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

for a six-month period ending on

30 June 2022

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1. Introduction

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

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A. which as at 30 June 2022 held 100% shares in the share capital of ING Bank Hipoteczny S.A. The latter is a member of the Group which in this document is referred to as the ING Bank Śląski S.A. Group (the Group).

As at 30 June 2022, the share capital of ING Bank Hipoteczny S.A. amounted to PLN 380,000,000.00 and was fully taken up by ING Bank Śląski S.A. ING Bank Hipoteczny S.A.'s shares were paid in cash.

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

The Bank continuously monitors the development of events related to the ongoing armed conflict in Ukraine and analyses its impact both on the macroeconomic environment and on the Bank itself. In 2022, the Bank's operating, business and financial activities were still influenced by the COVID-19 epidemic. Throughout the whole reporting period, 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 credit moratoria"), as well as monitored the impact of the solutions offered to customers on issues related to securing the issue of covered bonds, the cost of risk and the Bank's result. The Bank also analyses the market situation regarding covered bonds and changes in the regulatory and economic environment on an ongoing basis. Moreover, it is monitored all the time whether the suppliers are able to provide services.

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

So far, the Bank has not recorded any material deterioration in portfolio quality.

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

A significant event for the Bank after the balance sheet date is the adoption Act on crowdfunding for business ventures and assistance to borrowers - so-called credit holidays - details as well as other information after the balance sheet date are described in section 7.3 Other information.

2. Business landscape

2.1 Macroeconomic environment

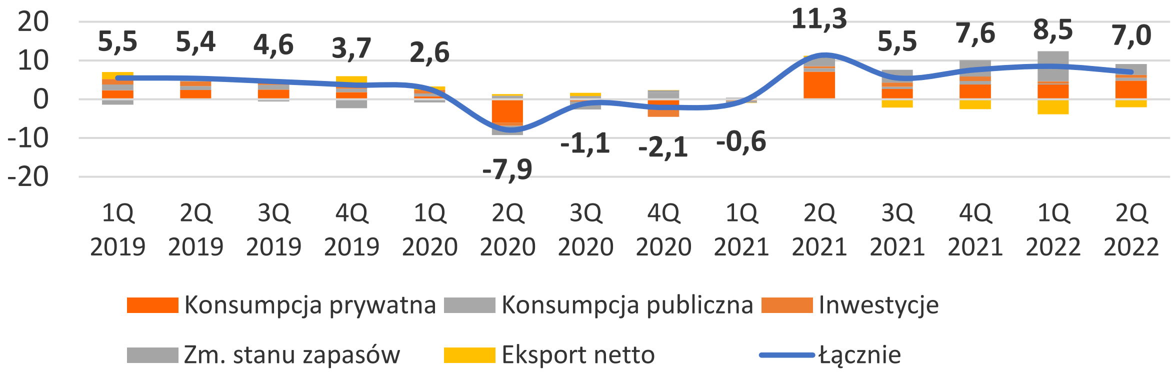
Gross Domestic Product

The turn of 2021 and 2022 was marked by high economic activity in Poland. GDP grew by 7.6% y/y in the last quarter of last year and by 8.5% y/y in the first quarter of this year, with solid consumption growth, rising investments and a very high positive contribution of inventory change to annual GDP growth. The favourable trend continued in the second quarter, with ING Group economists estimating that GDP grew by around 7% y/y. The outbreak of war in Ukraine has drastically worsened the economic outlook, but average annual GDP growth will be high this year due to a very good first half of the year.

ING Group economists estimate that the Polish economy will grow by 4.7% in 2022, namely at a slower rate than in 2021 (5.9%). Consumer spending will be negatively affected by high inflation and rising interest rates, which on the one hand limits access to new loans and on the other increases the cost of servicing of the existing liabilities. Uncertainty related to the war in Ukraine may also be a factor reducing the propensity to consume. The impact of these factors will be offset by spending by refugees from Ukraine and fiscal expansion in the form of reductions in direct (PIT) and indirect taxes (VAT, excise duties under the Anti-inflation Shield) and additional spending. Labour income will continue to grow at a high rate (double-digit wage growth). Consumption growth in 2022 is forecast at close to 6.0%, namely it will remain at a high level similar to that recorded in 2021 (6.1%).

According to the Group's economists, investment growth will remain low in 2022 due to a number of factors: 1) elevated uncertainty about the economic outlook due to the war in Ukraine, 2) delays in the launch of the National Reconstruction Programme (NRP), 3) continued disruptions in global supply chains (due to China's Zero-Covid-19 policy, among others), including capital goods, and 4) rising interest rates, which limits the number of projects with sufficiently high returns that can be financed with credit. Investment growth in 2022 is forecast at 3.7%, whereas in 2021 it was 3.8%. Public investment will be weighed down by the fact that the first significant projects from the NRP are most likely be implemented next year. There is also high uncertainty regarding the realisation of so-called 'milestones', which is a prerequisite for further payments of funds from the European NextGenerationEU. Economic growth will still be based on domestic demand, deterioration in export markets will be reflected in a negative contribution of net exports to GDP.

Decomposition of GDP growth (%)



Source: Central Statistical Office, ING forecast

Labour market and payroll

Since February 2022, wages in the corporate sector have been growing at a double-digit rate, but May was the first month this year when wage growth was lower than consumer price growth. In other words, we saw a decline in real wages. This situation is likely to continue in the coming months of this year.

High inflation will be conducive to continued wage pressure in the short term, although in the medium term it may be somewhat mitigated by the economic downturn and slightly weaker labour demand. According to ING Group economists, average annual wage growth in companies will exceed 12% this year.

Employment in the business sector has returned to pre-COVID-19 levels. The labour market remains tight due to demographic factors (decline in the working-age population) and the outflow of Ukrainian men employed in Poland, particularly affecting the construction and transport industries. The negative impact of these factors is mitigated by an increase in labour force participation and the growing employment of Ukrainian refugees on the basis of simplified procedures. In such an environment, the unemployment rate will remain low this year (around 5.2% at the end of 2022).

Inflation

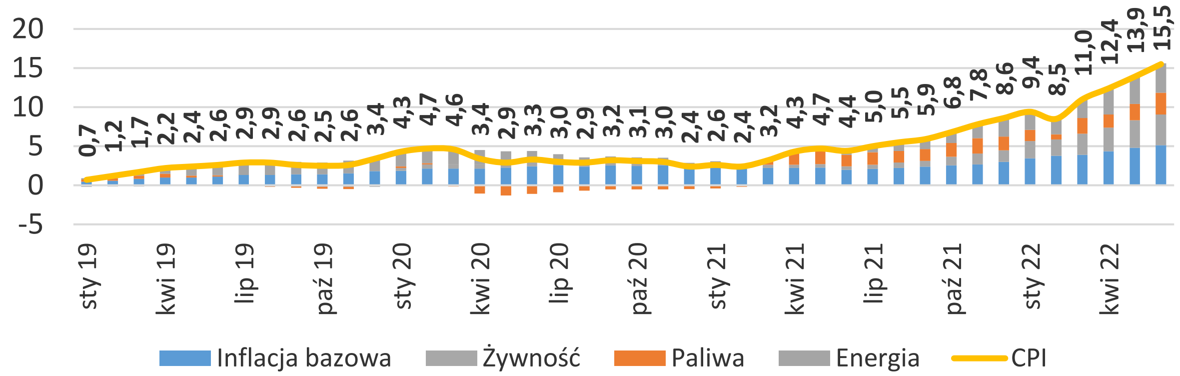
Despite the government's anti-inflation shields, ING Group economists' forecasts for 2022 have increased. This is reflected in the following factors:

- the continuing upward trend in inflation, which has reached its highest levels in more than 2 decades,
- upward pressure on the price of energy carriers for retail consumers and businesses,

- secondary effects, namely including previous increases in energy, material and transport costs by the businesses in the price of finished goods, which was possible due to strong demand growth,
- policy mix, in which monetary policy tightening is accompanied by fiscal policy easing through fiscal stimulation in the form of direct and indirect tax cuts and spending increases,
- a pro-inflationary, consumption-based growth structure.

According to ING Group economists, average inflation in 2022 and 2023 will be 13.7% and 12.5% respectively if the shields are maintained until autumn 2023. The beginning of 2023 will bring further increases in regulated prices. Perturbations related to the war in Ukraine and the earlier rise in energy prices are generating upward pressure on food prices

Inflation (CPI) - decomposition (%)



Source: Central Statistical Office, ING forecast

Impact of global financial markets on Polish economy

The behaviour of financial markets in 2022 was largely defined by the Russian aggression against Ukraine. The associated tensions hit the assets of emerging economies hard, particularly in the Central and Eastern European region. At the same time, there was a significant deterioration in Poland's trade balance, in view of, among other things, a high increase in the price of imported energy resources and a deterioration in exports. It resulted in a dramatic weakening of the Polish zloty, which at the peak of the market shock caused by Russian aggression exceeded PLN 5 against the euro. The Polish zloty lost even more against the US dollar. The consequences of the war in Ukraine had a limited impact on the US economy, which amid fears of a recession in Europe, super-strengthened dollar in recent months.

The T-bond market saw a drastic increase in yields. In response to high inflation and a weak zloty, the NBP was forced to significantly tighten its monetary policy. As a consequence, IRS rates, which determine the expected future level of rates and the bond yields, also rose.

The zloty is likely to remain weak in the second half of 2022. There is no end in sight to the conflict in Ukraine and the associated market tensions. At the same time, the risk of a halt to natural gas supplies from Russia to the EU means there is a significant risk of recession in Europe, which further discourages any purchases of European currencies. This is compounded by a further deterioration in Poland's trade balance. At the same time, it is not clear when Poland will actually receive funds from the Reconstruction Fund. Their inflow would help offset the continued pressure on the zloty related to the foreign trade deficit. According to the new strategy of the Ministry of Finance, EU funds are to be exchanged on the market, i.e. their inflow means purchases of the zloty for the euro. An additional problem is the signals coming from the Monetary Policy Council, suggesting an imminent end to its cycle of interest rate increases. Lessons learnt from, for example, the Czech Republic experience suggest that stabilisation of the currency without significant rises in interest rates requires gigantic currency interventions.

According to ING Group economists, Polish T-bond yields are likely to rise again in the second half of 2022. The situation in Poland differs from the core markets, including the Eurozone. Domestic demand, despite the risks associated with the conflict in Ukraine, is likely to remain much stronger than in the Eurozone. For example, the influx of refugees means relatively strong consumer spending. Keeping in mind high commodity prices or a weak zloty, this means that inflationary risks will be definitely of more long-term nature. Inflation is therefore far from being kept under control. A jump in energy prices in the autumn and from the beginning of 2023 is in prospect. This means that NBP rates will have to be raised to higher levels than the current market pricing. As a consequence, this will raise PLN rates on IRS contracts and, in turn, T-bond yields, especially at the short end. Longer instruments should price the risk of a long-term downturn, triggered by high prices of commodities, etc. and consequently interest rate cuts in the future.

Monetary policy

ING Group economists expect the Monetary Policy Council to continue tightening its policy by bringing the benchmark to 8.5%.

Between October 2021 and July 2022, the Monetary Policy Council made 10 interest rate increases, raising the benchmark rate from 0.10% to 6.50%. Amid signs of a weakening economy in recent weeks, public statements by MPC members suggest the end of the interest rate hike cycle is approaching. In recent months, the Council has gradually reduced the scale of increases at their successive meetings. Rates were raised by 100bps in April, by 75bps in May and June, and by 50bps in July. Some MPC members are suggesting a reduction in the scale of increases to 25bps after the summer holidays.

In the opinion of ING Group economists, if there is a reduction in the scale of increases, this could mean an extension of the monetary policy tightening cycle. Inflationary pressures could intensify in the autumn due to rising energy prices during the next heating season. High increases in regulated prices, including electricity and gas, are expected from the beginning of 2023. This will most likely not allow for interest rate cuts in 2023.

NBP interest rates (after the July 2022 MPC meeting) are as follows:

- deposit interest rate - 6.00%,
- benchmark - 6.50%,
- bill discount rate - 6.60%,
- bill rediscount rate - 6.55%,
- lombard rate – 7.00%.

The NBP does not currently carry out repurchase operations for T-bonds or bonds guaranteed by the Treasury. The central bank has not provided a detailed strategy for the management of the portfolio already held. In particular, it has not stated whether funds from maturing instruments will be reinvested.

Summary

Russia's attack on Ukraine and the war in Europe is a shock to the European economy. By increasing uncertainty and driving up energy commodity prices, it is also a negative shock to the global economy. The global economy is under the influence of stagflationary tendencies - high inflation will be accompanied by a strong cooling of the economy, and a technical recession is not ruled out in some markets, including, but not limited to, the USA, Germany and Poland. This implies a decline in GDP in seasonally adjusted terms in the next two quarters of 2022. Stagflation may slow down the pace of monetary policy normalisation, as upward pressure on prices falls during a downturn or recession.

