 2021. In the first half of 2022, the measurement techniques for Level 1 have not changed.

The table below presents the balance-sheet figures for financial assets measured at fair value per individual measurement levels.

as at 30.06.2022

	Level 1	Level 2	Level 3	**TOTAL**
Financial assets	73,527.3	0.0	0.0	**73,527.3**
Debt securities measured at fair value through other comprehensive income	73,527.3	0.0	0.0	**73,527.3**
of which T-bonds	*73,527.3*	*0.0*	*0.0*	*73,527.3*

ING

as at 31.12.2021

	Level 1	Level 2	Level 3	TOTAL
Financial assets	49,640.8	0.0	0.0	49,640.8
Debt securities measured at fair value through other comprehensive income	49,640.8	0.0	0.0	49,640.8
of which T-bonds	*49,640.8*	*0.0*	*0.0*	*49,640.8*

as at 30.06.2021

	Level 1	Level 2	Level 3	TOTAL
Financial assets	50,084.2	0.0	0.0	**50,084.2**
Debt securities measured at fair value through other comprehensive income	50,084.2	0.0	0.0	**50,084.2**
of which T-bonds	*50,084.2*	*0.0*	*0.0*	***50,084.2***

Financial assets and liabilities not carried at fair value in statement of financial position

Below is a comparison of the carrying amount with the fair value of the loan portfolio, of liabilities attributable to bonds and covered bonds issue. For other financial assets and liabilities not measured at fair value in the statement of financial position, the fair value is similar to the carrying amount. In the first half of 2022, the measurement techniques for Levels 2 and 3 have not changed.

as at 30.06.2022

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	3,331,360.3	discounted cash flows	0.0	0.0	3,241,489.9	**3,241,489.9**
Liabilities						
Liabilities under issue of covered bonds	404,331.1	discounted cash flows	0.0	395,378.1	0.0	**395,378.1**

as at 31.12.2021

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	3,882,999.5	discounted cash flows	0.0	0.0	3,793,433.4	**3,793,433.4**
Liabilities						
Liabilities under issue of bonds	654,660.0	discounted cash flows	0.0	654,209.6	0.0	**654,209.6**
Liabilities under issue of covered bonds	399,876.9	discounted cash flows	0.0	390,433.7	0.0	**390,433.7**

as at 30.06.2021

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	4,173,149.3	discounted cash flows	0.0	0.0	4,101,541.5	**4,101,541.5**
Liabilities						
Liabilities under issue of bonds	150,153.0	discounted cash flows	0.0	150,376.3	0.0	**150,376.3**
Liabilities under issue of covered bonds	399,619.8	discounted cash flows	0.0	406,042.1	0.0	**406,042.1**

The Bank discloses the fair value of financial assets and liabilities measured at amortised cost including the effective interest rate. The fair value calculation methods adopted as at 30 June 2022 for disclosure purposes have not changed from those used as at the end of 2021.

The methodology of fair value measurement of the loan portfolio is based on the discounted cash flow method. Under this method, for each valued contract, expected cash flows are estimated, discounting factors for particular due dates and the value of discounted cash flows is determined as at the valuation date. Valuation models are fed by business parameters for individual contracts and parameters observed by the market, such as interest rate curves, liquidity cost and cost of capital.

The fair value of liabilities due to the issue of covered bonds and due to the issue of bonds is calculated by applying a discounting factor to each cash flow. In this case, the discounting factor is the sum of:

- the market rate based on the yield curve at the balance sheet date and
- an estimate of the current margin that would be offered if a commitment were made.

This value is based on an indicative quote (e.g., for covered bond issues - a euro market quote) and the cost of hedging the currency mismatch risk.

7.20. Off-balance sheet items

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Off-balance sheet liabilities received	2,230,196.6	2,547,197.0	1,809,200.0
Unused revolving credit facility received from ING Bank Śląski S.A.	2,230,000.0	2,547,000.0	1,809,000.0
Unused revolving credit facility for credit cards to the current account maintained for the Bank in ING Bank Śląski S.A.	196.6	197.0	200.0
Guarantees	0.0	154,500.0	154,500.0
Total	**2,230,196.6**	**2,701,697.0**	**1,963,700.0**

7.21. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2022 held 100% share in share capital of ING Bank Hipoteczny S.A. and 100% shares in the total number of votes at the General Meeting of ING Bank Hipoteczny S.A.

Starting from 2019, ING Bank Hipoteczny S.A. provides for ING Bank Śląski S.A. the services of refinancing of the mortgage debts portfolios by way of payment of the Refinancing Amount determined in accordance with the stipulations of Debt Transfer Framework Agreement to Issue Covered Bonds and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

ING Bank Śląski S.A. maintains current accounts, short-term deposit accounts and securities accounts for ING Bank Hipoteczny S.A. Moreover, ING Bank Hipoteczny S.A. avails itself of the revolving credit facility from ING Bank Śląski S.A. used for financing of its operations as well as the credit line rendered available to the employees of the company in connection with using bank cards of ING Bank Śląski S.A.

Since January 2019 ING Bank Śląski S.A. has performed for ING Bank Hipoteczny S.A. activities of basic importance under Cooperation Agreement signed by and between the two banks. The services are provided in the following areas: Accounting and Taxes, Controlling, IT, IT Security, Credit Risk and Models Validation, Market Risk, Liquidity Risk, Operating Risk, Information (Technology) Risk, Procurement Services, HR Services, Business and Operations, Treasury, Legal Services, Data Management, Compliance Risk and Audit. Some of the activities are performed as part of outsourcing, in accordance with the provisions of the Banking Law Act, while all decision-making processes related to the conducted activity are performed by ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. make also transactions resulting from agreements for sub-lease of premises used for the registered office of the Bank, the office in Warsaw and a backup centre, support agreements concerning IT and personnel and payroll services.

Furthermore, ING Bank Hipoteczny S.A. makes use of services provided by other related entities, that is SWIFT operating services provided by ING Belgium N.V., financial and accounting services provided by ING Usługi dla Biznesu S.A.

All transactions made with related parties arose from day-to-day operations and were concluded at arm's length.

Income and expenses

presented after deduction by the sales structure factor (VAT)

period from 01.01.2022 to 30.06.2022

	parent entity	other related entities
Income	**608.7**	**0.0**
Interest income	608.7	0.0
Expenses	**-48,040.3**	**-134.6**
Interest costs	-45,044.2	0.0
Commission expenses	-228.3	0.0
General and administrative expenses	-2,767.8	-134.6

period from 01.01.2021 to 30.06.2021

	parent entity	other related entities
Income	**3.5**	**0.0**
Interest income	3.5	0.0
Expenses	**-15,217.3**	**-60.6**
Interest costs	-11,405.1	0.0
Commission expenses	-628.9	0.0
General and administrative expenses	-3,183.3	-60.6

Receivables and liabilities

as at 30.06.2022

	parent entity	other related entities
Receivables	**165,337.9**	**0.0**
Amounts due from banks	164,394.7	0.0
Property, plant and equipment	943.2	0.0
Liabilities	**2,675,796.7**	**16.6**
Liabilities to other banks	2,674,361.1	0.0
Other liabilities	1,435.6	16.6
including: accruals	*483.4*	*0.0*
Off-balance-sheet operations	**2,230,196.6**	**0.0**
Off-balance sheet liabilities received	2,230,196.6	0.0
Guarantees	0.0	0.0

as at 31.12.2021

	parent entity	other related entities
Receivables	**47,910.4**	**0.0**
Amounts due from banks	46,828.4	0.0
Property, plant and equipment	1,082.0	0.0
Liabilities	**2,455,321.0**	**131.2**
Liabilities to banks	2,453,682.8	0.0
Other liabilities	1,638.2	131.2
including: accruals	*525.4*	*131.2*
Off-balance-sheet operations	**2,701,697.0**	**0.0**
Off-balance sheet liabilities received	2,547,197.0	0.0
Guarantees	154,500.0	0.0

as at 30.06.2021

	parent entity	other related entities
Receivables	**32,259.9**	**0.0**
Amounts due from banks	31,847.6	0.0
Property, plant and equipment	412.3	0.0
Liabilities	**3,263,964.3**	**0.0**
Liabilities to other banks	3,262,954.3	0.0
Other liabilities	1,010.0	0.0
including: accruals	*469.0*	*0.0*
Off-balance-sheet operations	**1,963,700.0**	**0.0**
Off-balance sheet liabilities received	1,809,200.0	0.0
Guarantees	154,500.0	0.0

7.22. Transactions with the management staff and employees

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of the In-House Social Benefits Funds. The balance of the In-house Social Benefits Fund as at 30 June 2022 was PLN 171,000 (compared with PLN 129,100 as at 31 December 2021 and PLN 123,000 as at 30 June 2021).

Remuneration of Management Board Members of ING Bank Hipoteczny S.A.

The composition of the Management Board of ING Bank Hipoteczny S.A. at the end of June 2022 is presented in Chapter I. Bank Details, under 1.5 *Composition of the Bank Management Board and Supervisory Board*.

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Short-term employee benefits*, including	**834.6***	**806.1***
Remuneration*	778.7*	756.8*
Other benefits	55.9	49.3

* exclusive of the variable remuneration programme

Short-term employee benefits comprise: base remuneration, medical care and other benefits awarded by the Supervisory Board.

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.

The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

Remuneration of ING Bank Hipoteczny S.A. Supervisory Board Members

The composition of the Supervisory Board of ING Bank Hipoteczny S.A. at the end of June 2022 is presented in Chapter I. Bank Details, under 1.5 *Composition of the Bank Management Board and Supervisory Board*.

	period from 01.01.2022 to 30.06.2022	period from 01.01.2021 to 30.06.2021
Short-term employee benefits, including:	**62.8**	**60.0**
Wages and salaries	62.8	60.0

Members of the Supervisory Board of ING Bank Hipoteczny S.A. who are at the same time employees of other entities within the ING Bank Śląski S.A. Group do not receive additional remuneration or rewards for their functions in the Supervisory Board of ING Bank Hipoteczny S.A.

Volume of ING Bank Hipoteczny S.A. shares held by Bank Management Board and Supervisory Board Members

As at 30 June 2022 and as at 30 June 2021, respectively, neither Management Board nor Supervisory Board Members held shares of ING Bank Hipoteczny S.A.

7.23. Headcount

The headcount at ING Bank Hipoteczny S.A. was 38 FTEs as at 30 June 2022 (compared to 38 FTEs as at 31 December 2021 and 36 FTEs as at 30 June 2021).

7.24. Segment reporting

Due to the specifics of business activity, the Bank did not separate segments and therefore did not analyse its results of operations by segment in the first half of 2022 and in 2021.