War and the uncertainty that comes with it are now a major source of disruption for the global economy, but pandemic risks have not completely disappeared either. In the face of numerous Russian attacks on civilian targets and the determination of Ukrainians to defend their country, there is no indication of a quick end to this conflict. Although hostilities are concentrated in the Donbass, the risk of attacks extends to the whole territory of Ukraine, as evidenced by the July rocket attacks on Vinnytsa in central Ukraine. Under the current conditions, it would be a success to reach an agreement unblocking Ukrainian grain exports across the Black Sea, negotiated with the participation of Turkey. As for the COVID-19 pandemic, there may again be some restrictions in light of reports of a new wave of infections in Western Europe, the USA or Brazil. Nevertheless, it shall be expected that it will not be necessary to reintroduce severe for the economy sanitary restrictions in the autumn - neither in the major economies nor in Poland.

ING Group economists expect an economic downturn in Poland in the second half of 2022 and low GDP growth in 2023. However, these are likely to be accompanied by high inflation, triggered by the energy crisis, forcing further increases in NBP interest rates.

In the face of high energy prices and unpredictable moves on Russia's part, the fundamental challenge for the coming months and heating season is to meet the energy needs of households and economic sectors in the coming heating season. At both European and national level, this may mean temporarily allowing more coal consumption to replace Russian gas. However, this action will not at the same time imply the need to accelerate the green transition in Poland, especially as it may be supported by EU funds from the NRP, which was formally accepted by the European Commission in June 2022. However, the green light for the Polish NRP does not guarantee fast cash flows. They will depend on actions on the Polish side, including improved regulation to encourage energy efficiency and clean energy investments. This process is costly, but can open up development opportunities for the Polish economy (development of new industries, specialisations and innovation). The very high fossil fuel prices give additional economic justification for investments in energy-saving technologies, renewable energy sources, as well as the need to invest in the expansion and modernisation of distribution and transmission networks. Poland is also facing key political and economic decisions regarding the construction of nuclear power industry.

Macroeconomic projections					
	2019	2020	2021	2022F	2023F
GDP growth (%)	4.7	-2.2	5.9	4.7	2.5
General government debt as per the EU methodology (% of GDP)	45.9	57.4	54.2	51.5	50.6
Average annual inflation (CPI) (%)	2.3	3.4	5.1	13.7	12.5
Unemployment rate (%; Central Statistical Office)	5.2	6.3	5.4	5.2	5.4
USD/PLN exchange rate (yearend)	3.80	3.76	4.06	4.40	3.97
EUR/PLN exchange rate (yearend)	4.30	4.44	4.59	4.75	4.57
3M WIBOR (yearend)	1.71	0.21	2.54	7.98	8.50

2.2 Residential estate market

One of the regular elements charactering the Polish social and economic situation is insufficient supply of apartments. As defined by the Eurostat, over 37% of Poles live in overcrowded houses. Both the average apartment floor area and the floor area per one citizen are below the EU average.

Depending on the methodology, the shortage of apartments is estimated to range from 1.4 million and 4.4 million in Poland. The data of the Central Statistical Office show that in the first five months of 2022 approximately 91,200 apartments or 3.8% more than a year ago were commissioned for use. Additionally, there were nearly 95,700 apartments whose construction was started (more by 19.5% than the same period last year) and 136,000 apartments to be built (more by 3.9% than the same period last year), namely apartments for which building permits were issued or building designs were registered.

In the first months of 2022, we have seen significant changes in the real estate market in Poland. The Russian invasion of Ukraine triggered not only a reduction in consumer optimism, but also a number of negative consequences, most notably in the availability of labour, which translated into a decline in developer activity.

The wave of refugee influxes from Ukraine also triggered a dynamic increase in residential rental rates. Significantly, however, much of this was quite specific rental demand for a relatively short period - around one quarter. Further developments in the housing market are largely dependent on the events in Ukraine and the possible readiness of refugees to return home, as well as the ability of the Polish labour market to absorb a significant number of Ukrainian workers.

In addition, since October 2021, the Monetary Policy Council has decided to increase NBP interest rates every month (in October 2021, the benchmark was 0.1%, while in July 2022 it was 6.50%). This results in an increase in the WIBOR rate, which in turn translates into increasingly expensive mortgage servicing. Taking into account these factors, the creditworthiness of Poles is declining. Indeed, the number of people applying for a mortgage is at its lowest since January 2007, i.e. for 15 years.

Analysis by the AMRON Centre shows that the share of new loans with a LtV ratio higher than the PFSA's recommended level of 80% fell from over 53% in 2013 to 26% in the first quarter of 2022.

Availability of adequate apartments is among further social and economic growth drivers. A limitless shortage of apartments in Poland is an opportunity for development of the mortgage banking market which is based on real estate funding with long-term covered bonds.

2.3 Mortgage lending market

As at the end of May 2022, banks' receivables under housing loans in Poland totalled PLN 496.8 billion or went up by 4.2% y/y (as per the data published by the National Bank of Poland). The balance of loans awarded in PLN rose by 9% y/y and closed at PLN 406.8 billion.

The Polish mortgage market is almost entirely dominated by variable interest rate loans. Currently, in connection with further increases in interest rates, fixed interest rate loans are becoming more and more popular among customers.

In the first half of the year, the mortgage market was strongly influenced by the ongoing armed conflict in Ukraine and the general macroeconomic situation. Declining consumer optimism, rising inflation and interest rates led to a decline in demand for mortgages. The Credit Information Bureau reported that the number of enquiries for new mortgages fell by 60% y/y in June.

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

2.4 Covered bonds market

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

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

The Polish market of covered bonds is small when compared with developed EU economies where covered bonds are an important source of mortgage lending funding. Polish issuers place covered bonds both in the Polish market and abroad. Public issues predominate, in Poland on a floating interest rate and foreign on a fixed rate.

At the end of June 2022, the total value of outstanding mortgage covered bonds in Poland was approximately PLN 20 billion. In the first half of this year, covered bond issues were carried out by mBank Hipoteczny and PKO Bank Hipoteczny. The latter continues to be the largest issuer of covered bonds in Poland. The ratio of mortgage loans funding with covered bonds still remains low.

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

2.5 Regulatory and legal landscape

Significant legal changes that came into force, were either enacted or initiated in the first half of 2022 and that affect the Bank's operations relate in particular to the amendment of the Act on Covered Bonds and Mortgage Banks and certain other acts (the Banking Law Act), amendments to the Commercial Companies Code, the enactment of the so-called credit holidays and the possibility of introducing a benchmark replacing WIBOR, and the remodelling of the existing tax system (the so-called Polish Deal).

1. On 14 April 2022, the President of the Republic of Poland signed the Law on Amendments to the Act on Covered Bonds and Mortgage Banks and Certain Other Laws (Form No. 2019), which entered into force on 8 July 2022 .

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

As part of the implementation of the changes resulting from the aforementioned EU legislation into the domestic legal system, the most important changes to the Act on Covered Bonds and Mortgage Banks include, inter alia, a new definition of a covered bond referring to the dual recourse mechanism, which provides investors with the possibility of pursuing claims both against issuers of covered bonds and from the cover assets forming a separate bankruptcy estate in accordance with the provisions of the Act of 28 February 2003 - Insolvency Law, the definition of the principle and prerequisites for the use by domestic banks of the label "European Covered Bond" and "European Covered Bond (Premium)", and the introduction of the principle of issuing bonds on the basis of a well-defined covered bond issuance programme.

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

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

The transitional, adaptation and episodic provisions regulate the impact of the amendment on relations created under the previous provisions as well as issues related to the adjustment of addressees, authorities and institutions to the new regulations, in particular, it is stipulated that:

1) the new regulations will apply to covered bonds issued before the date of entry into force of the Act until their maturity date, with the exception of the provision specifying the conditions for issuing covered bonds;

2) mortgage banks that on the effective date of the Act hold the license to issue covered bonds shall continue their activities in accordance with their license.

The amendments enacted by the Act also include the Banking Law Act, to which regulations were introduced concerning the principles of creation and functioning of the so-called institutional protection scheme, based on the following assumptions. The purpose of the institutional protection scheme is to ensure the liquidity and solvency of each of the participants in this scheme (banks) by, inter alia, granting loans, guarantees and sureties under the terms of an agreement signed by the IPS participants, in accordance with the Act. It may also support the resolution or takeover of a bank being a joint-stock company effected by the Bank Guarantee Fund. The scheme may only be established by banks operating as joint stock companies. Once IPS is established, other banks operating as joint stock companies may become IPS members if they accede to the scheme. IPS membership is to be on a voluntary basis. In order to establish the institutional protection scheme, the signing of a relevant institutional protection scheme agreement by the IPS members will be required. The law stipulates that the signing of the institutional protection scheme agreement will require written form to be valid, while termination will require at least 24-month notice. A draft IPS agreement must be approved by the Polish Financial Supervision Authority (PFSA). An application for approval of the draft IPS agreement is submitted to the PFSA by a bank acting on behalf of the other banks being IPS members, based on an authorisation granted by them. The IPS shall be managed by a management entity which shall be formed for this purpose by the IPS members in the form of a joint stock company to which the provisions of the Commercial Companies and Partnerships Code shall be applicable mutatis mutandis. Each and every IPS member is required to take up and hold at least the minimum number of shares in the management entity as set out in its articles of association and the IPS agreement. Only a member of the IPS managed by that entity may be a shareholder in the management entity.

An aid fund shall be set up in the management entity to provide resources for financing the tasks of the IPS in terms of financial aid to IPS members to improve their solvency, to prevent bankruptcy and to enable the IPS to provide support. This Fund shall be made up of contributions brought by IPS members in the amounts and on the terms and conditions set out herein below and in the IPS agreement, as well as from other sources provided for in the agreement.

The management entity shall set up liquidity and solvency aid mechanisms adjusted to the organisational structure of the IPS.

The managing entity may provide aid or support if at least one of the following conditions is met:

1) such aid or support will prevent the risk of bankruptcy of one of the system participants;

2) it will allow the system participant to comply with the regulatory requirements;

3) support would be granted to an IPS member or to a bank taken over by an IPS member on the basis of, inter alia, the provisions of the Act on the Bank Guarantee Fund regarding the deposit guarantee scheme and resolution.

The operation of the IPS will be supervised by the PFSA.

The Act enters into force on 8 July 2022, with the exception of the regulations indicated therein, which enter into force on other dates. In particular, 14 days after the date of promulgation, i.e. on 7 May 2022, the amendments to the Banking Law concerning the institutional protection system entered into force.

2. On 4 April 2022, the President of the Republic of Poland signed into law the Act amending the Act - Commercial Companies and Partnerships Code and Certain Other Acts (Form No. 1515).

The law provides for the introduction into Polish legislation of the law of groups of companies, also known as holding law or conglomerate law. A group of companies consists of a parent company and a subsidiary company or subsidiary companies, which are corporations, guided, in accordance with the resolution on participation in the group of companies, by a common strategy to pursue a common interest (the interest of the group of companies), justifying the exercise by the parent company of a uniform management over the subsidiary company or subsidiary companies. The holding law will govern the private and legal relationships between a parent company and its subsidiaries. This will be done, taking into account the interests of creditors, board members and minority shareholders, especially of the subsidiary. Liability of the parent company for the consequences of issuing a binding instruction subsequently executed by a subsidiary participating in a group of companies is provided for. The parent company's liability for damages towards the creditors of the subsidiary is regulated. The law also includes direct liability of the parent company towards the shareholders of the subsidiary. However, by virtue of the express exclusion, the provisions concerning groups of companies do not apply to a company that is an entity subject to financial market supervision within the meaning of Article 1(2) of the Financial Market Supervision Act of 21 July 2006 (so, inter alia, a mortgage bank).

The Act clarifies the rules for determining the term of office of the management board and the supervisory board by assuming that the term of office is calculated in full financial years, unless the company's articles of association provide otherwise.

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

The law will enter into force on 13 October 2022.

3. Act of 29 October 2021 amending the Act on Value Added Tax and Certain Other Acts

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

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

- amendments to transfer pricing legislation;
- a remodelling of the provisions concerning the withholding tax procedure by, inter alia, implementing additional restrictions/conditions, the fulfilment of which is necessary for payers to apply reduced withholding tax rates or exemptions from tax withholding. The material scope of payments subject to the pay and refund mechanism has been narrowed (compared to the provisions implemented in 2019)

to income of a passive nature (e.g. interest, copyrights, trademarks and dividends). The same applies to the scope of the subject matter, which has been narrowed to non-residents who are related parties to the payer or issuer (the relationship is determined on the basis of transfer pricing rules). The total annual amount of distributions that triggers the need to meet the additional restrictions (PLN 2 million) was unchanged. The existing exemption opinion is replaced by a preference one. The definition of beneficial owner has been modified. The legislator has allowed the payer to use a copy of the tax residency certificate;

- modification of the provisions on lump-sum tax on the income of companies (the so-called Estonian CIT), aiming to expand the catalogue of entities entitled to opt for this taxation, as well as to relax the necessary conditions to be met;
- expanding the catalogue of capital gains income;
- the introduction of reliefs for entrepreneurs incurring costs in connection with the employment of employees in research and development activities, the trial production of a new product or its market launch, and to increase revenues from product sales;
- introducing a robotisation allowance;
- enabling the simultaneous use of the R&D relief and the IP Box preference;
- the introduction of a tax credit for taxpayers supporting sports, cultural activities, higher education and science;
- the introduction of a relief on the costs of the Initial Public Offering (IPO) for new entrants;
- the introduction of a consolidation allowance for taxpayers wishing to expand their businesses in domestic and foreign markets by acquiring shares in companies operating in those markets;
- amending the depreciation of buildings and residential premises by excluding depreciation deductible (this restriction will come into effect on 1 January 2023 for buildings and residential premises acquired by 31 December 2021);
- the introduction of an obligation to keep books of account (tax records) using computer programmes, as well as an obligation to send them in a structured form by the deadline for filing the return for the tax year (this obligation will come into force on 1 January 2023);
- the introduction of a new definition of Management aimed at reducing the phenomenon of Polish residents registering companies in the territory of a foreign country;
- the introduction of changes to depreciation in real estate companies by limiting the amount of depreciation deductible from real estate to the amount of depreciation deducted in accordance with the Accounting Act;
- the removal of emerging interpretative uncertainties and their adaptation to the Polish economic reality with thin capitalisation;
- the introduction of provisions to counteract situations where tax income within a group of related parties is reduced as a result of the conversion of debt financing into own financing;
- the introduction in taxation of a new concept of so-called income shifting, designed to prevent the possibility of obtaining a tax advantage through tax

schemes that aim to transfer income to a tax jurisdiction with a negligible effective tax rate;

- the introduction of regulations limiting the generation of artificial deductible costs in the form of the payment of so-called 'hidden dividends', so-called 'profit stripping' - the legislator finally postponed the new regulation until 1 January 2023;
- tightening up the provisions on deductible costs by clarifying the way in which the limit on debt financing costs is determined - modifying the wording of Article 15c of the CIT Act;
- amending the rules on entity reorganisations to counteract the possibility that tax neutrality could lead to an exemption from capital gains taxation;
- the introduction of provisions on tax on passed-through income - newly added Article 24aa in the CIT Act. Costs that will generate tax on passed-through income include, inter alia: costs of intangible services (consultancy, advertising, management and control, data processing, guarantees and warranties and services of a similar nature), fees and charges for the use or right to use certain intangible assets, costs of debt financing (including penalties and fees for remuneration for the transfer of functions, assets and risks - if the sum of such costs incurred in a tax year for the benefit of entities (including unrelated parties) constitutes at least 3 per cent of the sum of tax deductible costs incurred in that year in any form;
- the introduction of an alternative minimum corporate income tax and changes with regard to the limitation of the costs of intangible services purchased from related parties - taxpayers that are financial enterprises within the meaning of Article 15c(16) of the CIT Act, i.e., among others, banks with registered offices in Poland, are excluded from taxation with the alternative income tax (Art. 24ca sec. 14 item 2 of the CIT Act), the previous art. 15e of the CIT Act limiting the inclusion of intangible services purchased from related parties in tax costs is repealed, while this regulation is appropriately incorporated into the provisions defining alternative income tax, becoming one of the elements of the tax base for this tax;
- relaxation of rules related to the formation and operation of tax capital groups (TCGs);

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

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

group is expected to considerably simplify settlements between its members and have a positive impact on efficiency and liquidity within the group. As a new category of VAT taxpayer, it will be effective from 1 January 2023.

In addition to the above, the Polish Deal, as a result of the amendment to the provisions of the Tax Ordinance, implements into the Polish tax system a completely new instrument called the 'investment agreement', which allows for the conclusion of an agreement between an investor and a tax authority on the tax consequences of a planned investment in the territory of the Republic of Poland. The investment agreement is to take the form of an agreement concluded between the tax authorities and an investor taxpayer who plans or has commenced investments in the territory of Poland with a value of at least PLN 100 million (PLN 50 million from 2025). The conclusion of this agreement is therefore intended to provide protective power with respect to the tax consequences of the planned/undertaken investment covered by the agreement.

The Act also introduced the National e-Invoicing System (NeIS), a nationwide ICT system operated by the Ministry of Finance, in which entrepreneurs will be able to issue and receive electronic structured invoices. This will be one of the acceptable forms of documenting sales alongside paper invoices and electronic invoices. Structured invoices will be issued based on a uniform logical structure provided by the Ministry of Finance. From 1 January 2022, the use of the e-Invoicing system is voluntary, while in 2023 it is planned to introduce universal NeIS-based invoicing in Poland.

4. On 9 June, the Sejm passed the bill on crowdfunding for business ventures and assistance to borrowers in its third reading)

The law provides for the introduction from August 2022 of, among other things, so-called 'credit holidays' - the possibility for people to temporarily suspend their mortgage instalments if they are repaying a PLN loan taken out for their own residential needs, not related to business or farming. This solution will also cover mortgage loan agreements that were concluded before the Mortgage Loan Act came into force in 2017.
According to the Act, at the consumer's request, the creditor suspends the repayment of a mortgage loan granted in the Polish currency, with the exception of loans indexed or denominated to a currency other than the Polish currency. The suspension of the loan repayment is granted to the consumer during the period:
1) from 1 August 2022 to 30 September 2022 - for two months;
2) from 1 October 2022 to 31 December 2022 - for two months;
3) from 1 January 2023 to 31 December 2023 - for one month in each quarter.

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

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

The changes will also include the Mortgage Support Fund. It will be endowed with additional funds of PLN 1.4 billion by the end of 2022, which means that the fund's budget will increase to more than PLN 2 billion. It is proposed to clarify the definition of a housing loan by indicating the premise of meeting the borrower's housing needs and the premises excluding the possibility of obtaining support. In order to benefit from support, one of the conditions must be met: at least one of the borrowers is unemployed; the monthly costs of servicing a housing loan exceed 50 per cent of monthly income; or the monthly income after deducting the costs of the loan does not exceed in 2022 PLN 1,552 per person in a one-person household and PLN 1,200 per person in multi-person households.

The law was finally enacted on 7 July 2022 and entered into force on 29 July 2022.

5. Act of 8 April 2022 amending the Act on Assistance to Citizens of Ukraine in Connection with the Armed Conflict on the Territory of Ukraine and Certain Other Acts (Journal of Laws, item 830)

The amendment clarifies certain provisions of the Act of 12 March 2022 and supplements issues previously omitted therein. In addition, Article 20 of the Amendment Act repeals Article 15zzu(1) of the Act of 2 March 2020 on special solutions related to preventing, counteracting and combating COVID-19, other infectious diseases and emergencies caused by them. This provision stipulated that as of 31 March 2020, enforcement orders with a writ of execution appended ordering the vacating of dwellings shall not be enforced during the period of an epidemic emergency or a state of epidemics declared due to COVID-19. Most of the provisions of the Act entered into force on the day after the date of promulgation with effect from 24 February 2022.

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

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

7. Recommendation R on principles for the classification of credit exposures, estimation and recognition of expected credit losses and credit risk management.

On 1 January 2022, the revised Recommendation R, which is a set of best practices for the classification of credit exposures, estimation and recognition of expected credit losses, in accordance with the accounting and credit risk management policies adopted and in force in banks, came into force. The need to develop it resulted from the entry into force in 2018 of the International Financial Reporting Standard 9 (IFRS 9), which brought with it changes in the area of bank management.

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

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

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

In addition, the PFSA recommended that banks should make as much effort as possible to effectively make the offer of a loan with a periodically fixed interest rate more attractive and to promote it as well as to introduce a loan with a fixed interest rate for the entire commitment period to their offer, including for customers interested in a mortgage loan.

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

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

3. Financial results, capital adequacy and financial instruments

The year 2022 was the fourth year of operations for ING Bank Hipoteczny S.A. At the end of the reporting period, the Bank had a mortgages portfolio worth approximately 3.3 billion and being in major part the potential collateral for future covered bond issues. As part of its strategy, the Bank acquires a mortgages portfolio from ING Bank Śląski. Due to the current market situation, no mortgage portfolio was acquired from ING Bank Śląski in the first half of 2022. However, loan acquisitions are planned for the second half of 2022. In previous years, the acquired portfolios were principally financed with a loan from the parent company and the issue of green covered bonds in the amount of PLN 400 million. As part of diversification of funding sources, the Bank also issued own bonds in the first half of 2022 in the amount of PLN 79 million. The above events were the primary drivers of the financial results of the Bank.

Below, the key financial facts and figures of the Bank for the period from 1 January 2022 to 30 June 2022 are presented.

3.1 Core financial 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 – total debt ratio – liabilities of ING Bank Hipoteczny S.A. to assets as at 30 June 2022.

TCR – total capital ratio – own funds of ING Bank Hipoteczny S.A. to risk-weighted assets as at 30 June 2022.

LR – leverage ratio – Tier 1 capital to leverage ratio exposure as at 30 June 2022.

LCR – liquidity coverage ratio – liquid assets to net outflows as at 30 June 2022.

* 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%.

3.2 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.

For details of the statement of Bank's financial position, refer to notes 7.6 through 7.17 of the Financial Statements.

3.3 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 SA 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.

For detailed notes to the Income Statement items, refer to the Financial Statements – notes 7.1 through 7.5.

3.4 Own funds requirements – Pillar 1

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

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

As at the end of June 2022, the Bank reports zero values for the own funds requirements for the CVA risk, delivery and settlement risk, and market risk. Having regard to the above, as at the date of this report, the total requirement for own funds consisted of the credit risk and operational risk requirements.

Own funds requirements	30.06.2022
Credit risk (PLN million)	*98.31*
Operational risk (PLN million)	*6.54*
Total requirement for own funds (PLN million)	**104.85**
Common Equity Tier 1 ratio (CET1)	*35.90%*
Tier 1 ratio (T1)	*35.90%*
Total capital ratio (TCR)	**35.90%**

Pillar 1 has been discussed in detail under item 7.32 of the financial statements concerning the Total Capital Requirement.

The Bank maintains own funds at the level not lower that the higher of the below values:

a. capital requirement,
b. internal capital

Capital management

The process of capital management is carried out in the Bank based on the implemented Capital Management Policy at ING Bank Hipoteczny S.A. that was developed on the basis of applicable regulations.

Capital management at ING Bank Hipoteczny S.A. is an integral part of the Bank's management and its aim is to enable and facilitate the Bank's development in line with its strategy and business model, while maintaining safe levels of capital adequacy ratios. 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 the capital management process is to have sufficient and effective capitalisation of the Bank required to effect its business strategy and development plans specified in the Financial Plan of the Bank, while meeting at the same time both internal and external capital requirements. The above stands for financial flexibility in the present and future landscape in order to adjust the Bank to the changing market and regulatory conditions.

To this end, the capital management activities should 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, inter alia, with the Bank's own models, for the risks deemed to be material and permanently material.
- Pillar III: disclosures on risk profile and capitalisation level in the financial statements.

Under capital management, the Bank:

a. identifies and assesses materiality of the risk types inherent to its operations;
b. takes actions in order to assess and monitor internal capital, capital requirement and own funds;
c. monitors potential threats to capital adequacy;
d. allocates internal capital;
e. sets internal limits in order to curtail the generated capital requirements and internal capital;
f. pursues dividend policy resulting from a long-term capital objective and preferred capital structure;
g. plans internal capital and capital requirement as well as own funds;
h. develops contingency capital plans which define the procedure for the risk of capital adequacy deterioration below the "inadmissible" levels;
i. analyses the impact of the macroeconomic factors on capital adequacy in line with the "Stress Testing Policy at ING Bank Hipoteczny S.A."

As at 30 June 2022, the total capital ratio of the Bank was 35.90%.

3.5 Internal capital – Pillar 2

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

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

The above process covers:

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

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

a. credit risk encompassing default risk, concentration risk, residual risk and risks of other non-credit assets;
b. market risk encompassing the banking book interest rate risk;
c. business risk encompassing macroeconomic risk;
d. funding and liquidity risk;
e. operational risk encompassing control risk, abuse risk, processing risk, improper staffing practice and workplace risk, information risk, internal and external fraud risk, business continuity risk, physical safety and resource risk, compliance risk and legal risk; the possibility of occurrence of conduct risk, reputational risk and concentration risk (for operational risk) are also in scope of operational risk;
f. model risk.

The total internal capital is the total of internal capital indispensable for covering all material and permanently material risks of the Bank. The Bank applies a prudent approach to estimating the internal capital and does not use the diversification effect.

Internal capital structure	30.06.2022
For credit risk	54.0%
For market risk	35.1%
For business risk	0%
For funding and liquidity risk	0%
For operational risk	10.9%
For model risk	0%
Total	**100.0%**

3.6 Disclosures – Pillar 3

Taking into account the scale and specifics of the Bank's operations, the Bank discloses selected information concerning capital adequacy in its financial statements or in the Management Board Report on Operations of the Bank in accordance with the requirements of Executive Regulation No 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.

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."