The Bank pursues business exclusively within the territory of the Republic of Poland.

RISK AND EQUITY MANAGEMENT

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

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

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

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

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

Risk management goals and rules

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.

The Bank monitors execution of the strategy, the risk management strategy included, whereas strategic goals are allocated to specific organisational units or persons. The tasks execution is supervised by the Management Board.

The aim of:

- the **credit risk management system** is to support effective accomplishment of business goals through proactive risk management and organic growth-oriented activities, while at the same time keeping solvency and liquidity at a safe level and keeping allowances/provisions at an appropriate level,
- the **operational risk management system** is to mitigate exposure of the Bank to the non-financial risk and to minimize consequences of operational risk crystallisation,
- the **funding and liquidity risk management system** is to keep adequate liquidity to ensure safe and sound Bank's operations under normal and stress market conditions,
- the **interest rate risk management system** is to keep variability of the financial result and revaluated balance sheet value of equity incident to changes in the interest rates, within the limits that do not pose any risk for the Bank and are acceptable for the Supervisory Board,
- the **compliance risk management system** is to identify the threats to the operation of the organisation attributable to non-compliance with legal and internal regulations, most notably, as regards bank products and services, to monitor the incidents that occurred, and also to take auxiliary and remedy actions.

All goals of the complex risk management system are presented in detail in the risk management strategy prepared by the Management Board and approved by the Supervisory Board.

The aim of the **internal control system** is to provide support to decision-taking processes to contribute to ensuring effectiveness and efficiency of the operation of the Bank, reliability of the financial statements, compliance with the Bank's risk management principles and compliance with legal and internal regulations. Internal audit is aimed at adding value and improving operational activities of the Bank, and also providing support to achieve targets of the Bank by ensuring effectiveness of processes operating within the Bank and by providing advisory services.

Risk management rules

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

- risk management process, including the lending process is defined and governed by strategies, policies and procedures adopted by the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.,
- the Bank manages all identified types of the bank risk and carries out the ICAAP process (Internal Capital Adequacy Assessment Process), where:
  - risk management matches the scale of business and the materiality, scale and complexity of a given risk and where it is tailored to new risk factors and drivers on an ongoing basis,
  - risk management methods, risk measurement models and systems and their assumptions match the scale and complexity of risk and are periodically verified and validated,
- 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,
- risk management process is integrated with the planning and controlling processes and supports execution of the Bank strategy, while complying with risk management strategy, most notably as regards risk appetite,
- the risk management process is consistent with the risk management principles of the ING Bank Śląski S.A. Group, also in respect of use of group risk models, tailored to the specific operations of ING Bank Hipoteczny S.A. and approved by the competent authorities of ING Bank Hipoteczny S.A.
- stress tests are performed in the Bank based on previously approved scenarios. Stress-tests results are discussed at the meetings of competent committees (described herein below) and at the meetings of the Bank Management Board. 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.

Organisation of risk management

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:

1) The first line of defence

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

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

The tasks of the first line of defence are performed by these organisational units that realise and directly support business goals.

2) The second line of defence

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

It is responsible for:

- issuing regulations and providing risk management methods and tools, including, but not limited to, defining and maintaining the risk management process and supporting the first line of defence in carrying out this process,
- verifying the application of risk regulation by the first line of defence,
- providing opinions on business proposals that may affect the bank's risk profile,
- preparing management information on risk, taking into account risks affecting the implementation of the Bank's strategy and key risks,
- monitoring of risk mitigation actions and changes in the risk profile,
- ensuring that qualified staff is employed in the risk management area,
- providing independent analysis and expertise to support management,
- analysing and monitoring the threats and trends in the matters affecting the risk profile.

In order to ensure effective operational risk management at the Bank, the first line of defence is required to communicate all material operational risk information to the second line of defence units.

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, on the need-to-know basis.

Problems identified at the second line of defence level can be escalated to a higher level of management, including the Bank Management Board and Supervisory Board, with the 2LoD opinion on business decisions bearing unacceptable risks.

3) The third line of defence

The Internal Audit forms the third line of defence and provides the 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 Policy – Audit Charter of ING Bank Hipoteczny S.A. – regulates the roles, powers, scope and nature of work, responsibilities of the Internal Audit and the principles of cooperation of the organisational units of the Bank therewith.

Organisational units responsible for risk management

The following organisational units of ING Bank Hipoteczny S.A. are responsible for risk management:

- **Credit Risk Position** - covering in particular measurement, reporting, management of credit risk models,
- **Market Risk Position** - covering in particular market and liquidity risk management,
- **Operational Risk Position** - covering in particular the management of non-financial risk management,
- **Assessment and Credit Decisions Team** - dealing most notably with the process of determining the mortgage lending value of the real estate independently from the sales function,
- **Models Validation Position** - dealing most notably with the model risk management and validation of risk models and assessment.
- **Compliance function** - covering in particular the management of compliance risk within non-financial risk.

The risk management process is supported by:

Audit and Risk Committee of the Supervisory Board

The Committee supports the Supervisory Board especially by:

- monitoring of the financial reporting process,
- monitoring of the effectiveness of the internal control, internal audit and risk management systems, inclusive of their effectiveness as regards financial reporting and estimating the correct level of allowance for expected credit losses,
- monitoring of financial audit activities, especially an audit carried out by the auditing firm, taking into account all the conclusions and findings of the Polish Audit Oversight Agency resulting from the audit carried out by the auditing firm,
- controlling and monitoring of the certified auditor's and auditing firm's independence, most notably when the auditing firm provides other services than an audit.

Furthermore, as regards risk, support is provided by way of:

- issuing opinion about the overall, current and future readiness of the Bank to take the risk,
- issuing opinion about the risk management strategy developed by the Management Board as regards the risk inherent in the Bank's operations, and about the Management Board's information concerning execution of that strategy,
- supervising of the implementation of the risk management strategy in the operations of the Bank by the higher-rank executive staff,
- verifying whether the prices of liabilities and assets offered to the customers reflect fully the Bank's business model and its risk strategy.

Assets and Liabilities Committee

The activities of the ALCO Committee include:

- market and liquidity risk management at ING Bank Hipoteczny S.A.,
- management of the Bank's balance sheet (assets and liabilities),
- 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.
- submitting the market risk and liquidity risk policy and valuations of financial instruments to the Management Board for their final approval,
- reviewing the internal legal acts on a current basis (once a year at the minimum) and adjusting them to

the risk profile of the Bank and/or to the changes in macroeconomic and legal environment.

Credit Policy Committee

The activities of the Committee include:

- specifying credit risk appetite as regards specific risk limits and concentration limits,
- taking decisions on the regulations concerning the implementation of the ING Bank Hipoteczny S.A. Credit Risk Management Policy,
- specifying and modifying the principles of risk identification, assessment and control,
- taking decisions about acceptance of implementation of the new products entailing credit risk or modification of the existing ones,
- approving regulations on building, maintaining and using of the risk models, inclusive of:
  - principles of the credit risk models management,
  - methodology of building and monitoring of the models,
  - definitions of the credit risk models,
  - the scope of use of the credit risk models,
  - results of credit risk model validation,
  - reports showing the results of validation of the credit risk models,
- monitoring of the credit risk level, ensuring compliance with the law, supervisory regulations, and discussing and approving any other issues related to the credit and settlement risks.

Non-financial Risk Committee

The activities of the Committee include:

- 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 goals/plan for the calendar year concerned,
  - 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,
  - 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 (Non-Financial Risk Dashboard 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,
  - methodology for operational risk capital estimation,
  - 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 also 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),
  - risk factors arising from the Business Environment Assessment,
  - reputational risk reports, customer complaints and conduct risk as well as compliance risk matters,
  - non-financial risks for considerable changes to the Bank's governance structure and essential elements of outsourcing processes.

7.25. Qualitative information

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

This management includes:

- **Pillar 1**: minimum capital requirements provided for in the regulations,
- **Pillar 2**: internal capital, determined with the Bank's own models, for the risks deemed to be material and permanently material,
- **Pillar 3**: disclosures on risk profile and capitalisation level in the financial statements.

Under capital management, the Bank:

- plans internal capital and capital requirement as well as own funds;
- sets internal limits in order to curtail the generated capital requirements and internal capital;
- monitors potential threats to capital adequacy;
- identifies and assesses materiality of the risk types inherent to its operations;
- takes actions in order to assess and monitor internal capital, capital requirement and own funds;
- allocates internal capital;
- effects dividend policy resulting from a long-term capital objective and preferred capital structure,
- develops contingency capital plans which define the procedure for the risk of capital adequacy deterioration below the "inadmissible" levels,

- analyses the impact of the macroeconomic factors on capital adequacy in line with the "Stress Testing Policy at ING Bank Hipoteczny S.A."

In the first half of 2022, the Bank continued its efforts to implement its capital management strategy.

As the Minister of Finance signed the Regulation on the dissolution of the systemic risk buffer of 18 March 2020, the following minimum levels of capital ratios apply as at 30 June 2022:

- CET1 >= 7.0%,
- T1 >= 8.5%,
- TCR >= 10.5%

On 11 February 2022, the Bank, in accordance with the methodology for determining the capital charge recommended under Pillar II (P2G), received a letter from the Polish Financial Supervision Authority ("PFSA") on the recommendation to mitigate the risks inherent in the Bank's activities by maintaining the Bank's own funds for covering the additional capital charge ("P2G") at 0.98 p.p. in order to absorb potential losses arising from stress events. According to the PFSA methodology for determining the capital charge, the level of the P2G capital charge may be 4.5 p.p. The P2G recommendation is binding for the Bank from the moment of receiving the PFSA information.

P2G consists of two components:

- a basic capital charge, which is based on the supervisory stress tests carried out by the Polish Financial Supervision Authority Office in 2021, of 0.83 p.p., and
- a supplementary capital charge based on an analysis of the impact of interest rate increases on credit risk, adjusted by an assessment of the internal capital model to account for credit risk associated with interest rate increases, carried out by the Polish Financial Supervision Authority Office in 2021 - in the amount of 0.15 p.p.

The recommendation should be met above the total capital ratio ("TCR", as referred to in Article 92(1)(c) of Regulation No 575/2013), plus the additional own funds requirement ("P2R", as referred to in Article 138(2)(2) of the Banking Law Act) and the combined buffer requirement (as referred to in Article 55(4) of the Act on macroprudential supervision). The P2G capital charge should consist entirely of Common Equity Tier 1 capital.

The above means an increase in the aforementioned ratios respectively by the level of the capital charge indicated by the PFSA.