3.7 Financial instruments

Between 1 January and 30 June 2022, the Bank occasionally placed its temporary surplus funds on short-term deposit accounts at ING Bank Śląski S.A. For details, refer to note 7.6 of the Financial Statements of ING Bank Hipoteczny S.A. The Bank did not apply hedge accounting in the reporting period.

The Bank was also making Treasury transactions on the wholesale financial market. For details, refer to note 7.7 of the Financial Statements of ING Bank Hipoteczny S.A. As a target, credit debt acquisition from ING Bank Śląski S.A. will be funded from the issue of covered bonds. In the reporting period, the acquisition of credit debt from ING Bank Śląski S.A. was financed primarily with funds from: (i) credit lines, (ii) the issue of covered bonds and (iii) own bonds issued. The Bank adhered to the norms defined in the Act on covered bonds and mortgage banks concerning the admissible amount of liabilities due to loans and credit facilities (including the liabilities due to acquired debt) and issue of bonds to own funds of the Bank. In 1H 2022, the Bank did not issue covered bonds, however to diversify its existing funding sources, it issued short-term bond series under the established own bond programme.

For future issues of covered bonds, the potential IR risk and FX risk will be hedged with appropriate derivatives. The Bank plans to apply hedge accounting in the future.

The Bank Management Board is of the opinion that as at 30 June 2022 there were no conditions which could indicate presence of default risk for the liabilities assumed by the Bank.

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

4.1 Development lines

The strategic objective of Bank Hipoteczny S.A. is to acquire and later gradually increase the share of long-term funding in the ING Bank Śląski S.A. Group's balance sheet – through issue of covered bonds – as well as joining the group of major issuers of those instruments in the Polish market.

The objective will be delivered by:

- strengthening the funding stability within the ING Bank Śląski S.A. Group,
- diversification of funding sources for the current portfolio of retail mortgage loans,
- matching the maturities of assets and liabilities in the balance sheet of the ING Bank Śląski S.A. Group,
- freeing the liquidity of the ING Bank Śląski S.A. Group,
- reducing the funding costs of the lending campaign for the portion of the lending portfolio funded with other long-term instruments.

4.2 Acquisition of mortgage-backed debt and lending portfolio structure

The main element of the business pursued by ING Bank Hipoteczny S.A. is acquisition of mortgage-backed residential loan portfolios with a view to issuing covered bonds. The Bank acquires debt only from ING Bank Śląski S.A. Debt is acquired under the Debt Transfer Framework Agreement to issue covered bonds, signed in 2019.

In the first half of 2022, the Bank did not acquire mortgage-backed debt portfolios from ING Bank Śląski S.A.

In the debt acquisition process, ING Bank Hipoteczny S.A. satisfies the criteria of the Act on covered bonds and mortgage banks, and also sets additional conditions to be met by the debt acquired. The main criteria were presented in the table below:

Criterion	Value
Amount of debt purchased/ banking and lending value of the real estate	Max. 100%
Credit collateral	Established first ranking mortgage
Loan currency	PLN
Loan purpose	Residential goals
Title to real estate	Ownership or perpetual usufruct
Repayment arrears or impairment conditions	None

LtV-based lending portfolio structure – 30.06.2022:

LTV (banking and lending value of the real estate)	Structure %
(0-50>	29.9%
(50-60>	18.1%
(60-70>	20.3%
(70-75>	9.2%
(75-80>	8.0%
(80-100>	14.5%
Total	**100.0%**

Mark-to-market LTV	Structure %
(0-50>	42.6%
(50-60>	25.7%
(60-70>	22.0%
(70-75>	9.5%
(75-80>	0.2%
(80-100>	0.0%
Total	**100.0%**

The average LtV for the capital-weighted banking and lending value of the real estate was 59.54%, while the average mark-to-market LtV was 50.76%.

As at 30.06.2022, the carrying value of the portfolio of debt under the mortgage-backed loan agreements was PLN 3,331.4 million. Debt claims under the acquired loan agreements are mostly based on the variable interest rate WIBOR 6M. From 30 June 2021, in accordance with the requirements of Recommendation S of the PFSA, the Bank made it possible for the borrowers to change the interest rate formula from a variable rate to a fixed rate one for a period of time. As at 30 June 2022, 67 borrowers had taken advantage of the option to convert the interest rate formula; this concerned receivables of PLN 14,154,300.

In connection with the COVID-19 pandemic, the Bank continued the measures implemented in 2020 to assist customers in financial distress, which resulted from the Act of 2 March 2020 on special arrangements for preventing, counteracting and combating COVID – 19, other contagious diseases and crisis situations caused by them. As of 30 June 2022, a total of 52 borrowers have benefited from the suspension of loan execution, with active applications for 10 loans with a commitment balance of 2.12 million.

We find that borrowers who have availed themselves of the suspension of the execution of the loan agreement, by and large, pay their obligations regularly and as of 30 June 2022 there were no delays in their accounts.

The Bank monitors on an ongoing basis the number and volume of loans with suspended loan repayments and their impact on ensuring compliant collateral for the issue of covered bonds. In view of the high overcollateralisation of the covered bond issue (as at 30 June 2022, debt claims worth PLN 2,635.1 million were entered in the cover register), the position of the Bank is secure, allowing it to meet its obligations towards investors on an ongoing basis.

4.3 Covered bonds

In the first half of 2022, due to the market situation (very high levels of overliquidity in the financial sector and the geopolitical situation related to the war in Ukraine) resulting from the government assistance programmes launched in response to the adverse effects of the Covid-19 pandemic, the Bank did not issue 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 from the end of 2021 and totalled PLN 400 million.

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

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

Subsequent issues of covered bonds will depend on market conditions and the level of overliquidity in the financial sector.

4.4 Rating of the Bank and covered bonds

Moody's Investors Service (the Agency) assesses the risk of both ING Bank Hipoteczny S.A. and covered bonds issued by the Bank. As at 30 June 2022, the Bank had the following ratings assigned by the Agency:

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

The agency emphasises that the Bank's assigned rating reflects:

- the fact that the Bank was owned in 100% by ING Bank Śląski S.A. and that it had a stable growth outlook,
- Strategic adaptation and operational integration within the ING Bank Śląski S.A. Group,
- ING Bank Śląski S.A.'s commitment to support the capital and liability position of ING Bank Hipoteczny S.A. to satisfy the regulatory requirements.

5. Internal business conditions

5.1 Employee competences

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

5.2 Cooperation with ING Bank Śląski S.A.

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

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

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

- ensuring that ING Bank Hipoteczny S.A. performs the activities required by law; they include but are not limited to: decisions or risk management processes, and for automated or partly automated processes – their set-up using the terms and conditions defined by the Bank,
- entrusting ING Bank Śląski S.A. with: (i) intermediation in some banking activities offered by the Bank, in particular as regards administration and post-sale service of mortgage-backed loan debt acquired by the Bank and (ii) factual activities connected with the bank business of the Bank,
- taking account of limitations stemming from Article 6a.3 of the Banking Law Act (Banking Law); i.e., ensuring that the following activities are not entrusted to ING Bank Śląski S.A.: (i) bank governance within the meaning of Article 368.1 of the Commercial Companies and Partnerships Code, and notably management of the banking business risk, including management of assets and liabilities, credit capacity assessment and credit risk analysis; and (ii) internal audit of the Bank,
- ensuring that any further commissioning of activities by ING Bank Śląski S.A. to third parties satisfies the requirements of Article 6a.7 of the Banking Law – and in individual cases – that direct agreements be made between such entities and the Bank,
- development and update – both by ING Bank Śląski S.A. and the Bank – of business plans ensuring continuous and undisrupted conduct of business covered by the outsourcing agreement,
- ensuring for the Bank the tools to effectively monitor and control performance of the agreement by ING Bank Śląski S.A.

For the client whose mortgage loan will be transferred as part of transfers of receivables to ING Bank Hipoteczny, both the loan service process and the credit and credit-related costs will remain the same.

The terms and scope of cooperation of ING Bank Hipoteczny with ING Bank Śląski S.A. have been detailed in the Cooperation Agreement.

5.3 Internal control system

Internal control system is among the Bank governance elements. Its fundaments, principles and objectives stem from the Banking Law and the Regulation of the Minister for Finance, Funds and Regional Policy on risk management, internal control systems and remuneration policy at banks in particular.

I. Internal control system objectives

The internal audit system serves to ensure:

1) Operational efficiency and effectiveness of the Bank;
2) Reliable financial reporting;
3) Compliance with the risk management principles of the Bank;
4) Compliance of the Bank with the law, regulatory requirements, internal regulations and market standards.

As part of general objective accomplishment process, the internal control system further ensures:

1) examination of compliance of the Bank's business and business activities performed by related persons with the regulations of the markets the Bank is active in, the regulations of the Central Securities Depository of Poland, clearing and settlement chambers referred to in Article 68a of the Act on Trading in Financial Instruments and stock exchange clearing chambers referred to in Article 2.4 of the Act on Commodity Exchanges which the Bank is the member of,
2) proper organisation and safe business pursuit,
3) functioning of appropriate administrative and booking procedures,
4) effectiveness of internal acts concerning circulation of confidential and privileged information and such information access protection,
5) reliability of non-financial reports,
6) effectiveness of internal acts concerning review of client complaints and requests and maintenance of complaint records,
7) effectiveness of internal acts concerning counteracting money laundering and terrorist financing,
8) investing by the Bank in compliance with the requirements and standards and in the manner adequate to the risk of such investments.

II. Roles of Bank bodies

1. Supervisory Board

As part of their tasks connected with monitoring of and supervision over the internal control system, as laid down *inter alia* in the Bank Charter and the ING Bank Hipoteczny S.A. Supervisory Board Bylaw, following the recommendation of the Audit and Risk Committee, the Supervisory Board:

1) approve the Policy – ING Bank Hipoteczny S.A. Internal Control System;
2) approve the criteria for assessment of adequacy and effectiveness of the internal control system, as proposed by the Management Board;
3) supervise introduction and functioning of adequate and effective internal control system;
4) monitor effectiveness of the internal control system, based on the information provided by the Management Board, the Audit and Risk Committee, the Compliance Cell and the Internal Audit Position;
5) annually assess the adequacy and effectiveness of the internal control system, including the adequacy and assessment of the control function performed by the first and second lines of defence, the Compliance Cell and the Internal Audit Position, as well as the compliance of the Bank Management Board with the obligations referred to in part B of Recommendation H;
6) approve the categorisation principles for the irregularities detected by the internal control system, covering at least high and critical irregularities;
7) as part of ensuring that the internal control system complies with laws, internal regulations and market standards, the Supervisory Board:
    - oversee the performance of the Management Board's duties concerning compliance risk management,
    - approve the ING Bank Hipoteczny S.A. Compliance Policy,
    - assess, at least once a year, the effectiveness of the compliance risk management by the Bank.

2. Audit and Risk Committee

The Audit and Risk Committee consult and advise the Supervisory Board on the internal control system-related tasks. The Committee is composed of two independent Members, including a Certified Auditor with knowledge and skills in accounting and auditing the financial statements.

3. Bank Management Board

As part of the Bank governance process, the Bank Management Board:

1) design, introduce and ensure functioning of adequate and effective internal control system;

2) take action to ensure internal control system continuity;
3) set the criteria for assessment of adequacy and effectiveness of the internal control system;
4) define the actions to be taken to eliminate irregularities detected by the internal control system, including remedies and disciplinary measures;
5) accept the categorisation principles for the irregularities detected by the internal control system, covering at least high and critical irregularities;
6) approve the criteria for selection of material processes and their list along with their correlation with general and specific goals;
7) ensure regular review of all Bank processes for materiality;
8) accept the *Policy – ING Bank Hipoteczny S.A. Internal Control System*, ensure its periodical review and update and present the review deliverables to the Audit and Risk Committee and the Supervisory Board;
9) ensure that the Compliance Officer, the Internal Audit function and the Operational Risk function, as well as the other units coordinating the achievement of the general objectives, have access to the necessary source documents, those containing confidential information included, in connection with the performance of their duties;
10) set the principles of control design, approval and implementation in all Bank processes and define the role of organisational units responsible for control design, approval and implementation;
11) are responsible for ensuring adequacy and effectiveness of controls in Bank processes;
12) as part of ensuring that the internal control system complies with laws, internal regulations and market standards, the Bank Management Board are responsible for managing effectively the compliance risk at the Bank, developing the compliance policy, ensuring compliance and reporting to the Audit and Risk Committee and to the Supervisory Board on compliance risk management;
13) set the adequate scope of and criteria for independent monitoring of observance of controls, covering ongoing verification and testing;
14) ensure functioning of the control function matrix along with allocation of tasks connected with ensuring its functioning;
15) set the reporting rules, at least for the effectiveness of key controls and vertical testing deliverables.