The Bank has a high and safe capital adequacy ratio of 35.90% as at 30 June 2022 (compared to 30.44% as at 31 December 2021 and 26.82% as at 30 June 2021).

In accordance with supervisory recommendations, the ratios as at 31 December 2021 are recalculated after the profit distribution is approved by the General Shareholders Meeting, and then they are reported to the Supervisor. The above presented ratios as at 31 December 2021 take into account the recalculation. Prior to the approval of the 2021 profit distribution, the ratios in question published in the financial statements for the period from 1 January 2021 to 31 December 2021 were as follows: TCR 30.43%; LR 11.67%.

Dividend policy

The Bank's dividend policy provides:

- stable realisation of dividend payouts in a foreseeable future of up to 100% of the Bank's annual net profit, in compliance with the prudent management principle and all regulatory requirements applicable to the Bank,
- a proposal to pay a dividend in an amount higher than the ratio indicated above is possible if justified by the Bank's financial situation (e.g. from retained earnings from previous years) and provided that all other requirements stipulated by law and the dividend policy are met,

- the ability to make dividend payments from excess capital above minimum capital adequacy ratios and above minimum capital ratio levels set by the Polish Financial Supervision Authority ("PFSA") for the purpose of dividend payments.

When deciding on the proposed amount of dividend payout, the Bank Management Board takes into account the following:

- the Bank's current financial standing, including constraints in the event of financial loss generation or low profitability (low return on assets / capital),
- assumptions of the Bank's management strategy and risk management strategy,
- the position of the Polish Financial Supervision Authority on the dividend policy of commercial banks presented each year in a communication,
- individual recommendations from the supervisor directly for the bank,
- restrictions under Article 56 of the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system,
- the need to reduce current period profits or unapproved annual profits included in own funds by foreseeable dividends, in accordance with Article 26 of EU Regulation No 575/2013,
- the macroeconomic environment.

PFSA guidelines on dividends for 2021

On 9 December 2021, the Polish Financial Supervision Authority adopted a position on the dividend policy of banks in 2022 (dividend for 2021). The PFSA recommends that a dividend of up to 50% of the profit generated in 2021 may only be paid by banks that meet the following criteria at the same time:

- do not implement a recovery programme,
- have received a final SREP score of not less than 2.5,
- achieve a leverage ratio (LR) of more than 5%,
- have a Common Equity Tier 1 (CET1) capital ratio of no less than the required minimum: 4.5% + 56% * P2R requirement (regulatory add-on) + combined buffer requirement including a 3% waived systemic risk buffer,
- have a Tier 1 capital ratio (T1) no lower than the required minimum: 6% + 75% * P2R requirement (regulatory add-on) + combined buffer requirement including a 3% waived systemic risk buffer,
- have a total capital ratio (TCR) no lower than the required minimum: 8% + P2R requirement (regulatory add-on) + combined buffer requirement including a 3% waived systemic risk buffer.

In addition, the PFSC indicates that dividends may be paid:

- up to 75% - if banks meet all criteria for dividends up to 50% taking into account, within the capital criteria, the bank's sensitivity to an adverse macroeconomic scenario. The bank's sensitivity to a stress scenario is measured using the results of supervisory stress tests (P2G recommendation on comprehensive stress tests) defined as the relative change in CET1 calculated between the lowest level of CET1 in the scenario horizon and CET1 at the start of the test, taking into account supervisory adjustments.
- up to 100% - if banks meet all criteria for dividend payout up to 75% taking into account, as part of the capital criteria, the bank's sensitivity to a specific stress scenario of interest rate increases and its impact on credit risk. The bank's sensitivity to a specific stress scenario of rising interest rates and its impact on credit risk (recommendation P2G on exposure to credit risk attributable to rising interest rates) is measured as the relative largest change in CET1 calculated between the CET1 level in the reference and shock scenarios, taking into account supervisory adjustments.

At the same time, the PFSA also deems it necessary not to take other actions, in particular those outside the scope of current business and operational activities, which could result in a reduction of the capital base, without prior consultation with the supervisory authority. This also applies to possible dividend payouts from retained earnings

and buybacks of own shares. The PFSA expects that the possible implementation of such operations will each time be preceded by consultation with the supervisory authority and will depend on its outcome.

Dividends declared and paid

On the basis of its position on the dividend policy of banks in 2022, the Bank Management Board decided in the first quarter of 2022 to recommend to the General Meeting a dividend payout for 2021 in the total amount of PLN 10.4 million, which represents approximately 50% of the Bank's profit. The amount of the proposed dividend takes into account both the Bank's current financial position and its development plans. On 25 February 2022, the Bank received a letter from the Polish Financial Supervision Authority (PFSA) containing an individual recommendation of the PFSA regarding the fulfilment of criteria for dividend payout from the net profit for 2021. On 7 April 2022, the General Meeting approved the aforementioned recommendation of the Management Board regarding the distribution of the dividend. For more information, see section 3 *Significant events in 2021.*

Credit risk

ING Bank Hipoteczny S.A. manages credit risk as required by the Polish law, regulations of the Polish Financial Supervision Authority and other competent bodies, and also in compliance with the ING Group standards as far as admissible under the aforementioned regulations and best practice documents.

Credit risk of the credit exposures portfolio is managed by:

- determining the credit risk management strategy,
- determining the risk appetite,
- determining the credit policy,
- building and developing the tools to support risk measurement and assessment,
- reporting and analysing the quality of the credit portfolio and value and quality of collaterals,
- specifying the concentration limits and credit risk limits for selected sub-portfolios,
- calculating the adequate level of provisions and capital requirements,
- performing and analysing the stress tests,
- training of staff members participating in the credit process,
- creating of and maintaining an incentive system addressed to the employees and aimed at compliance with internal credit standards,
- determining, in consultation with business units, the features and parameters of the debt claims purchased by the Bank.

Management of the credit risk of individual credit exposures, most notably, includes:

- assessing of the client and transaction risk,
- monitoring of a client and a credit transaction,
- determining the mortgage lending value of the real estate and monitoring of the value of collaterals.

To mitigate the credit risk, the Bank uses mortgage collaterals with the obtained mortgage entry in order to classify the exposure to the real estate mortgage backed exposure classes and to apply the preferential risk weight.

Under the risk management system, the Bank:

- applies formal risk tolerance determination rules and risk management rules,
- applies formal procedures intended to identify, measure or estimate and monitor risk, also accounting for

projected future risk,

- applies formal risk limits and rules of conduct in the event of limit overrun,
- applies the approved management reporting system that allows risk level monitoring,
- has the organisational framework matching the size and profile of risk borne by the Bank,
- has adequately defined credit risk assessment and measurement process, independent from the business functions, which encompasses:
  - efficient process of acquiring adequate information, including forecasts, used to value expected credit losses,
  - assessment policy which ensures that expected credit losses are valued collectively,
  - efficient process of model validation which ensures that models return accurate, consistent and objective forecasts and estimates on an ongoing basis,
  - plain formal communication and coordination of the activities of all employees involved in the risk assessment process and valuation of expected credit losses.

Credit risk management objectives are achieved by way of:

- supporting of business initiatives through implementation of credit risk controls,
- keeping credit losses at the assumed level,
- verifying and assessing the adequacy and developing the applied procedures, models and other elements of the risk management system on an ongoing basis,
- adapting business to the changing environment,
- keeping adequate capital requirements for credit risk and provisions, and
- ensuring regulatory compliance.

The Bank manages the credit risk in an integrated way, based on strategic planning, coherent system of policies, procedures and tools used for risk management, inclusive of the ones used for risk identification, measurement and control.

Organisational structure of the Bank ensures at the Management Board level that the credit risk control function is separated from the commercial function that generates the credit risk. The credit risk management is effected in the Bank under the three lines of defence that are independent in organizational and functional terms.

All organizational units and persons performing tasks within the credit process cooperate closely with one other in order to improve effectiveness of the risk management and maintain the risk at the level consistent with the strategy, risk appetite and financial plans of the Bank.

The **reporting system** that comprises numerous reports, allows effective identification of risk sources and factors, measurement of the risk level, measurement of the risk costs; it supports business initiatives and allows for effective credit risk management while maintaining the accepted risk appetite.

The goal of the credit risk reporting is:

- to present indispensable information allowing for assessment of the credit exposure in order to ensure that portfolio development is in line with the risk management strategy and policy of the Bank,
- to measure and assess the risk level in relation to the assumed risk appetite,
- to identify the impaired exposures, or exposures at risk of impairment, in order to set loss provisions,
- to assess adequacy of provisioning,
- to identify weaknesses of the risk management process in order to start recovery actions.

The scope of reporting includes but is not limited to:

- quality of the credit exposures (for instance, DPDs and migration among specific DPD classes, etc.),
- write-offs (provisions) and risk parameters (PD/LGD/EAD),
- use and observance of the adopted limits,
- effectiveness of the process of monitoring of exposures and suing for debt claims,
- non-recovered amounts (credit losses),
- coverage of exposure with mortgage collaterals,
- monitoring of key performance indicators on the NPE portfolio,
- monitoring the levels of LtV (at the time of acquisition and throughout the repayment period), DStI and the evolution of a set of credit standards indicators (DTI, LTI, LSTI), the allowable loan size in relation to the ability to repay the debt on time (creditworthiness) - in accordance with regulatory requirements,
- concentration analyses in different sections.

Reports are prepared on a weekly, monthly, quarterly and annual basis.

Limits for credit risk appetite (RAS) are determined on the annual basis in the form of:

- high-level risk limits – approved by the Management Board and/or by the Supervisory Board of the Bank,
- specific limits for credit risk – approved by the Credit Policy Committee (inclusive of concentration limits).

Utilisation of credit risk limits is checked at least once a month and information on the limit utilisation is presented at a meeting of the Bank Management Board and Supervisory Board.

Keeping in mind a highly dispersed portfolio of the Bank in terms of exposures of single clients, the Bank identifies and assesses the concentration risk analysing the structure of portfolio taking into account the risk factors (features of the exposure) significant from the point of view of the credit risk and based thereon groups of exposures were ring-fenced as regards exposures whose excessive concentration is not desirable as in stress conditions it may generate losses higher than the credit risk appetite of the Bank.

Concentration risk is measured and controlled by determining the level of exposure generating the concentration risk and by referring that amount to the determined limits resulting from legal regulations and internal limits. In accordance with statutory recommendations and PFSA's regulations and recommendations, the Bank determines and controls internal limits taking into account concentration risk towards:

- specific clients and related groups,
- clients from the same geographic region.

In the first half of 2022, all RAS limits were at acceptable level - none of the high-level or specific credit risk limits was overrun.

Securities acquired

Credit risk of Treasury bonds and NBP money bills held in the portfolio is assessed by the Bank as low. This is mainly due to the investment rating given to Poland by major rating agencies and a relatively small volume of these instruments, which affects their high liquidity.

Loans and other receivables from clients

The Bank applies impairment losses in accordance with CRR and secondary legislation thereto. The credit portfolio is of very good quality. As at 30 June 2022, 27 impaired exposures were recognised for the approximate amount of PLN 6,000,000, i.e. 0.18% of the housing loan portfolio (in comparison, as at 31 December 2021, 32 impaired exposures were recognised for an amount of approximately PLN 6,849,500, i.e. 0.18% of the housing loan portfolio). The value of collaterals (according to the mortgage lending value) for the said cases was PLN 10,168,800 (compared to PLN 11,352,500 as at 31 December 2021).

in PLN thousand	as at **30.06.2022**
Gross carrying amount	
Stage 1	3,311,207.8
Stage 2	17,604.1
Stage 3	6,000.0
Total	**3,334,811.9**
Expected loss provision	
Stage 1	993.9
Stage 2	1,284.7
Stage 3	1,173.0
Total	**3,451.6**

Loans and other receivables from clients without identified impairment (Stage 1 and 2) - by days past due

	as at **30.06.2022**
Gross carrying amount, by days past due	
up to 30 days	3,327,662.3
from 31 to 60 days	1,149.6
from 61 to 90 days	0.0
Total	**3,328,811.9**
up to 30 days	99.965%
from 31 to 60 days	0.035%
from 61 to 90 days	0.000%
Total	**100%**

EU CRB Table: Additional disclosures on credit quality of assets

a)	The scope and definitions of 'past due' and 'impaired' exposures used for accounting purposes and the possible differences between the definitions of 'past due' and 'defaulted' exposures for accounting and regulatory purposes, as set out in the EBA Guidelines on the application of the definition of default under Article 178 of the CRR	Disclosure in paragraph 5.5.9 of this report
b)	The extent to which past due exposures (more than 90 days) are not considered impaired and the reason for this	Disclosure in paragraph 5.5.9 of this report
c)	Description of the methods used for determining the adjustments for general and specific credit risk	Disclosure in paragraph 5.5.9 of this report
d)	An institution's own definition of a restructured exposure used in the implementation of Article 178(3)(d) of the CRR in accordance with the EBA guidelines on the application of the definition of default set out in Article 178 of the CRR where that definition differs from the definition of a restructured exposure as defined in Annex V to Commission Implementing Regulation (EU) No 680/2014	A change in the terms of a credit facility agreement resulting from the debtor's existing or expected financial problems, in order to adjust the terms and conditions of debt repayment to the customer's financial capacity (based on cooperation with the customer), whereby without a change in the repayment schedule the customer would not be able to make payments on time.

EU CRC Table - Qualitative disclosure requirements for credit risk mitigation techniques

a)	A description of the most important features of on-balance sheet and off-balance sheet netting policies and processes and an indication of the extent to which institutions apply on-balance sheet netting;	The Bank does not apply netting, except for the netting of deferred tax assets with deferred tax liability, where it has legal title to do so.
b)	Key features of policies and processes for eligible collateral valuation and management.	Described in the following section of this paragraph (“Application of credit risk mitigation techniques”).
c)	A description of the main types of collateral taken by the institution to mitigate credit risk.	Described in the following section of this paragraph (“Application of credit risk mitigation techniques”).
d)	For guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness, used for the purpose of reducing capital requirements, excluding those used as part of synthetic securitisation structures.	Not applicable
e)	Information on market or credit risk concentrations as part of measures taken to mitigate credit risk.	Described in this item (inter alia, the section “Limits for Credit Risk Appetite”).

Application of credit risk mitigation techniques

To mitigate the credit risk, the Bank uses mortgage collaterals with the obtained mortgage entry in order to classify the exposure to the real estate mortgage backed exposure classes and to apply the preferential risk weight.

Established collaterals play the following role:

- financial:
  - they are intended to mitigate the losses on credit exposure in case of credit risk materialisation, that is, when the debtor fails to repay the debt as scheduled in the contract,

- may be taken into account in the process of estimating capital requirements for the credit risk and in the process of estimating collective provisions for the lending portfolio in relation to impairment of assets if they fulfil the terms and conditions provided for in bank regulations on provisioning. Recovery rates assigned to specific categories of collaterals were determined based on relevant LGD model,
- non-financial:
  - they improve controlling rights of the Bank as a creditor by limiting the possible use by the security provider of the assets encumbered in favour of the Bank,
  - they strengthen the negotiation position of the Bank as regards the debtor (client), other creditors of the debtor and security provider.

The Bank uses the technique of credit risk mitigation in a form of funded credit protection related to tangible collaterals that make it possible to recover debt claims by the Bank should the client default.

Regulations of the Bank concerning collaterals, include:

- indication of the criteria for recognition of collaterals in the process of calculation of the capital requirement for credit risk,
- specification of general rules to be followed by the Bank when selecting collaterals, taking into account the level of acceptable credit risk,
- specification of specific rules for individual types of tangible collaterals used for estimation of recovered amounts (including, but not limited to, as regards determining the value of collaterals, requirements concerning insurance of the object of tangible collateral).

Furthermore, regulations of the Bank on collaterals take into account especially these aspects of the Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 that refer to the application of LGD approach, legal certainty of collaterals and their monitoring.

Prior to acceptance of exposure for each real estate securing any credit exposure, the mortgage lending value of the real estate must be determined.

Acceptable forms of valuation of collaterals:

- Value of the real estate securing the Bank's debt claims is determined in a form of an expert opinion specifying the mortgage lending value of that real estate,
- Expert opinions about the mortgage lending value of the real estate must be prepared in accordance with the rules provided for in the Act on Mortgage Banks and Covered Bonds, Recommendation F of the Polish Financial Supervision Authority (PFSA) and General Terms and Conditions of Determination of the Mortgage Lending Value of Real Estate approved by the PFSA.

Expert opinions of the mortgage lending value of the real estate prepared by an authorised employee of the Bank are accepted.

Specific rules of determining the mortgage lending value of the real estate are presented in the General Terms and Conditions of Determination of the Mortgage Lending Value of Real Estate and in the Manual of Determination of the Mortgage Lending Value of Real Estate.

Residential real estates securing the loans are subject to the process of monitoring and update of their value. In accordance with Article 208 of the Regulation of the European Parliament and of the Council No. 575/2013 of 26 June 2013, residential real estate may qualify as eligible collateral on the condition that the value of the property is monitored on a regular basis, every three years at the minimum.

- _Credit risk management framework_

In the first half of 2022 there were no changes in the organisational structure of the Risk Management Area.

- _The main modifications of the Bank's lending policy_

As of 1 January 2022, ING Bank Hipoteczny S.A. implemented the provisions of the new Recommendation R.

- _Credit risk during COVID-19 pandemic_

The Bank continued its credit risk mitigating measures in the wake of the COVID-19 pandemic, including:

- it continued to allow borrowers to suspend the execution of the loan agreement (under the amended Act on special arrangements for preventing, counteracting and combating COVID–19, other contagious diseases and crisis situations caused by them). Statutory moratoria, due to the identified loss of the main source of income, were classified as Stage 3. As of 30 June 2022, for all applications submitted under the statutory moratorium, the Bank had 10 active accounts amounting to approximately PLN 2,131,800.
- The mortgage lending value of the real estate is determined prudently, taking into account the specifics of the property's location and the potential impact of COVID-19 on the value of the property on the local market.

- _Key modelling actions_

The total early repayment rate (ESR) in the EL model used in the LLP process has been updated.

- _Stress testing_

In accordance with the "Stress Testing Policy", the Bank conducted internal stress tests to assess the impact of potential events or changes in macroeconomic conditions on its capital requirement, economic capital, risk profile and financial result. The report on the stress-tests results was approved by the Bank's Management Board and presented to the Supervisory Board. The stress-tests results are taken into account in the development of strategic plans, including capital and funding plans, in taking recovery actions or actions to reduce the Bank's risk exposure, in adjusting the Bank's risk profile to the accepted risk tolerance, in shaping contingency plans to deal with stress events, in day-to-day risk management practice, in determining risk appetite and internal limits, and in adjusting and improving internal regulations.

The stress tests were conducted in the first half of 2022 on data as at 31 December 2021.

They included:

- scenario testing:
  - Mild recession associated with the economic consequences of subsequent COVID- 19 mutations, which are as infectious as the omicron variant but have higher mortality rates with lower vaccine efficacy.
  - Long-term recession due to the strong impact of the COVID-19 pandemic on the world economy, making it difficult to implement the EU fiscal programme. Gradual increase in unemployment especially in the service sector.
  - Rapid recession - assumes a scenario of a significantly stronger but short-term impact of the COVID-19 pandemic on the global economy. New mutations of the SARS-CoV-2 coronavirus are more infectious and less sensitive to existing vaccines, but new vaccine variants are emerging after some time. Impediments to the implementation of the EU fiscal programme. Gradual increase in unemployment especially in the service sector.

- sensitivity tests (increase of interest rate by 400 bps and 200 bps, decrease of real estate prices by 30%, decrease of GDP dynamics to -5%, increase of unemployment to 20%, decrease of salaries by 10%, decrease of domestic demand by 10%, depreciation of the Polish zloty against the euro by 30% and 50%).
- reverse stress tests,
- concentration tests.

The test results showed very good resilience of the Bank to adverse macroeconomic conditions. The capital adequacy ratio was maintained at a safe level in the tested scenarios.

Market risk

Market risk is understood at the Bank broadly and it includes sensitivity of the position of the Bank to the changes in market parameters and customer behaviour. Sensitivity includes changes in economic results and financial results presented in relevant reporting, as well as changes in the coverage of regulatory requirements and of the economic capital. Market rates include interest rates, FX rates and prices of securities. Customer behaviour refers to possible early repayment, repayments past due or no repayments of mortgage loans in the Bank's portfolio.

Market risk limits are accepted by the Bank Management Board and are in compliance with the general risk appetite level accepted by the Bank Supervisory Board. Assets and Liabilities Committee realises the market risk management strategy and oversees and monitors the market risk level at the Bank.

Interest rate risk is transferred to Treasury where it is managed within the approved limits. Foreign exchange risk arises entirely from the Bank's internal administration and its level is immaterial. In the first half of 2022, no regulatory and internal limits on market risk were exceeded.

Daily, weekly, monthly and quarterly market risk reports are being developed in the Bank. The weekly, monthly and quarterly reports are presented at the meetings of the Bank Management Board. The Assets and Liabilities Committee get relevant information on a monthly basis, whereas the Supervisory Board receive it on a quarterly basis.