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

16) advise the Supervisory Board, at least once year, on the manner of performance of internal control system tasks, considering in particular:
    a) the adequacy and effectiveness of the internal control system in ensuring accomplishment of all the internal control system goals;

b) the scale and nature of significant and critical irregularities as well as most important actions taken to eliminate the same, including remedies and disciplinary measures,

c) the need to ensure the independence of the Compliance Cell and the Internal Audit Position,

d) the need to ensure adequate staffing as indispensable for effective task performance and the funds necessary for regular upgrade of qualifications, experience gathering and skills learning by the employees of the Compliance Cell and the Internal Audit Position.

III. Three-lines-of-defence model within the Bank's organisational framework

The internal control system covers the entire universe of the Bank and structured into three lines of defence.

The first line of defence	The second line of defence	The third line of defence
Business and organisational units of the Bank which provide operational and technological support to the Business area	1) Units from the area of: • operational risk • compliance risk • legal risk • credit and market risk • finance • human resources management and 2) Model validation position	Internal Audit position

1. The first line of defence

It is an element of the control function. The first line of defence is in charge of developing, implementing and performing controls designed to ensure that general and specific goals of internal control system are achieved. 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, analysis, control and management of the risks in the processes, including in relation to outsourced activities.

The tasks of the first line of defence are performed by senior management and by the organisational units overseen by it which deliver business objectives and which provide direct support thereto.

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 standards of conduct, as well as advising on the Bank internal regulations (including legal and regulatory monitoring and analysis of compliance with external legal acts) and providing internal control methods and tools,
- approving the decisions made by the first line of defence as to implementation, modification or removal of controls,
- monitoring application of internal control system regulations by the first line of defence,
- monitoring horizontally the compliance with controls by the second line of defence,
- monitoring vertically the first line of defence as to compliance with controls.

Under control activities, the units from the second line of defence perform their own independent assessment of the effectiveness of operations of the first line of defence; they do it using tests, reviews and other forms of control.

3. The third line of defence

The Internal Audit position (IA) forms the third line of defence. It provides management with an independent and unbiased assurance as to the adequacy and effectiveness of the risk management system and internal control system within the first and second lines of defence.

The roles, powers, scope and nature of work plus the accountability of IA employees and the terms of cooperation of Bank organisational units with the IA are laid down in the Policy – Internal Audit Charter of ING Bank Hipoteczny S.A. (Audit Charter).

IV. Control function

Control function is an element of the internal control system which comprises all controls implemented in bank processes, independent monitoring of their observance and control function reporting. It covers jobs, groups of people or organisational units responsible for performance of function tasks.

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

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

The Internal Auditor (IA) annually assesses the adequacy and effectiveness of the internal control system, in split into the first and second lines of defence, based on:

- deliverables/ opinions from the audits performed under the annual audit plan. To formulate the annual audit plan, the Internal Auditor uses the information about the internal control system from the control function matrix;
- the results/opinions of the audit conducted by the external auditor together with the regulator's recommendations which are open as at the internal control system assessment date;
- critical and high risks identified during the year, with focus placed on risks which apply as at the internal control system assessment date;
- timely implementation and progress in the implementation of risk mitigants.

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

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

The Supervisory Board assessed the 2021 internal control system of ING Bank Hipoteczny S.A., taking into account the above factors and issued an opinion that the internal control system of ING Bank Hipoteczny S.A. was effective and adequate for the Bank business model and scale of operations.

5.4 Risk management

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

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

- risk management process, including the lending process is defined and governed by strategies, policies and procedures adopted by the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.,
- the Bank manages all identified bank risks and carries out the ICAAP (the Internal Capital Adequacy Assessment Process), where:
    - risk management matches the scale of business and the materiality, scale and complexity of a given risk and where it is tailored to new risk factors and drivers on an ongoing basis,
    - risk management methods, risk measurement models and systems and their assumptions match the scale and complexity of risk and are periodically verified and validated,
- the organisational structure of risk management guarantees independence of the risk area, including independence of real estate appraisal and credit decisions taken from business activity,
- the risk management process is integrated into the planning and controlling processes and it supports delivery of the Bank's strategy, while staying compliant with the risk management strategy, especially as far as the risk appetite is concerned,
- the risk management process is consistent with the risk management principles of the ING Bank Śląski S.A. Group, 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 test results are discussed at committee and Management Board meetings. Reporting of risk sources and factors as well as reporting of risk level measurement and its costs make it possible to take appropriate preventive and remedy measures.

The risk management process is supervised by the Bank Supervisory Board which regularly receive information about the risk profile at ING Bank Hipoteczny S.A. and key actions taken to manage risk.

The Bank Management Board are responsible for risk management, including but not limited to, overseeing and monitoring of actions undertaken by the Bank in this respect. The

Bank Management Board take the most important decisions affecting risk level of the Bank and resolve on internal regulations concerning risk management.

Risk is managed through three independent lines of defence.

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

5.5 Valuation of mortgage loan collateral

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

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

The Bank has and applies the Banking and Lending Value of the Real Estate Valuation Bylaw, approved on 4 January 2019 by the Polish Financial Supervision Authority. The Bylaw provides for the guidelines listed in Recommendation F and concerning the basic criteria applied by the Polish Financial Supervision Authority to approve the banking and lending value of the real estate valuation bylaws made by mortgage banks.

The banking and lending value of the real estate is the value set using an expert method, in line with the Act on covered bonds and mortgage banks, which in the opinion of the Bank mirrors the risk of the real estate forming the collateral for the loans acquired by the Bank.

The banking and lending value of the real estate is set using an expert method in order to enable the Bank to take a decision whether or not to acquire the given debt. The banking and lending value of the real estate is set in a prudent manner, considering long-term parameters.

ING Bank Hipoteczny S.A. sets the banking and lending value of the real estate based on the real estate value. The banking and lending value of the real estate expertise is made with due diligence and prudence. It factors in only those real estate parameters which are of long-term nature and which can be obtained by any real estate owner, when the estate is rationally used. It factors in all risks which because of the experience held and analyses made can adversely impact on the banking and lending value of the real estate. The expertise which is developed at a certain date, evidences the assumptions and parameters used in the analysis, the process of the banking and lending value of the real estate determination and the resultant banking and lending value of the real estate proposal.

The expertise factors in the analyses and projections of the typical real estate parameters which considerably impact on the assessment of the credit risk of real estate acceptance as collateral. It also takes into account general factors, including, economic cycles, changes to the purchasing power of money, demography, unemployment rate or local zoning plans.

At the Bank, the banking and lending value of the real estate determination process is performed by a dedicated team from the Risk Management Area which is independent from the business functions of the Bank.

For the debt acquisition operation, the banking and lending value of the real estate determination process is constructed into four stages:

Verification of the legal status of the real estate	ING Bank Śląski S.A. under the Outsourcing Agreement
Carrying out an inspection, on-site property inspection and local market research included.	Estate Appraiser who holds adequate experience and ability to estimate banking risk for residential loan collateralization
Banking and lending value of the real estate expertise compilation	Dedicated organisational cell of the Bank – Valuation and Credit Decisions Team
Verification of banking and lending value of the real estate expertise and determination of the banking and lending value of the real estate	Dedicated organisational cell of the Bank – Valuation and Credit Decisions Team

The processes of the banking and lending value of the real estate expertise compilation and banking and lending value of the real estate determination as described above are performed by two persons independent from one another.

5.6 Cover register

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

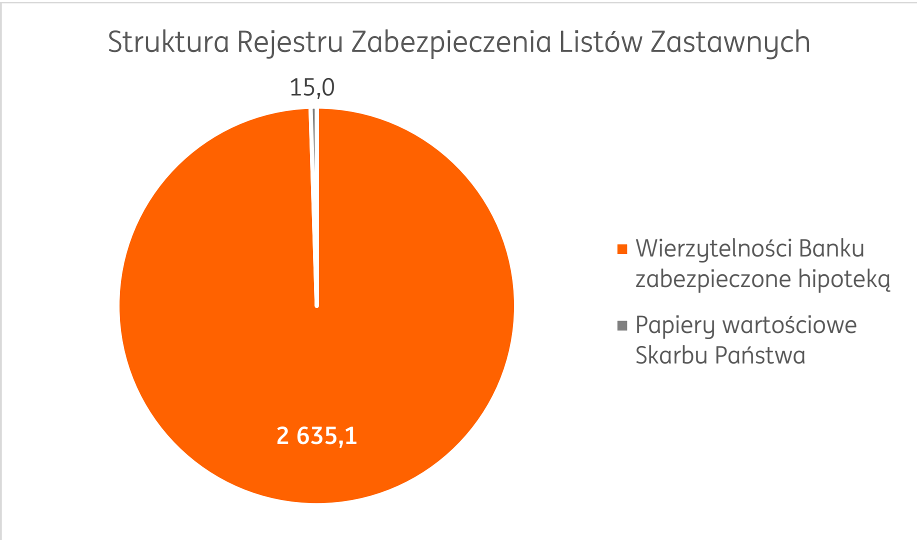
- The Act on covered bonds and mortgage banks 29 August 1997 (Journal of Laws of 2020, item 415),
- Resolution No. 633/2015 of the Polish Financial Supervision Authority of 1 December 2015 on determination of the template cover register,
- Recommendation K of the Polish Financial Supervision Authority of 9 February 2016 on the terms of maintenance of the cover register by mortgage banks.

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

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

As at 30 June 2022, the mortgage-backed debt and other funds referred to in the Act on covered bonds and mortgage banks closed with PLN 2,638,713 million (core assets together with substitute assets). In other words, the covered bonds were secured in 659.68%.

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



T-bonds of PLN 15 million partially secure the payment of interest on covered bonds for 6 months (PLN 11.4 million). The total value of the mortgage-backed debt claims and substitute collateral (in the part not used to cover the payment of interest on covered bonds) was reflected in the overall level of collateralisation of covered bonds, which was 659.68%.

Since mortgage-backed debt and issued covered bonds matched in terms of currency and interest rate, there were no hedging transactions in the register as at 30 June 2022.

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

For the key register data as at 30 June 2022, refer to the table below:

	30.06.2022
Cover register	
Mortgage-backed debt (PLN million)	2,635.1
Treasury Bonds (PLN million)	15.0
Liquidity buffer (PLN thousand)	11,409
Number of loans	15,589
Average loan amount (PLN thousand)	169
Average maturity (in months)	233
Average LtV (loan value to the mark-to-market value of the real estate)	49.07%
Average LtV (loan value to the banking and lending value of the real estate)	57.39%

5.7 Cover Pool Monitor

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

- the liabilities attributable to the covered bonds in trading are secured by the mortgage bank in compliance with the Act,
- the banking and lending value of the real estate taken by the Bank was set in compliance with the bylaw,
- the mortgage bank complies with the requirements of Article 18 of the Act,
- the coverage balance test and liquidity test confirm that the mortgage bank's debt as well as the rights and funds entered into the cover register suffice to fully satisfy the holders of covered bonds.
- the manner of the cover register maintenance by the mortgage bank satisfies the terms and conditions of the Act,
- the mortgage bank ensures – under the Act – the collateral for the planned issue of covered bonds and control of whether adequate provisions were entered into the cover register.

Having considered the application of the Supervisory Board of ING Bank Hipoteczny S.A., on 4 January 2019 the Polish Financial Supervision Authority appointed Ms Grażyna Zielińska as the Cover Pool Monitor of ING Bank Hipoteczny S.A. and Mr Krzysztof Brejdak as the Deputy Cover Pool Monitor.

The Bank keeps and stores the cover register in which it enters its debt claims as well as the rights and funds used to issue covered bonds and surplus funds for covering the interest on covered bonds in trading to be paid within the next 6 months.