Liquidity and funding risks

Funding and liquidity risk is understood by the Bank as the risk of inability to meet, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank maintains liquidity so that its cash liabilities could be paid at all times from the available funds and inflows from maturing transactions, available funding sources at market prices or from sale of marketable assets. Liquidity risk is material for the Bank. The level of liquidity risk at the Bank is limited, due to the absence of products generating non-contractual liquidity outflows. The Bank is exposed to and monitors the risk of a reduction in liquidity inflows from mortgage loans due to the materialisation of credit risk or regulatory restrictions and the risk of a reduction in the market value of the liquidity buffer. Furthermore, in terms of funding risk, the Bank is exposed to the risk of an increase in the cost of funding in the form of covered bond issues. The Bank monitors the covered bonds issue prices and makes decisions thereon keeping in mind the market situation.

Bank Supervisory Board oversees the liquidity risk management by accepting the general risk appetite level and by analysing Bank liquidity risk reports on a quarterly basis.

The Bank Management Board is responsible for:

- formulating the strategy for funding and liquidity risk, a target liquidity position, its funding methods and the liquidity risk profile,
- establishing the acceptable level of risk (risk appetite), liquidity risk tolerance and submitting it for the Supervisory Board approval,
- approving the liquidity and funding risk management policy and significant amendments thereto; in

particular, the limits tailored to the overall acceptable level of risk approved by the Supervisory Board,

- ensuring allocation of relevant human and IT resources in order to realise the liquidity risk management process.

Assets and Liabilities Committee (ALCO) oversees and monitors the liquidity risk level, the funding structure of the Bank and the liquidity buffer level. The Bank maintains an adequate liquidity buffer in the form of treasury bonds and NBP money bills. Furthermore, the Bank may obtain liquidity from the Final Loan Agreement concluded with the parent entity for general liquidity risk management purposes. The adequacy of the buffer is confirmed by the liquidity reporting and stress test results. The Bank does not identify any regulatory limitations preventing the use of instruments obtained from the parent entity to support the Bank liquidity.

Structural liquidity risk is transferred to and managed by the Treasury Position. The Treasury Position is responsible for the operational management of short-term liquidity and for obtaining funding on the market. The Bank obtains funding through the issue of covered bonds and the issue of own bonds. The remaining assets are financed with capital and a loan from the parent entity.

Daily, weekly, monthly and quarterly liquidity risk reports are being developed in the Bank. The weekly, monthly and quarterly reports are presented at the meetings of the Bank Management Board. The Assets and Liabilities Committee get relevant information on a monthly basis, whereas the Supervisory Board receive it on a quarterly basis. The Market Risk Position is responsible for monitoring and reporting liquidity and funding risk, overseeing the transfer of liquidity risk and providing substantive support to the Accounting and Tax Team, which is responsible for regulatory reporting of supervisory liquidity norms.

- _Stress testing_

Liquidity stress tests present the impact of a stress event on the Bank's liquidity level. The Bank conducts liquidity tests to identify sources of potentially constrained liquidity and to determine how such situations can be prevented to keep the current exposures within set limits. Liquidity testing scenarios are constructed and tested in three variants in terms of their nature: internal, systemic and mixed. The following internal and systemic factors are taken into account in constructing the test scenarios:

- inability to obtain additional funding from the parent entity, except for unutilised funds from committed credit lines,
- deterioration of the parent entity's situation,
- an increased cost of covered bonds issue,
- no new transactions on the interbank market,
- a decrease of the market value of liquid assets,
- a reduction in mortgage flows due to a deterioration of the quality of the loan portfolio or due to regulatory changes.

The Bank uses the results of the liquidity stress tests:

- to monitor the Bank's exposure to liquidity risk in stress situations,
- to set limits on liquidity and funding risk,
- to review internal regulations in the area of liquidity and funding risks, including in particular to review the funding contingency plan,
- to assess the adequacy of the level of liquid assets and surplus liquidity,
- as a basis for taking recovery actions when test results are viewed as negative,
- to adjust the liquidity profile to the accepted risk appetite, including in particular the survival period

accepted by the Supervisory Board.

Model risk

Model risk management is effected in accordance with the Model Risk Management Policy at ING Bank Hipoteczny S.A. This policy specifies, among others:

- the life cycle of models,
- principles for assessment of the materiality and risk of models,
- modus operandi of the model register,
- principles for carrying out monitoring and model validation processes,
- the rules for calculating the model risk related capital and applying capital charges for model.

The Model Validation Position ensures that the model register is in place, which is a repository of information on risk and valuation models in place at the Bank and which is updated by the participants of the model risk management process. The model register and the model logs contain information on, inter alia, the materiality of models, the results of the model monitoring and validation processes and their risk levels.

The Bank assesses on a regular basis the risks of individual models, estimates capital for model risk and, if required, allocates capital charges to models in accordance with the principles adopted in the internal regulations.

The quality of the models' performance is verified as part of the model monitoring and validation processes, during which an assessment of their exposure to model risk sources is performed too. Model validation is performed in accordance with the ING Bank Hipoteczny S.A. Model Validation Policy and detailed validation standards and instructions.

Management reporting on model risk management to the dedicated Committees, the Management Board and the Supervisory Board takes into account, inter alia, the results of the monitoring and validation processes as well as the risk assessment of individual models, the assessment of the aggregate level of model risk in the context of the accepted tolerance level for this risk, and the level of model risk capital.

Operational risk

ING Bank Hipoteczny S.A. manages its operational risk applying the requirements of legal regulations, recommendations and resolutions of the Polish Financial Supervision Authority and other regulators.

The operational risk management system was developed applying the proportionality principle, that is, taking into account the nature, scale and complexity of operations, as well as materiality of processes and operational risk profile of the Bank. It refers to all areas of the Bank's operations and is a consistent, fixed practice comprising the following elements:

- risk identification and assessment,
- risk mitigation,
- control, and
- quality assurance and monitoring.

Operational risk management is supervised at the Bank by the Bank Supervisory Board who use interim management information to assess effectiveness of operations in this field.

After the Bank Management Board get a consent of the Supervisory Board, they specify the operational risk management strategy by implementing a coherent set of internal prescriptive documents governing the scope, principles and duties of the Bank employees in the field of operational risk management.

Measurement of operational risk at ING Bank Hipoteczny S.A. is to specify the scale and profile of the threats related to operational risk using for that the determined risk measures.

In the first half of 2022, the COVID-19 related safety of the Bank's customers and employees continued to be of great importance. Co-ordinating the emergency response, ensuring the safety of remote working and monitoring

the ability of staff to return to the office were among the most important aspects of the Bank's operations. In the end, the Bank Management Board decided to return employees to the office and start hybrid working from 28 March 2022.

As part of the improvement of the internal control system, the Bank ensured that the data contained in the Control Function Matrix for processes was updated on an ongoing basis (including, inter alia, the Control Function Matrix for the Know Your Customer process and the Data Management process). A further review of the list of material processes and verification and detailed planning for the required testing of key controls included in the Control Function Matrix were also carried out.

The Bank continues to optimise the IT security and continuity risk assessment methods.

In the first half of 2022, there were no losses due to internal operational risk incidents.

- *Business continuity*

Ensuring business continuity is a priority for the Bank and it is implemented in two stages. First, the Bank maintains and improves the business continuity management system. Second, the Operational Recovery Strategy was implemented to ensure monitoring and control of the quality of activities performed by the Bank's main provider, namely ING Bank Śląski S.A., and to ensure adequate response to any disruptions on the part of the provider.

The business continuity management system identifies processes that are of the utmost importance for the Bank. Business Continuity Plans (BCPs) are created for these processes, which allow the Bank to operate in the event of failure or other threats. In addition to Business Continuity Plans, the Bank also maintains and tests Disaster Recovery Plans (IT area), which allow the availability of key applications to be restored within the required time.

The bank always tries to prevent any disturbance. In case of events that have a material impact on the Bank's operations, a crisis management team is established to coordinate the activities of all the units involved.

In the first half of 2022, two tests of the Disaster Recovery Plan (DRP) took place - one overall for the Computer Centre and one partial test as part of a service weekend (covering selected applications at the Computer Centre).

- *Business continuity during COVID-19*

Starting from 2020, COVID-19 pandemic forced the introduction of a number of restrictions resulting from the announced state of pandemic, as well as a change in behaviour, needs and economic situation of clients. The Bank's response was that in 2020, the Crisis Management Team decided to activate the Bank's contingency plans and trigger remote working model for the employees, who worked so until 28 March 2022, when the activated Business Continuity Plan (BCP) was terminated. Since then, due to the decreasing number of infections and the lifting of the state of epidemics in Poland, the hybrid office working model has been implemented in the Bank. The epidemic situation in Poland is monitored on an ongoing basis to assess whether the Business Continuity Plan (BCP) shall be reactivated.

The actions taken by the Bank during the pandemic were to adjust the Bank's operations in terms of at least the manner/form of work, the sanitary measures in place, internal and external communication and monitoring and reporting.

Compliance risk

Compliance risk at ING Bank Hipoteczny S.A. is understood as the risk of consequences of non-compliance with legal regulations, internal regulations and market standards in the processes that are in place in the Bank; it includes, but is not limited to, especially:

- non-compliance resulting from non-implementation of the requirements of external regulations on financial institutions in the Bank's internal regulations; this regards universally applicable laws,

recommendations of the regulators, court orders and decisions binding for the Bank under law, accepted codes of conduct,
  - non-compliance resulting from ineffective controls defined in bank policies and procedures in high-level compliance risk areas, including within the operations of the Compliance Area,
  - other identified non-compliance concerning universally applicable laws on financial institutions.

Should compliance risk materialize, it could lead to: deterioration of reputation or losses attributable to legal claims, financial penalties or sanctions of any other type imposed by regulators.

Compliance risk management is arranged in such a way to ensure management of that risk on three independent levels (lines of defence).

The first line of defence units are responsible for ensuring compliance of the performed tasks with legal regulations, internal regulations and market standards, including, but not limited to, identification and assessment - with the support of organisational units of the second line of defence - of the compliance risk for its processes, and also for management of that risk, inclusive of design, implementation and performance of controls.

The role of the Compliance Area, being the leading unit of the second line of defence in the compliance risk area is, most notably, providing support for the first line of defence in the process of identification and assessment of the compliance risk and approval of the results of the identification performed at 1 LoD, control, independent monitoring and complex reporting of the results of identification, assessment, control and monitoring of the compliance risk, based on the results of performance of its own activities and information received from other units of the first and second lines of defence.