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

5.8 Statutory limits

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

As at 30 June 2022, the statutory limits and their utilisation were the following:

No.	Statutory limit	Statutory limit value	Limit utilisation	Legal grounds
1.	Maximum amount of the Bank's debt claims in excess of 60% of the banking and lending value of the real estate vis-à-vis total amount of the mortgage-backed debt held by the mortgage bank.	30%	9.32%	Article 13.1 of the Act on covered bonds and mortgage banks
2.	Share of debt for which the ratio of a single mortgage-backed loan to the banking and lending value of the real estate is over 100% at the acquisition date	0%	0%	Article 13.2 of the Act on covered bonds and mortgage banks
3.	Maximum ratio of refinancing the acquired debt (in the portion of up to 80% of the banking and lending value of the real estate) with the funds obtained from the issue of covered bonds	100%	12.18%	Article 14 of the Act on covered bonds and mortgage banks
4.	Maximum volume of acquired and taken-up shares or holdings in other entities vis-à-vis own funds of the mortgage bank	10%	0%	Article 15.1.5 of the Act on covered bonds and mortgage banks
5.	Maximum multiple of the total of drawn loans and credit facilities, issued bonds vis-à-vis own funds of the mortgage bank (in first 5 years)	10	5.68	Article 15.2.1 of the Act on covered bonds and mortgage banks
6.	Maximum multiple of the total amount of nominal amounts of covered bonds traded by the mortgage bank to own funds of the mortgage bank	40	0.85	Article 17.1 of the Act on covered bonds and mortgage banks
7.	Minimum overcollateralisation of the issue of covered bonds with mortgage-backed debt and other funds (bonds, cash, cash with the National Bank of Poland, hedging instruments)	110%	659.68%	Article 18.1 of the Act on covered bonds and mortgage banks
8.	Minimum overcollateralisation of the issue of covered bonds with mortgage-backed debt	85%	658.78%	Article 18.1 of the Act on covered bonds and mortgage banks
9.	Minimum ratio of income of the mortgage bank under debt	100%	794.39%	Article 18.2 of the Act

	and other funds (bonds, cash, cash with the National Bank of Poland, hedging instruments) vis-à-vis costs of interest on the traded covered bonds			on covered bonds and mortgage banks
10.	Coverage with fuds (bonds, cash, cash with the National Bank of Poland) of the nominal amounts of interest on traded covered bonds to be paid out within the subsequent 6 months.	100%	100%	Article 18.3a of the Act on covered bonds and mortgage banks
11.	Maximum ratio of debt backed with mortgages established during the construction investment project to the total amount of the mortgage-backed debt used to issue covered bonds.	10%	0%	Article 23.1 of the Act on covered bonds and mortgage banks
12.	Maximum ratio of debt backed with mortgages on real estates earmarked for development as per the zoning plan to the total amount of the mortgage-backed debt used to issue covered bonds.	1%	0%	Article 23.2 of the Act on covered bonds and mortgage banks

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

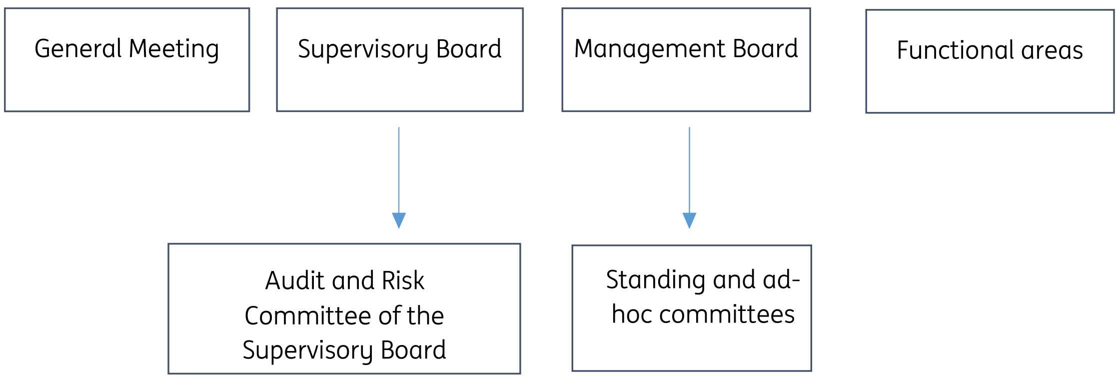
Keeping in mind the prudential approach to management, the Bank carries out coverage and liquidity balance tests each and every business day.

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

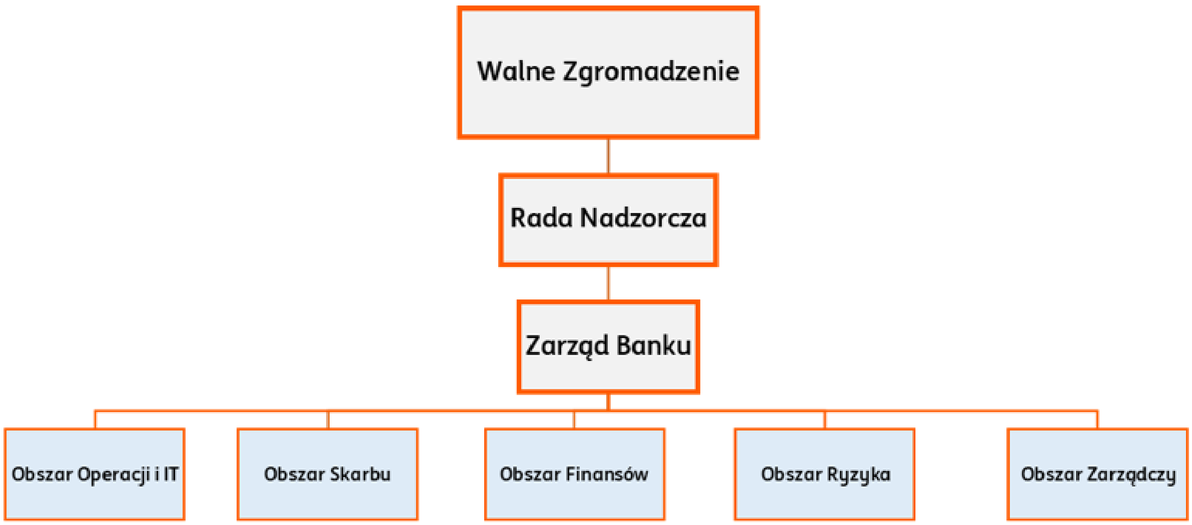
6. Organisational framework and authorities of ING Bank Hipoteczny S.A.

6.1.Organizational framework

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



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



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

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

The authority of the **Bank General Meeting** is the following:

- review and approval of the Management Bank Report on Bank Operations and the financial statements for the past financial year and acknowledgment of fulfilment of duties by the members of the Bank bodies,
- appointment and recall of Supervisory Board members,
- passing resolutions on the determination of principles of remuneration of the Supervisory Board members and other matters foreseen by the law, Charter or those submitted by the Supervisory Board, Management Board or eligible shareholders,
- passing resolutions on damage claims, for the damages caused upon Bank establishment or exercise of management or supervision,
- determination of the mode of shares redemption and of the fee for the shares redeemed as well as consent to the acquisition of Bank's shares for redemption purposes,
- passing resolutions on liquidation, disposal or lease of the Bank enterprise or its organised part and establishing limited right in property thereon.

The authority of the **Bank Supervisory Board** is the following in particular:

- assessment of the Management Board Report and financial statements for the past financial year as to their compliance with the ledgers, documents and the actual state of affairs.
- assessment of Management Board motions regarding profit distribution or loss coverage,
- submission to the General Meeting of the annual written report on the said assessment results,
- revision of the Bank's property and financial control,
- approval of the rules of prudent and stable Bank management and the Bank strategy developed by the Management Board as well as periodical review and verification of its delivery, and also approval of many-year development plans of the Bank and annual budgets of the Bank as developed by the Management Board,
- approval of accepted risk levels in the Bank's business areas,

- approval of Management Board motions regarding formation or liquidation of Bank's organisational units abroad,
- consent to acquisition or disposal by the Bank of shares and share rights or holdings of other legal persons, provided the amount of assets covered by one such operation exceeds the PLN equivalent of EUR 1,000,000 or the said operation concerns the assets accounting for at least 50% of the share capital of another legal person; the Supervisory Board's consent is not required for the Bank's exposure under debt conversion, liquidation of the collateral accepted by the Bank,
- appointment and recall of Management Board Members,
- conclusion with Management Board Members of agreements on performance of their duties and determination of remuneration thereunder, as well as consent to receipt by Management Board Members of other considerations from the Bank or related entities,
- approval of the Management Board Bylaw, Organisational Bylaw and internal control system of the Bank,
- selection of the entity authorised to audit the financial statements of the Bank, based on the recommendation of the Audit and Risk Committee of the Supervisory Board and provision of advice as to establishment of cooperation with that entity,
- consent to conclusion of transactions by the Bank with its shareholders or related entities or members of Bank authorities, provided the amount of the transaction exceeds EUR 1,000,000, save for typical and routine transactions made on an arm's length basis whose nature and terms arise from the daily business of the Bank or transactions foreseen in the annual budget of the Bank as approved by the Supervisory Board,
- consent to assuming a liability by the Bank or making an administrative decision whose amount in such one-off operation or on an aggregate basis for one entity or a few entities related to the entity exceeds 10% of own funds of the Bank, save for provisions of Article 26 section 1 items 4) and 11) of the Bank Charter; the consent is not required for the entities referred to in Article 26 section 1 item 9) of the Bank Charter,
- consent to acquisition, disposal or encumbering by the Bank of property, plant and equipment item whose amount exceeds the PLN equivalent of EUR 1,000,000; save for provisions of Article 26 section 1 item 10) of the Charter, the consent of the Board is not required when the property, plant and equipment item is acquired through transfer of such item by the Bank as the creditor due to the Bank's debt recovery procedure,
- consent to acquisition, disposal or encumbrance by the Bank of real estate or an interest in real estate or the right of perpetual usufruct whose value exceeds the Polish zloty equivalent of EUR 1,000,000,
- submission to the General meeting of reports and assessments laid down in the regulations, recommendations of the regulator and other laws of the Bank,
- suspension – for important reasons – of the Bank Management Board Members in their capacity and delegation – for the period of up to 3 months – of Supervisory

Board Members to temporarily act in the capacity of the Management Board Members incapable of discharging their duties,
- approval of the Bank's compliance risk policy,
- approval of the rules for the processes of internal capital estimation, capital management and capital planning,
- approval of the bylaw used to determine the banking and lending value of the real estate; the bylaw takes effect upon approval by the Polish Financial Supervision Authority,
- approval of cooperation agreements with ING Bank Śląski S.A.,
- submission of a request to the Polish Financial Supervision Authority for appointment of the Cover Pool Monitor and his/her deputy,
- approval of model risk management rules,
- approval of the code of ethics and conflict of interest management rules.

Supervisory Board resolutions may concern in particular:

- formulation of conclusions and recommendations under the supervision and control activities conducted,
- granting consents and permissions,
- approving strategies, policies and other documents if it is provided for in the Charter or specific regulations,
- rendering advice,
- reports and assessments submitted by the Board to the General meeting and in particular:
  - report on results of assessment of the financial statements and Management Board reports on Bank operations in the financial year, and also the Management Board motion on the distribution of the Bank's profit for the financial year,
  - assessment of the Bank's standing, considering the assessment of the risk management and internal control systems, the compliance and audit cell included,
  - report on the operations of the Board and their committees in the financial year along with the work assessment in that period by the Board,
  - report on the remuneration policy of the Bank,
  - assessment of application by the Bank of the principles of corporate governance for supervised institutions,
  - assessment of the adequacy and effectiveness of internal governance principles adopted by the Bank,
  - other matters within the Supervisory Board's powers.

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

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

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

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

- other matters for which decisions rest with the Management Board under other resolutions adopted by the Management Board and other matters submitted by the President of the Management Board or another Management Board Member.

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

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

The Assets and Liabilities Committee supervise and take decisions on:

- market and liquidity risk management at ING Bank Hipoteczny,
- management of the Bank's balance sheet (assets and liabilities), including the transfer pricing system methods and parameters,
- structure of ING Bank Hipoteczny S.A.'s ledgers,
- capital and capital adequacy management,
- valuation of financial instruments and calculation of valuation adjustments, considering the factors not accounted for in the valuation in the Bank's systems.

ALCO approves methodologies in relation to the management, measurement and control of market and liquidity risks under both normal and stress conditions where required, including:

1) models for measurement of the market risk as well as liquidity and funding risk,
2) models for the valuation of financial instruments,
3) the assumptions made to measure market risk and liquidity and funding risk (reporting),
4) mechanisms used for internal risk transfer within the Bank.

ALCO monitors the risk level of the above models. ALCO approve the validation reports and the results of monitoring of the market risk, liquidity and funding risk and valuation models.

Credit Policy Committee

The scope of activities covers the following areas:

Credit risk appetite as to specific risk appetite limits and concentration limits, under which the Credit Policy Committee (CRC):

- Define limit types,
- Set and change limit levels,

Credit Policy under which:

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

Credit risk models under which:

- the Credit Policy Committee approve regulations on development, maintenance and use of risk models, including:
  - principles of the credit risk models management,
  - methodology of building and monitoring of the models,
  - definitions of the credit risk models,
  - the scope of use of the credit risk models,
  - results of credit risk model validation,
  - reports showing the credit risk model validation and monitoring results.
- The Credit Policy Committee approve the reports on results of credit risk model validation.
- The Credit Policy Committee monitor credit risk, ensure compliance with laws, supervisory regulations, ING Group's standards as well as discuss and approve any other credit- and settlement risk-related matters.

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

- Initiating and recommending the changes and new solutions for the non-financial risk area.

- Performing the tasks resulting from the use of outsourcing as described in the ING Bank Hipoteczny S.A. Outsourcing Policy and the ING Bank Hipoteczny S.A. Outsourcing Manual.
- Approving, advising on and recommending plans, projects and programmes as well as control standards for non-financial risk management.
- Approval of, inter alia:
    - goals of the operational risk management 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 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.
- Supervision of:
    - non-financial risk identification, assessment, monitoring and mitigation processes (including approval of control standards),
    - the process of distribution of regulatory information to competent Bank units,
    - the quality assurance process for the non-financial risk management processes.
- 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.