Internal auditor (the third line of defence) ensures independent and objective assessment of effectiveness of internal controls.

In the first half of 2022, the Bank continued activities related to ensuring the Bank's compliance with regulatory requirements, including the monitoring, analysis and implementation of regulatory changes, improvement of controls in the key processes of the Bank, the Know Your Customer area included. Actions to make and reinforce awareness of Bank employees of the key compliance areas are taken on a regular basis.

Business risk

Macroeconomic risk is distinguished by the Bank as significant business risk.

- *Macroeconomic risk*

Macroeconomic risk is the risk resulting from changes in macroeconomic factors and their impact on minimum capital requirements. The Bank manages this risk through regular internal stress testing, which allows for on-going monitoring of the sensitivity of the minimum capital requirements to macroeconomic factors. In the first half of 2022, the Bank conducted full capital tests as at the end of 2021.

In line with the applied approach, the Bank estimates the additional capital requirement based on internal stress test results for the mild recession scenario. Stress-test results showed that should the mild recession risk materialise it would not affect a decline in the capital adequacy below the required level.

7.26. Quantitative information

Credit risk

For data on the quality of the credit portfolio, see notes no. 7.8 *Loans and other receivables from clients* and 7.27 *Capital adequacy disclosures* herein

ING

Market risk

- *Interest rate risk*

Interest rate risk in the banking book is deemed to be a major risk. The Bank uses the following measures of interest rate risk:

- sensitivity measure (BPV),
- net interest income at risk (NIIaR),
- economic value of the equity at risk (EVEaR),
- securities portfolio sensitivity measures.

In the first half of 2022, the Bank identified no exceeded interest rate risk limits. As at 30 June 2022, 31 December 2021, and 30 June 2021 the core measures were at the following levels:

Risk measure	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
BPV (PLN thousand)	22.0	27.4	42.9
NIIaR (PLN thousand)	2,061.8	1,343.9	2,324.5
EVEaR to own funds	2.14%	2.44%	1.63%

- *Currency risk*

The Bank does not hold significant positions in foreign currencies. As at 30 June 2022, the FX risk is deemed non-material. The Bank uses the following measures of the FX risk:

- a measure of the position in particular currencies,
- value at FX risk (VaR).

As at 30 June 2022, the Bank maintained its FX position in EUR at the level of EUR 66,000 (short position) - (compared to EUR 73,000 (short position) as at 31 December 2021 and EUR 28,000 (short position) as at 30 June 2021). This position resulted from internal administration and generated a VaR of PLN 5,400 (compared with PLN 3,200 as at 31 December 2021 and with PLN 1,700 as at 30 June 2021).

Liquidity and funding risks

- ***Liquidity risk measurement***

The Bank uses the following liquidity risk measures:

- liquidity coverage ratio (LCR),
- net stable funding ratio (NSFR),
- structural liquidity gap,
- survival period in stress situation,
- stress testing.

In the first half of 2022, the Bank identified no exceeded liquidity risk limits. As at 30 June 2022, 31 December 2021, and 30 June 2021 the regulatory liquidity measures were at the following levels:

	Liquidity metrics	Supervisory limit	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
LCR	Liquidity coverage ratio	>100%	1,864%	131%	11,160%
NSFR	Net stable funding ratio	>100%*	140%	129%	145%

*) in accordance with Regulation (EU) No 2019/876 of the European Parliament and of the Council, the minimum level of the NSFR is applicable from 28 June 2021.

In April 2021, the Bank received the PFSA's approval to include the proceeds from undrawn funds under the committed credit facility agreement concluded with ING Bank Śląski S.A. as liquidity inflows in the LCR measurement. The amount of the loan agreement is PLN 1,000,000,000. As at 30 June 2022, the amount of unutilised funds was PLN 355,000,000.

Table EU LIQB on qualitative information on LCR

a)	Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time	As at 30 June 2022, the Bank's liquid assets consisted exclusively of T-bonds in the amount of PLN 59,150,000, whereas as at 30 June 2021, the Bank's liquid assets consisted of T-bonds in the amount of PLN 35,021,000 and cash bills of the National Bank of Poland in the amount of PLN 32,997,600 (debt securities are described in note 7.7). At the same time, as at 30 June 2022, the projected liquidity outflows are materially higher than in the comparative period due to changes in interest rates compared to 30 June 2021.
b)	Explanations on the changes in the LCR over time	As at 30 June 2022, the Bank's LCR was 1,864% compared to 11,160% as at 30 June 2021. This was due to the reasons detailed in a) above.
c)	Explanations on the actual concentration of funding sources	At the end of the first half of 2022, there were no major changes in the actual concentration of financing sources compared to the end of the first half of 2021. Nevertheless, as at 30 June 2022, the Bank did not use financing with own bonds.
d)	High-level description of the composition of the institution's liquidity buffer	Changes in the liquidity buffer as at 30 June 2022 compared to 30 June 2021 resulted in particular from the purchase of T-bonds (their values in each period are indicated in a) above).
e)	Derivative exposures and potential collateral calls	Not applicable
f)	Currency mismatch in the LCR	Not applicable
g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	Not applicable

7.27. Capital adequacy disclosures

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:

- own funds for the needs of capital adequacy,
- capital requirements,
- credit risk related adjustments,
- applied credit risk mitigation techniques.

In accordance with the requirements of the EBA/GL/2020/07 Guidelines, the Bank also presents detailed quantitative data on the exposures covered by the measures applied in response to the crisis caused by COVID-19.

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.

In accordance with supervisory recommendations, the ratios as at 31 December 2021 are recalculated after the profit distribution is approved by the General Shareholders Meeting, and then they are reported to the Supervisor. The below presented ratios as at 31 December 2021 take into account the recalculation.

Own funds and capital requirements

For the needs of capital adequacy, own funds of the Bank consist exclusively of Tier 1 core funds (CET 1) and they were set in accordance with the Banking Law Act, CRR and related regulations.

At the same time, in line with CRR, the Bank calculates requirements for its own funds for the following risk types:

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

As at 30 June 2022, the Bank recognised zero values for the own funds requirements in relation to the credit valuation adjustment, settlement and supply and market risks. Having regard to the above, as at the date of this report, the total requirement for own funds consisted of the credit risk and operational risk requirements.

	as at 30.06.2022	as at 31.12.2021	as at 30.06.2021
Own funds			
A. Equity capitals from the statement of financial position, including:	**481,693.2**	**492,342.5**	**468,190.1**
A.I. Equity capitals recognised under own funds, including:	470,574.0	471,631.3	461,663.9
Share capital	380,000.0	380,000.0	380,000.0
Supplementary capital – share premium	62,002.2	62,002.2	62,002.2
Retained earnings from previous years	26,940.1	28,597.0	18,241.4
Loss for the current period	0.0	0.0	0.0
Accumulated other comprehensive income	-1,611.4	-554.1	-165.8
Reserve capital	3,243.1	1,586.2	1,586.2
A.II. Equity capitals not recognised under own funds, including:	11,119.1	20,711.2	6,526.2
Profit for the current period	11,119.1	20,711.2	6,526.2
B. Other components (decreases and increases) of own funds, including:	**-73.5**	**-49.7**	**-369.0**
Intangible assets	0.0	0.0	-318.9
Value adjustment due to the requirements for prudent valuation	-73.5	-49.7	-50.1
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	**470,500.5**	**471,581.6**	**461,295.0**
Common Equity Tier 1 (CET1)	470,500.5	471,581.6	461,295.0
Risk weighted assets, including:	**1,310,648.4**	**1,549,254.3**	**1,720,201.8**
credit risk weighted assets	1,228,833.4	1,467,439.2	1,671,476.3
operational risk weighted assets	81,815.1	81,815.1	48,725.6
Total capital requirements	**104,851.9**	**123,940.3**	**137,616.2**
Total capital ratio (TCR)	**35.90%**	**30.44%**	**26.82%**
minimum required level	10.50%	10.50%	10.50%
excess TCR	332,882.4	308,909.9	280,673.8
Tier 1 ratio (T1)	**35.90%**	**30.44%**	**26.82%**
minimum required level	8.50%	8.50%	8.50%
excess T1	359,095.4	339,895.0	315,077.8
Common Equity Tier 1 ratio (CET1)	**35.90%**	**30.44%**	**26.82%**
minimum required level	7.00%	7.00%	7.00%
excess T1	378,755.1	363,133.8	340,880.9

* In accordance with supervisory recommendations, the ratios as at 31 December 2021 are recalculated after the profit distribution is approved by the General Shareholders Meeting, and then they are reported to the Supervisor. The above presented ratios as at 31 December 2021 take into account the recalculation. Prior to the approval of the 2021 profit distribution, the ratios in question published in the financial statements for the period from 1 January 2021 to 31 December 2021 were as follows: TCR 30.43%; LR 11.67%.

Risk weighted assets and capital requirements

Below, the Bank presents the risk-weighted assets values (RWA) together with the requirements for own funds and division into specific classes of exposures:

	Gross value of exposures	Net exposure**	Risk weighted assets (RWA)	Requirement for own funds
Exposures to central governments and central banks	76,490.4	76,490.3	7,340.1	587.2
Exposures to institutions	164,394.7	164,394.7	0.0	0.0
Retail exposures*	119,659.8	119,580.1	89,685.1	7,174.8
Exposures secured by mortgages on immovable properties	3,209,152.1	3,208,154.3	1,124,136.3	89,930.9
Exposures in default	6,000.0	4,158.0	4,158.0	332.6
Other exposures	3,513.8	3,513.8	3,513.8	281.1
Total	**3,579,210.8**	**3,576,291.3**	**1,228,833.4**	**98,306.7**

*) They arise from a part of exposures relating to purchased mortgage loan related debt claims that is not fully and completely secured, namely, that is in the transitional period, that is, until the collateral is established, or it exceeds 80% of mortgage lending value of the real estate.

**) Value of balance sheet exposures and equivalent of the balance sheet liabilities and contingent transactions, taking into account specific credit risk adjustments and credit conversion factor (CCF).