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

Responsibilities:

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

6.3 Management Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2022 to 30 June 2022, the Management Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function	Function Holding Time
Mirosław Boda	President of the Management Board	26.02.2018 - at present
Jacek Frejlich	Vice-President of the Management Board	26.02.2018 - at present
Roman Telepko	Vice-President of the Management Board	26.02.2018 - at present

Segregation of key authorities within the Bank Management Board:

Mirosław Boda	President of the Management Board responsible for the Management Area
Jacek Frejlich	Vice-President of the Management Board responsible for the Finance, Treasury, Operations and IT Areas
Roman Telepko	Chief Risk Officer

Other management functions of Management Board Members:

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

On 7 June 2022, Mr Mirosław Boda, tendered his resignation from the Bank Management Board and from his function of the President of the Management Board, effective at the end of 30 September 2022. The responsibilities of and segregation of duties among the Management Board Members did not change. Accordingly, additional information has been included in the section on material events occurring after the balance sheet date.

Recruitment policy – selection and evaluation of Management Board Members

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

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

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

The President of the Management Board and the Vice-President supervising the management of the risk material to the Bank's business are appointed upon the approval of the Polish Financial Supervision Authority. The earlier appointed Management Board Member may be entrusted with the capacity of the Vice-President referred to hereinabove only upon approval of the Polish Financial Supervision Authority.

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

If a search for candidates for a position on the Management Board needs to be triggered, the Supervisory Board prepares a list of candidates based on the Succession Database. In the absence of internal candidates satisfying the requisite criteria, external recruitment process is initiated. The Supervisory Board select one candidate from the list and commission a suitability assessment process in accordance with the applicable Suitability Assessment Policy for Supervisory Board Members, Management Board Members and Key Function Holders at ING Bank Hipoteczny S.A. In exceptional cases (e.g. an urgent need to replace a member of the Management Board), the suitability assessment of candidates may be carried out up to 4 weeks after the position is taken up.

Diversity Policy

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

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

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

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

Principles of remuneration of Bank Management Board Members

On 17 December 2021, the Supervisory Board – by way of Resolution No. 55/16/2021 – approved amendments to the Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw provides for the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw remains in concordance with the values and long-term interests of ING Bank Śląski S.A. Group, whereby it fosters effective risk management by the Group. The principles of remuneration of Bank Management Board Members are set using the market data. They factor in the knowledge and skills as well as the accountability of and the risk taken by a given function. Each Bank Management Board member made an employment contract with the Bank. The contract reads *inter alia* the terms and conditions of remuneration and the competition ban.

6.4 Supervisory Board of ING Bank Hipoteczny S.A.

In the period from 1 January 2022 to 30 June 2022, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

	Function on the Bank Supervisory Board	Appointment date	Recall/ resignation date	Independent member*	Audit and Risk Committee
Brunon Bartkiewicz	Chairman Member	26.02. 2018 26.02. 2018	14.06.2021		
Bożena Graczyk	Member Chairwoman	26.02. 2018 15.06. 2021			M
Joanna Erdman	Member	26.02. 2018			
Marcin Giżycki	Deputy Chairman	26.02. 2018			
Krzysztof Gmur	Member	26.02. 2018		✓	Ch
Jacek Michalski	Secretary	11.09.2018		✓	M

Ch – Chairman, D – Deputy Chairman, M – Committee Member

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

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

During the reporting period, 3 meetings of the Supervisory Board attended in person and 3 meetings of the Audit and Risk Committee attended in person were held. Due to working in hybrid mode, the meetings of the Bank bodies are held by means of distance communication.

As per Article 395.2.3 of the Commercial Companies and Partnerships Code, once a year, the general meeting acknowledge fulfilment of duties by each Supervisory Board member. Acknowledgement is the assessment of the Supervisory Board members, regardless of the review of the Supervisory Board report on operations made by the general meeting.

On 7 April 2022, the Ordinary General Meeting of ING Bank Hipoteczny S.A. was held, at which:

- The annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 31 December 2021 were approved;

- the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 31 December 2021, including the Statement of the Management Board on observance of the Principles of corporate governance, was approved.
- the Supervisory Board Report on assessment results for the said financial statements, the Management Board Report on Operations and the Management Board's motion regarding allocation of the profit generated by ING Bank Hipoteczny S.A in the period from 1 January 2021 to 31 December 2021 were approved;
- the reports and evaluations of the Supervisory Board for the period from 1 January 2021 to 31 December 2021 were adopted, including:
  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.
- fulfilment of duties by all Supervisory Board Members in the period from 1 January 2021 to 31 December 2021 was acknowledged;
- fulfilment of duties by all Management Board Members in the period from 1 January 2021 to 31 December 2021 was acknowledged;
- 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 was approved;
- the ING Bank Hipoteczny S.A. Supervisory Board Members Appointing, Onboarding and Recalling Policy was resolved,
- an amendment to the Remuneration Policy for Members of the Supervisory Board of ING Hipoteczny S.A. was resolved,
- the amendment to the Bylaw of the Supervisory Board of ING Bank Hipoteczny S.A. was adopted for information;

6.5 Remuneration and human resources management policy

Headcount

As at 30 June 2022, ING Bank Hipoteczny S.A. had 38 employees (38 FTEs). This means no change in headcount from 31 December 2021.

Remuneration policy

The Bank identifies social and environmental risks diagnosed as part of its sustainability strategy. The remuneration policy is consistent with the strategy adopted by the ING Group for a given period and supports corporate social responsibility, which is reflected in the objectives set for the employees for a given year.

The remuneration policy at ING Bank Hipoteczny S.A. defines key remuneration principles used to attract and retain employees and to ensure market competitive remuneration levels. The policy is reviewed annually and updated - the last update was approved on 17 December 2021.

The Remuneration policy:

- supports implementation of the business strategy and long-term interests of the Bank and its customers,
- supports proper and effective risk management in order to maintain and protect the Bank's safe capital base and does not encourage taking excessive risk beyond the risk appetite approved by the Supervisory Board of ING Bank Hipoteczny S.A.,
- supports the process of attracting, motivating and retaining talented employees as well as their development, while treating all employees fairly,
- is gender-neutral, which means that it does not create conditions that unjustifiably favour either gender in terms of recruitment, career development, promotion, or the allocation and payment of remuneration.

The purpose of this Remuneration Policy is to ensure that the conflicts of interest relating to remuneration are identified and mitigated properly. Adequate risk mitigation measures, that is, a layered approval process, clear and transparent performance appraisal principles which are communicated to all employees, are part of the variable remuneration process.

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

The rules of remuneration of persons acting on behalf of the Bank do not constitute an incentive to take excessive risk of mis-selling products.

The Bank reviews the level of remuneration every year. Market data such as payroll reports and economic information are analysed. The decision on the increase in the employee's remuneration is made mainly based on the position of their basic salary in the salary bracket proper for the pay grade and based on the employee's annual performance appraisal grade.

In line with the new provisions in the Remuneration Policy introduced in December 2021, as part of the annual review of its remuneration policy, the Bank monitors:

- the relation of the remuneration of the members of the Management Board to the remuneration of the employees - namely, the average annual gross total remuneration of individual Management Board Members may not exceed 40 times the average annual gross total remuneration of other employees,
- the gender pay ratio

and will take appropriate action to address any gender imbalance in this respect.

In 2021, the gender pay ratio at ING Bank Hipoteczny S.A. was 100%.

This ratio was calculated for the total wages and salaries (hourly rate) of employees remaining in employment as at 31 December 2021. The method of calculation is the average of wages and salaries weighted by the number of women and men in each pay grade.

The remuneration system is open and transparent and its rules are communicated to all Bank employees.

The primary internal regulation governing the remuneration policy is the Employee Remuneration Bylaw of ING Bank Hipoteczny S.A. The Bylaw is revised on an ongoing basis, in response to the changing conditions and regulations of the ING Bank Śląski S.A. Group.

Amendments to the Bylaw are introduced by a resolution of the Bank Management Board.

As per the bylaw, the total remuneration of Bank employees comprises of the fixed and variable remuneration.

Fixed remuneration covers:

a. base salary;
b. benefits awarded under the universally applicable laws and internal remunerations of the Bank, and in particular additional remuneration for overtime work, cash equivalent for holidays, reimbursement of the costs of the employee's private car use for business purposes;
c. additional benefits being an element of the overall Bank's policy like healthcare, employee pension scheme, company cars, benefits awarded to employees under the Cafeteria programme;
d. fixed severance payments, that is:
    - severance pay for the employees dismissed for other than employee-related reasons;
    - cash payment due to employee becoming a pensioner or retiree;
    - death gratuity.

Variable remuneration covers:

- annual bonus on the terms laid down in the ING Bank Hipoteczny S.A. Employee Evaluation Bylaw

- or the bonus set on the terms laid down in the ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

The ratio of variable remuneration to fixed one cannot be over 100%.

Base salary

The primary assumption of the base salary system is to ensure consistent and fair remuneration at ING. This can be done through a regular analysis of many aspects, financial and economic ones included. We ensure that the remuneration offered is in line with the market through its revaluation made using detailed market information. By ensuring fair and competitive remuneration, the remuneration policy seeks to win over and keep the employees contributing to the development of our company.

The Bank applies to the individual jobs pay grades provided for in the Job Classification Table that is the list of jobs with pay grades assigned to them as a result of the job evaluation carried out on the basis of the Korn Ferry (Hay) methodology.

On 1 April 2021, in connection with the completed rollout of the Global Job Architecture project, a salary grade table has been prepared with new job titles (for some bank areas), which have been made consistent with the global GJA catalogue. Each position is assigned to: a job family group, a job family, a job profile and a global career path level.

The Bank verifies adequacy of base salaries through regular remuneration benchmarks, made by specialist third parties.

Variable remuneration

The main element of variable remuneration is the bonus. It is an extra remuneration which an employee can obtain by performing his or her STEP UP tasks stemming from the business strategy and ING values.

Tasks are set and evaluated in line with:

- the ING Bank Hipoteczny S.A. Employee Evaluation Bylaw, and

- the ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

The primary goal of the Step Up evaluation is to ensure that employees have adequate competences. This is achieved by providing employees with motivating feedback, setting adequate goals for them, checking their performance in a reliable manner and building their engagement to deliver business goals and keep the competitive position of ING Bank Hipoteczny S.A.

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

In accordance with the ING Bank Hipoteczny S.A. Capital Management Policy, the Bank tests capital to ensure that the total remuneration pool of all employees does not limit its capacity to maintain adequate capital base. Should a limitation occur, a decision can be taken to freeze the variable remuneration pool.

For Identified Staff, variable remuneration covers:

- cash payment (not more than 50%),
- instruments (minimum 50%).
  *Instrument does not constitute a financial instrument within the meaning of MAR (Market Abuse Regulations).

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

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

Fringe benefits

Additional healthcare	Besides occupational health services (required by the Labour Code), the Bank provides for its employees different packages of healthcare services dedicated to specific job groups. Moreover, the employees can benefit from free examinations under the Cancer Prevention Programme.
Group insurance	Employees can access group life insurance via the bank and on preferential terms negotiated by the bank; they may choose between two insurance companies.
Cafeteria system	Under the system, all Bank employee may – via an online benefit platform – use freely the funds received from the In-house Welfare Benefits Fund.

Principles of remuneration of Bank Management Board Members

On 17 December 2021, the Supervisory Board – by way of Resolution No. 55/16/2021 – approved amendments to the Remuneration Bylaw for Members of the ING Bank Hipoteczny S.A. Management Board. The Bylaw provides for the primary terms and conditions of remuneration for members of the ING Bank Hipoteczny S.A. Management Board.

The Bylaw is revised on an ongoing basis, in response to the changing conditions and regulations of the ING Bank Śląski S.A. Group.

The Bylaw remains in concordance with the values and long-term interests of ING Bank Śląski S.A. Group, whereby it fosters effective risk management by the Group.

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

The remuneration package of the Management Board Member covers:

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

The elements of remuneration and other benefits for Bank Management Board Members in the reporting period were described in the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 31 December 2021.

Variable elements of remuneration of Management Board Members and Identified Staff

As required by:

a. The Banking Law Act of 29 August 1997 (Journal of Laws 2021 item 2439),
b. Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system and remuneration policy in banks, hereinafter referred to as the Regulation of Finance, Funds and Regional Policy,
c. The guidelines of the European Banking Authority of 2 July 2021 on sound remuneration policies,
d. Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial

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

The Bank applies the following variable regulation determination-oriented regulations:

a. Variable Remuneration Policy for Identified Staff,
b. List of Identified Staff,
c. ING Bank Hipoteczny S.A. Identified Staff Evaluation Bylaw.

As at 30 June 2022, the Variable Remuneration Policy for Identified Staff applied to 6 Supervisory Board Members, 3 Management Board Members and 8 IDS jobs.

The List of Identified Staff – the list of Bank employees identified as persons having a material impact on the risk profile of ING Bank Hipoteczny S.A. based on the quantitative and qualitative criteria listed in Enclosure No. 1 with the Variable Remuneration Policy for Identified Staff, as per the effective provisions of the Regulation of the Minister for Development and Finance and RTS Regulation.