Selected quantitative information about capital adequacy

The following tables present detailed quantitative information on capital adequacy, as required by Commission Implementing Regulation 2021/637:

- Template EU OV1 – Overview of total risk exposure amounts
- Template EU CC1 – Composition of regulatory own funds
- Template EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements
- Template EU LIQ1 – Quantitative information of LCR
- Template EU LIQ2 – Net Stable Funding Ratio
- Template EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer
- Template EU CCyB2 – Amount of institution-specific countercyclical capital buffer
- Template EU LR1–LRSum – Summary reconciliation of accounting assets and leverage ratio exposures
- Template EU LR2–LRCom – Leverage ratio common disclosure
- Template EU LR3-LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)
- IFRS 9/Article 468-FL – Comparison of institutions’ own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR
- Template EU CR1 – Performing and non-performing exposures and related provisions

- Template EU CR1-A – Maturity of exposures
- Template EU CR2 – Changes in the stock of non-performing loans and advances
- Template EU CQ1: Credit quality of forborne exposures
- Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques
- Template EU CR4 – standardised approach – Credit risk exposure and CRM effects
- Template EU CR5 – Standardised approach

Template EU OV1 - Overview of total risk exposure amounts

		a	c
		Total risk exposure amounts (TREA)	Total own funds requirements
		as at 30.06.2022	as at 30.06.2022
1	**Credit risk (excluding CCR)**	**1,228,833.3**	**98,306.7**
2	Of which the standardised approach	1,228,833.3	98,306.7
23	**Operational risk**	**81,815.1**	**6,545.2**
EU-23a	Of which basic indicator approach	81,815.1	6,545.2
24	**Amount below the thresholds for deduction (subject to a 250% risk weight)**	**7,340.1**	**587.2**
29	**Total**	**1,310,648.4**	**104,851.9**

Template EU CC1 - Composition of regulatory own funds

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	442,002.2	(d)
	of which: ordinary share	380,000.00	
	of which: share premium	62,002.20	
2	Retained earnings	26,940.1	(f)
3	Accumulated other comprehensive income (and other reserves)	1,631.7	(e)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**470,574.0**	
Common Equity Tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-73.5	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-73.5**	
29	**Common Equity Tier 1 (CET1)**	**470,500.5**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**470,500.5**	
59	**Total capital (TC = T1 + T2)**	**470,500.5**	
60	**Total risk exposure amount**	**1,310,648.4**	
Capital ratios and buffers			
61	Common Equity Tier 1 (CET1)	35.90%	
62	Tier 1 capital	35.90%	
63	Total capital	35.90%	
64	Institution CET1 overall capital requirement	7.00%	
65	of which: capital conservation buffer requirement	2.50%	
EU -67	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	27.90%	
Amounts below the thresholds for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the	2,936.1	(c)

conditions in Article 38 (3) CRR are met)

Template EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	c
		Balance sheet as in published financial statements	Reference
		30.06.2022	
Assets – Breakdown by asset clases according to the balance sheet in the published financial statements			
2	Loans and other receivables to other banks	164,394.7	
5	Investment securities	73,527.3	
6	Loans and other receivables to customers measured at amortised cost	3,331,360.3	
8	Property, plant and equipment	1,036.6	
9	Intangible assets	0.0	(a)
11	Current tax assets	7.5	
12	Deferred tax assets	2,936.1	(c)
13	Other assets	2,477.1	
14	**Total assets**	**3,575,739.6**	
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements			
1	Liabilities to other banks	2,674,361.1	
5	Liabilities under issue of securities	404,331.1	
7	Provisions	823.6	
8	Current tax liabilities	1,597.0	
10	Other liabilities	12,933.7	
11	**Total liabilities**	**3,094,046.5**	
Shareholders' Equity			
1	Share capital	380,000.0	(d)
2	Supplementary capital – issuance of shares over nominal value	62,002.2	(d)
3	Accumulated other comprehensive income	-1,611.4	(e)
4	Retained earnings	41,302.3	(f)
5	**Total shareholders' equity**	**481,693.2**	

Template EU LIQ1 – Quantitative information of LCR

		a	e
		Total unweighted value (average)	Total weighted value (average)
EU 1a		**30.06.2022**	**30.06.2022**
EU 1b	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		74,572.6
CASH - OUTFLOWS			
5	Unsecured wholesale funding	61,211.1	61,211.1
8	*Unsecured debt*	61,211.1	61,211.1
10	Additional requirements	274.2	274.2
12	Outflows related to loss of funding on debt products	274.2	274.2
14	Other contractual funding obligations	5,583.8	5,494.3
16	TOTAL CASH OUTFLOWS		66,979.6
CASH - INFLOWS			
18	Inflows from fully performing exposures	28,594.9	16,005.9
19	Other cash inflows	228,070.8	228,070.8
20	**TOTAL CASH INFLOWS**	**256,665.7**	**244,076.7**
EU-20c	Inflows subject to 75% cap	256,665.7	244,076.7
TOTAL ADJUSTED VALUE			
EU-21	LIQUIDITY BUFFER		74,572.6
22	TOTAL NET CASH OUTFLOWS		17,457.3
23	LIQUIDITY COVERAGE RATIO		47.3

Template EU LIQ2 – Net Stable Funding Ratio

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	**Capital items and instruments**	**470,500.5**	**0.0**	**0.0**	**0.0**	**470,500.5**
2	*Own funds*	470,500.5	0.0	0.0	0.0	470,500.5
7	**Wholesale funding:**		**8,580.3**	**645,000.0**	**2,425,000.0**	**2,747,500.0**
9	*Other wholesale funding*		8,580.3	645,000.0	2,425,000.0	2,747,500.0
11	**Other liabilities:**		**7,647.4**	**4,849.7**	**3,777.4**	**6,202.3**
13	*All other liabilities and capital instruments not included in the above categories*		7,647.4	4,849.7	3,777.4	6,202.3
14	**Total available stable funding (ASF)**					**3,224,202.7**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**15,000.0**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**9,702.0**	**8,499.5**	**421,798.5**	**374,000.0**
17	**Performing loans and securities:**		**224,807.7**	**52,171.6**	**2,773,948.8**	**1,899,097.1**
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		164,394.7	0.0	0.0	16,439.5
22	*Performing residential mortgages, of which:*		60,412.9	52,171.6	2,773,948.8	1,882,528.3
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		58,168.0	50,300.8	2,657,455.6	1,781,580.6
26	**Other assets:**	**0.0**	**1,091.9**	**1,817.3**	**11,001.9**	**12,570.5**
31	*All other assets not included in the above categories*		1,091.9	1,817.3	11,001.9	12,570.5
33	**Total RSF**					**2,300,667.6**
34	**Net Stable Funding Ratio (%)**					140.14%

Template EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

		a	f	g	j	k	l
		General credit exposures	Total exposure value	Own fund requirements		Risk-weighted exposure amounts	Own funds requirements: weights (%)
		Exposure value under the standardised approach		Relevant credit exposures - credit risk	Total		
010	**Breakdown by country:**						
	Poland	3,499,801.0	3,499,801.0	97,719.5	97,719.5	1,221,493.2	100.00%
020	**Total**	**3,499,801.0**	**3,499,801.0**	**97,719.5**	**97,719.5**	**1,221,493.2**	**100.00%**

Template EU CCyB2 - Amount of institution-specific countercyclical capital buffer

		a
1	Total risk exposure amount	1,310,648.4
2	Institution specific countercyclical capital buffer rate	0.0000%
3	Institution specific countercyclical capital buffer requirement	0.0

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Template EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		a
		Applicable amount
1	Total assets as per published financial statements	3,999,200.7
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-3,721.7
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-46,828.4
12	Other adjustments	2,931.4
13	**Total exposure measure**	3,951,582.0

Template EU LR2 - LRCom: Leverage ratio common disclosure

		a
		CRR leverage ratio exposures
		as at 30.06.2022
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	3,575,745.7
5	(General credit risk adjustments to on-balance sheet items)	-2,919.6
6	(Asset amounts deducted in determining Tier 1 capital)	-73.5
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**3,572,752.6**
Excluded exposures		
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-164,394.7
EU-22k	**(Total exempted exposures)**	**-164,394.7**
Capital and total exposure measure		
23	Tier 1 capital	470,500.5
24	**Total exposure measure**	**3,411,823.1**
Leverage ratio		
25	**Leverage ratio (%)**	**13.79%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	13.79%
26	Regulatory minimum leverage ratio requirement (%)	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	3.00%
EU-26b	of which: to be made up of CET1 capital	3.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%
Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	transitional provisions

Template EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		a
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**3,411,896.6**
EU-3	Banking book exposures, of which:	3,411,896.6
EU-5	Exposures treated as sovereigns	76,490.3
EU-8	Exposures secured by mortgages on immovable properties	3,208,154.4
EU-9	Retail exposures	119,580.1
EU-11	Exposures in default	4,158.0
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	3,513.8

IFRS 9/Article 468-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR

		as at 30.06.2022
	Capital available (amounts)	
1	CET1 capital	470,500.5
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	470,500.5
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied *	470,500.5
3	Tier 1 capital	470,500.5
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	470,500.5
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	470,500.5
5	Total capital	470,500.5
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	470,500.5
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	470,500.5
	Risk weighted assets (amounts)	
7	Total risk-weighted assets	1,310,648.4
8	Total risk-weighted assets as if FRS 9 or analogous ECLs transitional arrangements had not been applied	1,310,648.4
	Capital ratios	
9	CET1 (as a percentage of risk exposure amount)	35.90%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	35.90%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	35.90%
11	Tier 1 (as a percentage of the risk exposure amount)	35.90%
12	Tier 1 (as a percentage of the risk exposure amount) as if FRS 9 or analogous ECLs transitional arrangements had not been applied	35.90%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	35.90%
13	Total capital (as a percentage of risk exposure amount)	35.90%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	35.90%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	35.90%
	Leverage Ratio	
15	Leverage ratio total exposure measure	3,411,823.1
16	Leverage ratio	13.79%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.79%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	13.79%

* The Bank does not apply the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR. The reported capital ratios, including the leverage ratio and Tier 1 capital already fully reflect the impact of unrealised gains and losses measured at fair value through other comprehensive income.

Template EU CR1: Performing and non-performing exposures and related provisions

		a	b	c	d	f	g	h	i	j	l	n	o
		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 3		
005	Cash balances at central banks and other demand deposits	164,394,713.02	164,394,713.02										
010	**Loans and advances**	**3,328,811,902.09**	**3,311,207,835.59**	**17,604,066.50**	**5,995,925.07**	**5,995,925.07**	**-2,278,616.73**	**-993,938.54**	**-1,284,678.19**	**-1,168,951.37**	**-1,168,951.37**	**3,326,533,285.36**	**4,826,973.70**
080	Households	3,328,811,902.09	3,311,207,835.59	17,604,066.50	5,995,925.07	5,995,925.07	-2,278,616.73	-993,938.54	-1,284,678.19	-1,168,951.37	-1,168,951.37	3,326,533,285.36	4,826,973.70
090	**Debt securities**	**73,540,693.07**	**73,540,693.07**	**0.00**	**0.00**	**0.00**	**-13,374.08**	**-13,374.08**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
110	Government and self-government institutions' sector	73,540,693.07	73,540,693.07				-13,374.08	-13,374.08					
220	**Total**	**3,566,747,308.18**	**3,549,143,241.68**	**17,604,066.50**	**5,995,925.07**	**5,995,925.07**	**-2,291,990.81**	**-1,007,312.62**	**-1,284,678.19**	**-1,168,951.37**	**-1,168,951.37**	**3,326,533,285.36**	**4,826,973.70**

Template EU CR1-A: Maturity of exposures

		b	c	d	f
		Net exposure value			
		<= 1 year	> 1 year <= 5 years	>5 years	**Total**
1	Loans and advances	515,625.9	46,985,907.6	3,283,858,725.5	**3,331,360,259.1**
2	Debt securities		73,527,319.0		**73,527,319.0**
3	**Total**	**515,625.9**	**120,513,226.6**	**3,283,858,725.5**	**3,404,887,578.1**

Template EU CR2: Changes in the stock of non-performing loans and advances

		a
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**6,849,411.0**
030	Outflows from non-performing portfolios	-853,485.9
060	**Final stock of non-performing loans and advances**	**5,995,925.1**

Template EU CQ1: Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing exposures	On non-performing exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
010	**Loans and advances**	**7,111,390.96**	**5,721,253.53**	**5,721,253.53**	**5,721,253.53**	**-54,688.78**	**-1,124,433.41**	**11,653,522.30**	**4,596,820.12**
070	Households	7,111,390.96	5,721,253.53	5,721,253.53	5,721,253.53	-54,688.78	-1,124,433.41	11,653,522.30	4,596,820.12
100.00	**Total**	**7,111,390.96**	**5,721,253.53**	**5,721,253.53**	**5,721,253.53**	**-54,688.78**	**-1,124,433.41**	**11,653,522.30**	**4,596,820.12**

Template EU CR4 – standardised approach – Credit risk exposure and CRM effects

	Exposure classes	a	c	e	f
		Exposures before CCF and before CRM	Exposures post CCF and post CRM	RWAs and RWAs density	
		On-balance-sheet exposures	On-balance-sheet exposures	RWAs	RWAs density (%)
1	Exposures to central governments and central banks	76,490.3	76,490.3	7,340.1	10%
6	Exposures to institutions	164,394.7	164,394.7	0.0	0%
8	Retail exposures	119,580.1	119,580.1	89,685.1	75%
9	Exposures secured by mortgages on immovable properties	3,208,154.4	3,208,154.4	1,124,136.3	35%
10	Exposures in default	4,158.0	4,158.0	4,158.0	100%
16	Other items	3,513.8	3,513.8	3,513.8	100%
17	**Total**	**3,576,291.3**	**3,576,291.3**	**1,228,833.3**	**34%**

Template EU CR5 – standardised approach

	Exposure classes	a	f	i	j	k	l	p	q
		Risk weight						Total	Of which unrated
		0%	35%	75%	100%	150%	250%		
1	Exposures to central governments and central banks	73,554.2	0.0	0.0	0.0	0.0	2,936.1	**76,490.3**	76,490.3
6	Exposures to institutions	164,394.7	0.0	0.0	0.0	0.0	0.0	**164,394.7**	164,394.7
8	Retail exposures	0.0	0.0	119,580.1	0.0	0.0	0.0	**119,580.1**	119,580.1
9	Exposures secured by mortgages on immovable property	0.0	3,207,039.3	0.0	0.0	1,115.1	0.0	**3,208,154.4**	3,208,154.4
10	Exposures in default	0.0	0.0	0.0	4,158.0	0.0	0.0	**4,158.0**	4,158.0
16	Other items	0.0	0.0	0.0	3,513.8	0.0	0.0	**3,513.8**	3,513.8
17	**Total**	**237,948.9**	**3,207,039.3**	**119,580.1**	**7,671.8**	**1,115.1**	**2,936.1**	**3,576,291.3**	**3,576,291.3**

Information on exposures covered by the measures applied in response to the COVID-19 related crisis

The table below shows detailed quantitative information on the exposures covered by the measures applied in response to the COVID-19 crisis, as required by the EBA/GL/2020/07 Guidelines:

EBA-compliant legislative and extended moratoria loans and advances by residual maturity of moratoria.

	Number of obligors	Total, including:	legislative moratoria	expired moratoria	total expenses, of which:	with residual maturity < 3 months
Loans for which a moratorium is proposed	630	**122,331.2**				
Loans subject to moratorium (granted), of which:	624	**122,331.2**	**10,554.7**	**118,199.3**	**2,131.8**	2,131.8
Retail banking clients		**122,331.2**	**10,554.7**	**118,199.3**	**2,131.8**	2,131.8
of which: collateralised by residential immovable property		**122,331.2**	**10,554.7**	**118,199.3**	**2,131.8**	2,131.8

	Gross carrying amount		Loss allowance	
	Total, including:	non-performing	**Total, including:**	non-performing
Loans subject to moratorium, of which:	**2,131.8**	2,131.8	**-443.7**	-443.7
Retail banking clients	**2,131.8**	**2,131.8**	**-443.7**	**-443.7**
of which: collateralised by residential immovable property	**2,131.8**	**2,131.8**	**-443.7**	**-443.7**

Capital buffers

In pursuance of the Macroprudential Supervision Act that transposes the regulations of CRD and in pursuance of the Regulation of the Minister for Economic Development and Finance of 1 September 2017 concerning system risk buffer (Journal of Laws of 2017, item 1776) the Bank is obliged to keep the capital ratios that take into account capital buffers at the following levels:

- total capital ratio (TCR) = 8% + combined buffer requirement,
- Tier 1 ratio (T1) = 6% + combined buffer requirement,
- Common Equity Tier 1 (CET1) = 4.5% + combined buffer requirement,

where the combined buffer requirement is the total of the applicable buffers, namely:

- capital conservation buffer of 2.5%,
- countercyclical capital buffer of 0% for credit exposures within the territory of the Republic of Poland,
- buffer of other systemically-important institution specified in individual decision of the Polish Financial Supervision Authority. PFSA did not consider ING Bank Hipoteczny S.A. to be the other systemically-important institution and thus there is no obligation to maintain any capital add-on for that,

At the same time, in line with the regulations resulting from Article 138.1.2a of the Banking Law Act, the Polish Financial Supervision Authority, performing its supervisory function, may impose on the Bank a requirement to keep capital add-on in special cases listed in the above mentioned regulations.

Leverage

The process of excessive financial leverage risk management is carried out in the Bank based on the Excessive Financial Leverage Risk Management Policy in ING Bank Hipoteczny S.A. that implements especially the requirements resulting from the Regulation of the European Parliament and of the Council (CRR). The Policy

governs excessive financial leverage risk (Leverage Ratio - LR) at ING Bank Hipoteczny S.A. specifying, inter alia, the liability of the participants in the process:

The Accounting and Taxation Team is responsible for:

- the methodology for calculating the leverage ratio and for the ongoing calculation of that ratio;
- carrying out obligatory reporting to entities external to the Bank, including the NBP and the PFSA.

The Financial Analysis and Management Reporting Position is responsible for:

- preparing a plan of balance sheet and off-balance sheet items for planning the components of the leverage ratio;
- planning, reporting and monitoring the leverage ratio and providing information thereon to the Bank's management;
- initiating actions to maintain indicators at the desired level;
- carrying out stress tests covering the risk of excessive leverage;
- where that risk is considered material, developing a methodology for estimating economic capital against the risk of excessive leverage.

The excessive financial leverage risk is understood as the risk resulting from an institution's vulnerability to the threats attributable to leverage, which may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustment of its remaining assets. For the purposes of the ICAAP process, the risk of excessive financial leverage has been identified by the Bank and considered to be negligible.

Leverage Ratio (LR) means a relative size of the Bank's assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivatives or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of the Bank, compared to the Bank's own funds.

The Bank calculates the leverage in accordance with CRR.

The Bank assumes that the ratio higher than 5,5% is safe and does not require taking any additional actions. In order to mitigate the risk that the ratio will drop below the required level, the Financial Analysis and Management Reporting function monitors the ratio level against the limit. If the current or planned ratio goes below the desired level, an employee holding the Financial Analysis and Management Reporting Position informs the Assets and Liabilities Committee (ALCO) and the Bank Management Board thereon. Based on the provided information, the ALCO may decide to recommend the Bank Management Board to take one of the following actions:

- not to pay out dividend or to reduce the amount of dividend paid;
- to issue capital that can be included in the Tier 1 capital;
- to securitise or sell certain credit portfolios not securing the covered bonds;
- to take other actions improving the ratio.

Keeping in mind the ALCO's recommendation, the Management Board decide on the next steps and appoints a unit responsible for carrying out these tasks. In the first half of 2022, the leverage ratio remained above the internal minimum and regulatory requirements. The ratio was affected most by:

- increasing the portfolio of mortgage-backed credit debt claims,
- including the last year financial result in the Bank's own funds.

<u>*Leverage*</u>

	as at **30.06.2022**	as at **31.12.2021**	as at **30.06.2021**
Leverage ratio (LR)	13.79%	11.93%	10.83%

* In accordance with supervisory recommendations, the ratios as at 31 December 2021 are recalculated after the profit distribution is approved by the General Shareholders Meeting, and then they are reported to the Supervisor. The above presented ratios as at 31 December 2021 take into account the recalculation. Prior to the approval of the 2021 profit distribution, the ratios in question published in the financial statements for the period from 1 January 2021 to 31 December 2021 were as follows: TCR 30.43%; LR 11.67%.

Table EU LRA: Qualitative disclosure on leverage ratio

a)	Description of procedures applied to manage the risk of excessive leverage	Described above in this item of the report.
b)	Description of factors that affected the leverage ratio during the period which the disclosed leverage ratio refers to.	Described above in this item of the report.

EU OVC Table - ICAAP Information

a)	Method used to assess the adequacy of internal capital	Described in the Management Board Report on Operations of ING Bank Hipoteczny S.A.
b)	At a request of the relevant competent authority - the results of internal capital adequacy assessment process applied by the institution.	Not applicable

SIGNATURES OF MANAGEMENT BOARD MEMBERS OF ING BANK HIPOTECZNY S.A.

2022-08-16	**Mirosław Boda** *President of the Management Board*	*signed with electronic qualified signature*
2022-08-16	**Jacek Frejlich** *Vice-President of the Management Board*	*signed with electronic qualified signature*
2022-08-16	**Roman Telepko** *Vice-President of the Management Board*	*signed with electronic qualified signature*

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

2022-08-16	**Agnieszka Kukuczka** *Chief Accountant*	*signed with electronic qualified signature*