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

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

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

voting rights in the management committee of any of the risk categories set out in those Articles,

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

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

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

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

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

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

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

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

**Instrument does not constitute a financial instrument within the meaning of MAR (Market Abuse Regulations)*.

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

The Bank applies the variable remuneration deferral rule with the reservation that in line with the proportionality principle given in the Regulation of the Minister for Development and Finance, Funds and Regional Policy a certain amount of variable remuneration is set which is not subject to deferral (up to EUR 10,000), assuming at the same time that this amount cannot exceed 10% of the annual remuneration for an employee on the List of Identified Staff.

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

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

By verifying performance assessment, one may determine whether there occurred some conditions necessitating performance re- assessment, considering the results of given Identified Staff – and, accordingly, the conditions providing for variable remuneration decrease or freeze. This applies in particular to the situation where employee behaviour results n a considerable adjustment of annual financial statements of the Bank or reputation loss by the Bank.

Based on risk adjustment ex post, the Bank has the right to reduce or not pay out the variable remuneration under the following circumstances:

a. occurrence of events resulting in Bank's non-compliance or the risk of Bank's non-compliance with the norms and standards of Article 142.1 of the Banking Law Act and requiring the Bank to activate the Recovery Plan,
b. payout of variable remuneration on the basis of untrue data,
c. failure to satisfy by Identified Staff of applicable competition- and reputation-related standards,
d. occurrence of a conflict of interest due to payout of variable remuneration in instruments, because of non-compliance with the confidential data usage rules and other actions which may impact the amount of assets of ING Bank Hipoteczny S.A. in the short term.

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

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

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

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

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

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

ING Bank Hipoteczny S.A renders into the public domain the information on the Policy as far as required by the Polish Financial Supervision Authority for the disclosure of qualitative and quantitative information about the capital adequacy and other information to be disclosed.

The primary condition of annual bonus payout to Management Board members is delivery by the Bank of at least 80% of the budget, incrementally during the year, in the year for which variable remuneration is computed.

In accordance with the ING Bank Hipoteczny S.A. Capital Management Policy, ING Bank Hipoteczny S.A tests capital to ensure that the total remuneration pool of all employees does not limit the Group's capacity to maintain adequate capital base. Should a limitation occur, a decision can be taken to freeze the variable remuneration pool.

The amount of variable remuneration elements can be decreased and their payout can be frozen when the Bank sustains a balance sheet loss.

In the event of employment contract termination by the Bank, the Management Board member is eligible for a severance pay in the amount of a three-month base salary for the last three months preceding employment relationship termination.

Management Board members and Identified Staff are covered with non-competition agreements which provide for damages payment for refraining from employment at a competition after employment with the Bank.

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

Agreements between the Bank and managers

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

Each Bank Management Board member made an employment contract with the Bank. The contract reads _inter alia_ the terms and conditions of remuneration and the competition ban (Supervisory Board Resolution of 11 May 2018 as amended).

7. Corporate governance and information for investors

7.1 Corporate governance principles and applicability

The Bank implemented the Principles of corporate governance for supervised institutions published by the Polish Financial Supervision Authority ("Principles") with the following decisions of Bank bodies:

- Management Board Resolution No. 29/10/19 of 11 March 2019 – regarding the content of the report on observance by ING Bank Hipoteczny S.A. of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority, including the principles concerning the competence and responsibilities of the Management Board, i.e. managing the Bank affairs and representing the Bank, in accordance with the universally effective laws and the Bank Charter,
- Supervisory Board Resolution No. 20/3/2019 of 22 March 2019 – regarding the content of the report on observance by ING Bank Hipoteczny S.A. of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority, including the principles concerning the competence and responsibilities of the Supervisory Board, i.e. supervising management of the Bank affairs in accordance with the universally effective laws and the Bank Charter,
- General Meeting Resolution No. 18 of 3 April 2019 – regarding adoption of the report on observance by ING Bank Hipoteczny S.A. of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority, including the principles concerning the competence of the General Meeting,
- Management Board Resolution No. 34/15/19 of 15 April 2019 – regarding implementation of the Principles of corporate governance for supervised institutions, adopted by the Polish Financial Supervision Authority.

ING Bank Hipoteczny S.A. resolved not to apply the following Principles:

- The Principles introduced under Article 8.4 and Article 9.6 do not apply since 100% of ING Bank Hipoteczny S.A.'s shares were taken up by one Shareholder – ING Bank Śląski S.A. The number of shareholders does not justify the application of the said principles.
- The Principles introduced under Article 28.3 and Article 28.4 are not applied by ING Bank Hipoteczny S.A. due to the proportionality principle. The Bank has only one shareholder who is represented in the supervisory body of the Bank. Further, the

principles of the management information system used by the Bank duly secure the interests of the shareholder.

- The principles introduced under Article 32.1 through Article 34 and Articles 36.1 and 36.2 do not apply since the business model adopted by ING Bank Hipoteczny S.A. does not provide for client acquisition (including via advertising), but only for the purchase of existing mortgage-backed debt from ING Bank Śląski S.A.
- The principles introduced under Article 49.4 and Article 52.2 do not apply since ING Bank Hipoteczny S.A. has an internal audit and compliance cells.
- The principles listed in Chapter 9 of the “Principles” – *Execution of Rights Resulting from Assets Acquired at Client's Risk* – the principles are not applied by ING Bank Hipoteczny S.A., because the Bank cannot pursue the business discussed in that Chapter.

ING Bank Hipoteczny S.A. limited application of the following Principles:

- The principles introduced under Article 9.1 – the principles are used to a limited degree only, because the Bank has one shareholder whose representatives are members of the supervisory body of the Bank.
- The principles introduced under Article 29.1 through 29.2 – the principles are used to a limited degree only, as they apply to independent members of the supervision body only.
- The principles introduced under Articles 35, 37 and 38.1 through 38.2 – the principles are used to a limited degree only, in respect of post-sale service of mortgage-backed debt, due to the business model adopted by ING Bank Hipoteczny S.A.

In 1Q 2022, the Supervisory Board assessed the application of the Principles by the Bank – as required under Article 27 of the Principles. The assessment result is available on the Bank’s website:

https://www.inghipoteczny.pl/_fileserver/item/w0lgrlc

As a result of the independent review of the application of the Principles (for 2021) completed in February 2022, it was determined that the actions planned in relation to the results of the 2020 review had been implemented. In 2021, no cases of non-compliance with the Principles were identified.

ING Bank Hipoteczny S.A. Employee Business Ethics Standards

The Bank implemented the ING Bank Hipoteczny S.A. Employee Business Ethics Standards that provide an overview of key principles of conduct for Bank employees. They promote corporate culture which is based on knowledge and observance of the law, internal regulations and market standards. The rules stipulated therein apply to any and all employee activities related to performance of their professional duties. Some of the said rules may apply to the private activities of employees which may negatively affect Bank's reputation or give rise to a conflict of interest.

Orange Code

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

ING Values being the promise made to our external stakeholders:

- We are honest,
- We are prudent,
- We are responsible.

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

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

ING Bank Hipoteczny Disclosure Policy

Being a public trust institution, the Bank pursues the disclosure policy which is based on the principles of open and transparent communication to clients, investors, the media and all stakeholders. The Bank pursues the policy as required by the provisions of the law on information confidentiality and safety applicable to the Bank as a supervised institution. The Bank abides by the corporate governance principles. The Bank ensures for its clients, shareholders, investors, the media and all stakeholders proper access to Bank information in particular. The full text of the Disclosure Policy is available on the Bank website.

Risk control and management system in the financial reporting process

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

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

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

Risk mitigating controls were set for all the risks identified.

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

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

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

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

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

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

Structure of the share capital

Series	Type of share	Number of shares	Nominal value of one share (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.

7.2 Auditing firm – audit of the financial statements

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

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

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

Selection of entity authorised to audit the financial statements

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

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

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

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

Bank Charter Amendment Procedure

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

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

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

The Charter was not amended in the first half of 2022.

7.3. Other information

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

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

- Credit moratoria - see below under "Adoption of the Act on crowdfunding for business ventures and assistance to borrowers - so-called credit holidays" for details,
- Development of the local and foreign markets of covered bonds in terms of demand and returns expected by investors,
- Further development of the residential market in Poland,
- Further development of the mortgage lending market in Poland,
- Regulatory landscape development,
- Development of the macroeconomic environment,
- Transfers of credit debt claims from the strategic partner – ING Bank Śląski S.A., which depend on the market situation,
- Pace of recovery from the crisis attributable to the COVID-19 pandemic and the armed conflict in Ukraine.

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

In the period between 1 January 2022 and 30 June 2022, there occurred no changes to ING Bank Hipoteczny S.A. shareholding and shareholding rights on the part of managing and supervising persons.

Significant agreements with the Central Bank or regulators

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

Granted financial commitments and guarantees

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

Off-balance sheet liabilities granted to related entities

In the reporting period, the Bank did not grant any off-balance sheet liabilities to related entities.

Loans, credit facilities, guarantees or sureties not related to the Bank's business.

In the reporting period, the Bank did not make use of any loans, credit facilities, guarantees or sureties not related to the Bank's business.

Underwriting agreements and guarantees granted to subsidiaries

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

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

As at 30 June 2022, there were no proceedings pending in court, before arbitration bodies or public administration bodies

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

On 30 March 2022, the Bank signed annexes to Credit Facility Agreements 1 and 3 moving PLN 0.7 billion of the exposure limit and increasing the maximum exposure amount as follows:

for Loan Agreement 1 to PLN 3.2 billion (from 2.5 billion), while reducing the maximum exposure amount for Credit Agreement 3 to PLN 0.7 billion (from 1.4 billion).

Also on 30 March 2022, the Bank signed another annex to the Master Agreement (Guarantee). The amendment concerned the removal of the Increase Period and a change in the definition of Availability.

The Bank used the amount of PLN 2.67 bn under the limits awarded.

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

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

Changes to the fundamental principles of Bank enterprise management

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

Financial support agreements

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

Deposits and guarantees and sureties extended

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

Collateral set on accounts or other assets of borrowers

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

Information on granting by the Bank or its subsidiary of sureties for loans or borrowings or guarantees - jointly to a single entity or its subsidiary, if the total value of the existing sureties or guarantees constitutes the equivalent of at least 10% of the issuer's equity

In the reporting period, the Bank issued neither any sureties for loans or borrowings nor guarantees to a single entity or its subsidiary, the total value of which would be the equivalent of 10% of the Bank's equity.

Significant events after the reporting period

Appointment to the position of 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 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 three-monthly treasury bonds. The issue amounted to PLN 148 million and was priced at a fixed interest rate. The entire issue was redeemed by an ING Bank Śląski S.A. Group entity and was not subject to the issuer's application for listing on a regulated market.

The Community Financing for Economic Ventures and Borrower Assistance Act, the so-called credit holiday, and its estimated impact on the Bank's performance in 2022

On 14 July 2022, the President of the Republic of Poland signed the Law on Community Financing for Business Ventures and Borrower Assistance. 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 mortgage loans denominated in PLN 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 its bonds issued. The deterioration in its financial condition should also not lead the Bank to breach other regulatory requirements and applicable capital ratios.

With regard to the suspension of instalment repayments, the amount of the adjustment estimated, in accordance with the requirements of IFRS 9, the current state of knowledge and based on the assumptions made, is, in the Bank's opinion, material and will result in a one-off reduction of the Bank's pre-tax result (as a reduction of income) for July 2022 by 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 a reduction in the interest income referred to in Article 18(2) of the Mortgage Bills and Mortgage Banks Act of 29 August 1997 by approximately PLN 103.5 million.

The preliminary 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 instalment payments and the current gross carrying amount of the loan portfolio, assuming a percentage of customers interested in suspending instalment payments of 70%. 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. In the event that the percentage of customers interested in suspending repayment of instalments is significantly higher than the Bank's prediction, there is a possibility that the Bank may breach the requirement referred to in Article 18(2) of the Act of 29 August 1997 on covered bonds and mortgage banks. The situation in question will not result in the Bank's inability to smoothly regulate its obligations towards purchasers of covered bonds. The mortgage bank sector informed the Financial Supervision Commission of the possibility of the above situation 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's Management Board notes that the above amount will be 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.

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

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

- the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2022 to 30 June 2022 and the comparable data were developed in accordance with applicable accounting principles, and give a true and fair view of the assets and the financial standing of ING Bank Hipoteczny S.A. and the financial result of the Bank,
- the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2022 to 30 June 2022 included herein is the true presentation of the development, achievements and situation of ING Bank Hipoteczny S.A. (including the description of the key risks and threats).

The Management Board of ING Bank Hipoteczny S.A. represent that the auditing firm auditing the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2022 to 30 June 2022 was selected in compliance with the law and that the entity and the statutory auditor performing the audit satisfied the terms and conditions to issue an unbiased and independent report from the audit of the financial statements, in adherence to the applicable laws and professional standards.

Signatures of all Management Board members

16.08.2022	Mirosław Boda	President of the Management Board	................//................. (signature)
16.08.2022	Jacek Frejlich	Vice-President of the Management Board	................//................. (signature)
16.08.2022	Roman Telepko	Vice-President of the Management Board	................//................. (signature)